

Financial Statements Together with
Report of Independent Certified Public Accountants

THE CHILDREN'S SCHOLARSHIP FUND

For the years ended August 31, 2016 and 2015

THE CHILDREN'S SCHOLARSHIP FUND

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
The Children's Scholarship Fund:

We have audited the accompanying financial statements of The Children's Scholarship Fund (the "Fund"), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Scholarship Fund as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York

December 2, 2016

THE CHILDREN'S SCHOLARSHIP FUND
Statements of Financial Position
As of August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 14,787,124	\$ 12,570,347
Contributions receivable, net (Note 3)	696,336	784,689
Prepaid expenses and other assets	24,100	23,171
Deposits	39,129	39,129
Property and equipment, net (Note 4)	<u>42,232</u>	<u>48,874</u>
Total assets	<u>\$ 15,588,921</u>	<u>\$ 13,466,210</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 12,055	\$ 13,786
Refundable advances	42,523	12,926
Accrued expenses	<u>74,578</u>	<u>46,217</u>
Total liabilities	<u>129,156</u>	<u>72,929</u>
CONTINGENCIES		
NET ASSETS		
Unrestricted	1,718,839	1,644,890
Temporarily restricted (Note 5)	<u>13,740,926</u>	<u>11,748,391</u>
Total net assets	<u>15,459,765</u>	<u>13,393,281</u>
Total liabilities and net assets	<u>\$ 15,588,921</u>	<u>\$ 13,466,210</u>

The accompanying notes are an integral part of these statements.

THE CHILDREN'S SCHOLARSHIP FUND
Statement of Activities
For the year ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 388,811	\$ 23,881,889	\$ 24,270,700
Fundraising events (net of costs of direct benefits to donors of \$10,135)	-	157,328	157,328
Investment income	24,047	-	24,047
Other income	2,240	-	2,240
	<u>415,098</u>	<u>24,039,217</u>	<u>24,454,315</u>
Total operating revenues and support			
Net assets released from restrictions (Note 5)	<u>22,046,682</u>	<u>(22,046,682)</u>	<u>-</u>
Total operating revenues, support and net assets released from restrictions	<u>22,461,780</u>	<u>1,992,535</u>	<u>24,454,315</u>
OPERATING EXPENSES			
Program services:			
Scholarships and grants (Note 6)	20,413,581	-	20,413,581
Program management, outreach and support	827,322	-	827,322
	<u>21,240,903</u>	<u>-</u>	<u>21,240,903</u>
Total program services			
Support services:			
Management and general	369,572	-	369,572
Fundraising	777,356	-	777,356
	<u>1,146,928</u>	<u>-</u>	<u>1,146,928</u>
Total support services			
Total operating expenses	<u>22,387,831</u>	<u>-</u>	<u>22,387,831</u>
Changes in net assets	73,949	1,992,535	2,066,484
Net assets, beginning of year	<u>1,644,890</u>	<u>11,748,391</u>	<u>13,393,281</u>
Net assets, end of year	<u>\$ 1,718,839</u>	<u>\$ 13,740,926</u>	<u>\$ 15,459,765</u>

The accompanying notes are an integral part of this statement.

THE CHILDREN'S SCHOLARSHIP FUND
Statement of Activities
For the year ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUES AND SUPPORT			
Contributions	\$ 361,352	\$ 21,735,096	\$ 22,096,448
Fundraising events (net of costs of direct benefits to donors of \$17,133)	-	129,130	129,130
Investment income	5,336	-	5,336
Other income	3,748	-	3,748
	<u>370,436</u>	<u>21,864,226</u>	<u>22,234,662</u>
Total operating revenues and support			
Net assets released from restrictions (Note 5)	<u>21,860,236</u>	<u>(21,860,236)</u>	<u>-</u>
Total operating revenues, support and net assets released from restrictions	<u>22,230,672</u>	<u>3,990</u>	<u>22,234,662</u>
OPERATING EXPENSES			
Program services:			
Scholarships and grants (Note 6)	20,427,188	-	20,427,188
Program management, outreach and support	877,775	-	877,775
	<u>21,304,963</u>	<u>-</u>	<u>21,304,963</u>
Total program services			
Support services:			
Management and general	336,964	-	336,964
Fundraising	716,869	-	716,869
	<u>1,053,833</u>	<u>-</u>	<u>1,053,833</u>
Total support services			
Total operating expenses	<u>22,358,796</u>	<u>-</u>	<u>22,358,796</u>
Changes in net assets	(128,124)	3,990	(124,134)
Net assets, beginning of year	<u>1,773,014</u>	<u>11,744,401</u>	<u>13,517,415</u>
Net assets, end of year	<u>\$ 1,644,890</u>	<u>\$ 11,748,391</u>	<u>\$ 13,393,281</u>

The accompanying notes are an integral part of this statement.

THE CHILDREN'S SCHOLARSHIP FUND
Statements of Cash Flows
For the years ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors	\$ 24,545,978	\$ 22,420,264
Investment and other income	26,287	9,084
Scholarships paid	(20,403,570)	(20,412,972)
Matching grants for program support	(10,011)	(14,216)
Cash paid to vendors, suppliers and employees	<u>(1,924,162)</u>	<u>(1,931,395)</u>
Net cash provided by operating activities	<u>2,234,522</u>	<u>70,765</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(17,745)</u>	<u>(40,032)</u>
Net increase in cash and cash equivalents	2,216,777	30,733
Cash and cash equivalents, beginning of year	<u>12,570,347</u>	<u>12,539,614</u>
Cash and cash equivalents, end of year	<u>\$ 14,787,124</u>	<u>\$ 12,570,347</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Changes in net assets	\$ 2,066,484	\$ (124,134)
Adjustment to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	24,387	15,748
Change in present value discount and allowance	22,926	-
Changes in assets and liabilities:		
Decrease in contributions receivable, net	65,427	189,798
(Increase) decrease in prepaid expenses and other assets	(929)	3,078
Increase in refundable advances	29,597	4,888
Decrease in accounts payable	(1,731)	(13,775)
Increase (decrease) in accrued expenses	<u>28,361</u>	<u>(4,838)</u>
Net cash provided by operating activities	<u>\$ 2,234,522</u>	<u>\$ 70,765</u>

The accompanying notes are an integral part of these statements.

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2016 and 2015

1. THE CHILDREN'S SCHOLARSHIP FUND

The Children's Scholarship Fund ("CSF" or the "Fund") is a not-for-profit charitable organization which was formed on April 28, 1998 for the purpose of expanding educational opportunities available to low-income families. CSF provides partial tuition assistance to families in need so children can attend the K-8 schools that best meet their needs, regardless of their ability to pay or where they live. In furtherance of its mission, CSF makes matching grants to other scholarship organizations so they may also provide partial scholarship awards to children from low-income families.

Since CSF's first scholarships were awarded in 1999, more than 152,000 children from low-income families have received tuition assistance through CSF grants. See Note 6 for additional information.

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization which is not a private foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Accordingly, the Fund's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets and changes in net assets as follows:

Unrestricted Net Assets - consist of all funds which are expendable, at the discretion of the Fund's management and Board of Directors for carrying on daily operations. These funds have neither been restricted by donors nor set aside for any specific purpose.

Temporarily Restricted Net Assets - net assets that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the Fund pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - net assets resulting from contributions and other inflows of assets whose use by the Fund is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fund.

The Fund did not have any permanently restricted net assets as of August 31, 2016 and 2015.

Cash and Cash Equivalents

Cash equivalents include short-term highly liquid investments with original maturities at the time of purchase of three months or less.

THE CHILDREN'S SCHOLARSHIP FUND

Notes to Financial Statements

August 31, 2016 and 2015

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The capitalization policy requires all assets greater than \$500 with a useful life of greater than one (1) year to be capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets as follows:

Equipment & Computer Systems	3 years
Furniture and fixtures	5 years
Leasehold improvements	Useful life of the asset or the life of the lease, whichever is shorter

Contributions

The Fund records contributions when an unconditional promise to give is received from a donor. Contributions are recorded at the fair value of the assets received and are classified as either permanently restricted, temporarily restricted, or unrestricted, based on donor imposed restrictions, if any. Unconditional promises to give with payments due in future years are reported as temporarily restricted contributions and discounted to present value using a credit adjusted rate of return. An allowance for uncollectible contributions receivable is provided based on management judgment including such factors as prior collection history and type of contribution. Contributions receivable are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely, and any amounts subsequently collected are recorded as income in the period received. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met. Conditional contributions received in advance of meeting the associated conditions are recorded as refundable advances on the statement of financial position.

Scholarship Awards

CSF awards partial scholarships so that children from low-income families can attend the private or parochial school of their choice. These scholarships are recorded as an expense at the time they become unconditional, which is usually when the student attends their chosen school.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents. The Fund maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Fund's cash accounts were placed with high credit quality financial institutions and the Fund has not experienced, nor does it anticipate, any losses in such accounts.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2016 and 2015

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, contributions receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate fair value due to the short-term maturity of these financial instruments.

Income Taxes

US GAAP require that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Fund has determined that its financial statements do not include any material uncertain tax positions that require recognition or disclosure for the open tax years ended August 31, 2013, 2014, 2015, and 2016.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable as of August 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Amounts expected to be collected:		
In one year or less	\$ 256,509	\$ 551,311
In greater than one year	<u>479,375</u>	<u>250,000</u>
	735,884	801,311
Less: Discount to present value (at a discount rate of 3.5% in 2016 and 2015)	<u>(39,548)</u>	<u>(16,622)</u>
Contributions receivable, net	<u>\$ 696,336</u>	<u>\$ 784,689</u>

At August 31, 2016 and 2015, all of the net receivables are restricted for scholarship awards.

In addition, as of August 31, 2016, CSF has received conditional promises totaling approximately \$21.1 million (\$13.1 million of which are restricted for scholarship awards). These gifts are primarily conditioned on satisfying matching fund requirements by CSF and/or its grantee scholarship organizations and accordingly have not been recognized in the accompanying financial statements.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2016 and 2015

4. PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Office and computer equipment & systems	\$ 94,227	\$ 87,596
Furniture and fixtures	5,300	5,300
Leasehold improvements	<u>10,690</u>	<u>10,690</u>
	110,217	103,586
Less: Accumulated depreciation and amortization	<u>(67,985)</u>	<u>(54,712)</u>
Property and equipment, net	<u>\$ 42,232</u>	<u>\$ 48,874</u>

Depreciation expense for the years ended August 31, 2016 and 2015 was approximately \$24,000 and \$16,000, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of approximately \$13,741,000 and \$11,748,000 at August 31, 2016 and 2015, respectively, are primarily available for scholarships and grants. Net assets were released from donor restrictions by satisfying the restricted purpose as follows:

	<u>2016</u>	<u>2015</u>
Scholarships and grants	\$ 20,403,569	\$ 20,412,972
Matching grants for program support costs	10,011	14,216
Expended for operating costs	<u>1,633,102</u>	<u>1,433,048</u>
	<u>\$ 22,046,682</u>	<u>\$ 21,860,236</u>

6. SCHOLARSHIPS AND GRANTS PAYABLE, NET

CSF awards partial scholarships so that children from low income families can attend the private or parochial school of their choice. In addition, CSF makes matching grants to other scholarship organizations so they may also provide partial scholarship awards to children from low income families. During the years ended August 31, 2016 and 2015, the total value of the scholarship payments made by CSF and its grantee scholarship organizations amounted to approximately \$40,546,000 and \$40,297,000, respectively. CSF distributed approximately \$20,404,000 during fiscal year 2016 and approximately \$20,413,000 of these awards during fiscal year 2015. The remaining \$20,142,000 in 2016 and \$19,884,000 in 2015 was funded by matching contributions received by the other scholarship organizations.

THE CHILDREN'S SCHOLARSHIP FUND
Notes to Financial Statements
August 31, 2016 and 2015

Additionally, for the years ended August 31, 2016 and 2015, CSF made grant payments to scholarship organizations totaling approximately \$10,000 and \$14,000, respectively, for program support costs. The program support grants are generally provided on the basis of one dollar for every two dollars of contributions received by these organizations. The amount of program support costs eligible for matching grants is limited to 10% of scholarship costs.

There were no unconditional scholarships and grants payable as of August 31, 2016 and 2015.

7. EMPLOYEE BENEFIT PLAN

CSF has a defined contribution retirement plan which provides for CSF to make matching contributions of up to 5% of the compensation of eligible employees. The plan allows the participants to make voluntary contributions subject to Internal Revenue Service limitations. CSF incurred approximately \$54,000 and \$48,000 in pension expense relating to this plan for the years ended August 31, 2016 and 2015, respectively.

8. COMMITMENTS AND CONTINGENCIES

CSF leases office space in New York City with a lease term that expires on April 30, 2017. Rent expense for the years ended August 31, 2016 and 2015 was approximately \$142,000 and \$138,000, respectively. The minimum annual future rental payments for the Fund's noncancelable operating lease is \$102,000, all of which is due in fiscal year 2017.

As of August 31, 2015, CSF has outstanding conditional grants to other scholarship organizations totaling approximately \$7.0 million for the purpose of awarding scholarships to children from low-income families that are in kindergarten through eighth grade. These grants are subject to the satisfaction of stipulated conditions, including the achievement of matching fund requirements. If these conditions are satisfied, expenditures are recognized and payments will be made over the remaining terms of the grants, which range from one to two years.

9. SUBSEQUENT EVENTS

CSF evaluated its August 31, 2016 financial statements for subsequent events through December 2, 2016, the date the financial statements were available to be issued. CSF is not aware of any subsequent events which would require recognition or disclosure in the financial statements.