

**CHILDREN'S SCHOLARSHIP FUND
PHILADELPHIA**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children's Scholarship Fund Philadelphia
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Children's Scholarship Fund Philadelphia (a Pennsylvania nonprofit organization), which comprise the statement of financial position as of December 31, 2014 and 2013, and the related statements of activities, cash flows and statements of functional expenses 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves 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 entity's preparation and fair presentation of the financial statement 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 entity'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.

MEMBER

- American Institute of Certified Public Accountants
- Pennsylvania Institute of Certified Public Accountants

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 Philadelphia as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Linda Goodman, PC

September 2, 2015

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents - Unrestricted	\$ 236,915	\$ 315,629
Cash and cash equivalents - Restricted	12,703,477	6,542,587
Certificates of deposit - Restricted	2,263,448	263,001
Investments	42,819	35,978
Pledges receivable, net collectible - Restricted	4,147,371	8,111,984
Other receivables - Restricted	-	31,829
Property and equipment, net	8,207	11,631
Security deposits	<u>2,775</u>	<u>2,775</u>
 Total Assets	 <u>\$ 19,405,012</u>	 <u>\$ 15,315,414</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses	\$ 16,437	\$ 12,415
Payroll liabilities	<u>878</u>	<u>4,528</u>
 Total Liabilities	 <u>17,315</u>	 <u>16,943</u>
Net Assets:		
Unrestricted	273,401	349,070
Temporarily restricted	<u>19,114,296</u>	<u>14,949,401</u>
 Total Net Assets	 <u>19,387,697</u>	 <u>15,298,471</u>
 Total Liabilities and Net Assets	 <u>\$ 19,405,012</u>	 <u>\$ 15,315,414</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and support:						
Individual contributions	\$ 189,931	\$ 174,831	\$ 364,762	\$ 119,650	\$ 318,424	\$ 438,074
Foundation and corporate contributions	382,950	11,267,805	11,650,755	130,852	5,366,840	5,497,692
Children's Scholarship Fund National contributions	-	1,092,636	1,092,636	1,397	1,262,311	1,263,708
Investment income	22,018	15,436	37,454	21,860	-	21,860
Total operating revenues and support	594,899	12,550,708	13,145,607	273,759	6,947,575	7,221,334
Net assets released from restrictions	8,385,294	(8,385,294)	-	6,228,323	(6,228,323)	-
Total operating revenues, support and net assets released from restrictions	8,980,193	4,165,414	13,145,607	6,502,082	719,252	7,221,334
Operating expenses:						
Program services						
Scholarships and grants	7,922,265	-	7,922,265	5,489,953	-	5,489,953
Program expenses	504,546	-	504,546	430,727	-	430,727
Total program services	8,426,811	-	8,426,811	5,920,680	-	5,920,680
Support services:						
Management and general expenses	207,377	519	207,896	142,542	-	142,542
Fundraising	398,674	-	398,674	279,585	-	279,585
Total support services	606,051	519	606,570	422,127	-	422,127
Total operating expenses	9,032,862	519	9,033,381	6,342,807	-	6,342,807
Pledge write-off expense	23,000	-	23,000	-	-	-
Increase (decrease) in net assets	(75,669)	4,164,895	4,089,226	159,275	719,252	878,527
Net Assets - Beginning of Year	349,070	14,949,401	15,298,471	189,795	14,230,149	14,419,944
Net Assets - End of Year	\$ 273,401	\$ 19,114,296	\$ 19,387,697	\$ 349,070	\$ 14,949,401	\$ 15,298,471

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Increase in net assets	\$ 4,089,226	\$ 878,527
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation	3,424	3,545
Unrealized and realized (gain) loss on investments	(18,292)	(6,046)
 (Increase) decrease in assets		
Pledges receivable	3,964,613	380,495
Other receivables	31,829	(31,829)
 Increase (decrease) in liabilities		
Accounts payable and accrued expenses	4,022	(11,798)
Payroll liabilities	<u>(3,650)</u>	<u>4,528</u>
 Net Cash Provided By Operating Activities	<u>8,071,172</u>	<u>1,217,422</u>
Cash Flows From Investing Activities:		
Proceeds redeemed from certificates of deposit	232,393	272,976
Net (purchases) sales of investments	<u>(2,221,389)</u>	<u>(16,444)</u>
 Net Cash Provided (Used) By Investing Activities	<u>(1,988,996)</u>	<u>256,532</u>
 Net Increase In Cash	6,082,176	1,473,954
 Cash and Cash Equivalents - Beginning of Year	<u>6,858,216</u>	<u>5,384,262</u>
 Cash and Cash Equivalents - End of Year	<u>\$ 12,940,392</u>	<u>\$ 6,858,216</u>
 Cash and cash equivalents - Unrestricted	\$ 236,915	\$ 315,629
Cash and cash equivalents - Restricted	<u>12,703,477</u>	<u>6,542,587</u>
	<u>\$ 12,940,392</u>	<u>\$ 6,858,216</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014				2013			
	Management and General Expenses	Program Expenses	Fundraising Expenses	Totals	Management and General Expenses	Program Expenses	Fundraising Expenses	Totals
Compensation expenses								
Payroll	\$ 78,657	\$ 238,640	\$ 225,067	\$ 542,364	\$ 63,284	\$ 218,438	\$ 214,728	\$ 496,450
Payroll taxes	7,219	21,902	20,657	49,778	5,657	19,525	19,194	44,376
Employee benefits	8,786	26,654	25,138	60,578	5,334	18,409	18,096	41,839
	<u>94,662</u>	<u>287,196</u>	<u>270,862</u>	<u>652,720</u>	<u>74,275</u>	<u>256,372</u>	<u>252,018</u>	<u>582,665</u>
Advertising	-	23,817	-	23,817	-	13,500	-	13,500
Computer expense	4,352	-	1,451	5,803	4,376	-	1,459	5,835
Depreciation	3,424	-	-	3,424	3,545	-	-	3,545
Dues and subscriptions	6,300	-	-	6,300	4,596	-	-	4,596
Events and partnerships	-	-	104,536	104,536	-	-	12,704	12,704
Insurance expense	4,974	-	-	4,974	4,700	-	-	4,700
Marketing	-	25,697	-	25,697	-	-	-	-
Office expense	13,879	13,879	-	27,758	5,247	5,247	-	10,494
Outside services	45,755	45,755	-	91,510	8,187	19,103	-	27,290
Postage and delivery	5,357	12,499	-	17,856	6,222	14,359	3,350	23,931
Printing and reproduction	8,685	19,540	15,198	43,423	12,019	27,737	6,472	46,228
Program evaluation	-	15,500	-	15,500	-	12,512	-	12,512
Rent	15,944	23,917	-	39,861	14,366	21,550	-	35,916
Scholarship program expenses	-	30,544	-	30,544	-	51,697	-	51,697
Telephone	2,715	3,620	2,715	9,050	2,680	3,829	1,149	7,658
Travel and entertainment	1,330	2,582	3,912	7,824	2,432	4,865	2,433	9,730
Utilities	-	-	-	-	(103)	(44)	-	(147)
	<u>\$ 207,377</u>	<u>\$ 504,546</u>	<u>\$ 398,674</u>	<u>\$ 1,110,597</u>	<u>\$ 142,542</u>	<u>\$ 430,727</u>	<u>\$ 279,585</u>	<u>\$ 852,854</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Children's Scholarship Fund Philadelphia (the Organization) is a not-for-profit charitable organization whose mission is to provide low-income Philadelphia children with financial access to safe, quality, kindergarten through eighth grade tuition-based schools. All scholarships are need-based, four years in length and issued by random lottery.

The Organization receives matching funds of one dollar for every eight dollars expended from Children's Scholarship Fund (national). The program also receives unrestricted program and administrative support from Children's Scholarship Fund (national).

Since 2001, the Organization has awarded 16,500 new four-year scholarships to low-income Philadelphia children.

Basis of Accounting

In order to ensure observance of restrictions placed on the use of resources available to the Organization, the Organization's accounts are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Unrestricted Net Assets – consists of all funds which are expendable, at the discretion of the Organization'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 Organization 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.

The Organization did not have any permanently restricted net assets as of December 31, 2014 and 2013.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Cash and Cash Equivalents

Cash and cash equivalents include cash in the bank and certificates of deposit that have a maturity date of less than 90 days from the original date of inception. The Organization maintains accounts at several financial institutions.

Investments

Investments are comprised of marketable equity securities with readily determinable fair values. All investments in securities are carried at fair value in the statement of financial position at December 31, 2014 and 2013. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Pledges Receivable

Unconditional pledges receivable are recognized as revenues and assets in the period in which the promise to give is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges receivable are reported at the net present value of the future expected cash flows.

Fixed Assets

Fixed assets acquired by the Organization are stated at cost. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$1,000. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets ranging from 5 to 7 years.

Restricted and Unrestricted Support

The Organization follows FASB ASC Section 958-605-25, *Not-For-Profit Entities, Revenue Recognition* in recording contributions received. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Restricted and Unrestricted Support (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Statement of Activities as net assets released from restrictions. There are no permanently restricted net assets.

Scholarship Awards

The Organization awards partial scholarships so that children from low income families can attend the tuition-based school of their choice. These scholarships are recorded as an expense at the time they become unconditional.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Concentration of Credit Risk

During the year the Organization had balances with major financial institutions and brokerages, which exceeded Federal Depository Insurance (FDIC) and Securities Investor Protection Corporation (SIPC) limits. Accounts at each institution and brokerage are insured by the FDIC and SIPC up to \$250,000. Cash and Certificate of Deposit balances exceeded the insurance limits at December 31, 2014 and 2013 by \$13,662,235 and \$3,395,361, respectively.

The organization had pledges receivable from two sources totaling \$3,078,500 at December 31, 2014. These pledges comprised 75% of the net pledges receivable at December 31, 2014. The organization had pledges receivable from two sources totaling \$5,317,500 at December 31, 2013. These pledges comprised 65% of the net pledges receivable at December 31, 2013.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Donated Services

A substantial number of volunteers have contributed significant amounts of time to the Organization. The value of these donated services has not been included in the financial statements since no objective basis is available to measure the value of such services.

In-Kind Contributions

In-kind contributions of \$10,000 were received during the year ended December 31, 2014 and included in unrestricted contributions.

Taxes

The Organization was incorporated as a not-for-profit corporation under the laws of the State of Pennsylvania and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization files federal and Pennsylvania annual income tax returns that are subject to audit by the appropriate taxing authority. The Organization's federal and Pennsylvania income tax returns for tax years 2012, 2013, and 2014 remain open to examination by taxing authorities.

NOTE 2 – RESTRICTIONS ON NET ASSETS

The restrictions on net assets are related to funds raised by the Organization for the purpose of funding scholarship awards to children of low-income families in Philadelphia. Each student selected will receive on average \$1,925 per year for four years.

For the years ended December 31, 2014 and 2013, Children's Scholarship Fund National (CSF) contributed funding for scholarships of \$1,092,636 and \$1,262,311, respectively, to the Organization.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 3 – INVESTMENTS

Investments in securities are summarized as follows at December 31, 2014 and 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 44,180	\$ 42,819	\$ 33,943	\$ 35,978

Generally accepted accounting principles require that assets carried at fair value be classified and disclosed as belonging to one of three categories within the fair value hierarchy (Level 1, 2, or 3). Level 1 measurements should be used unless unavailable, followed by Level 2 and 3. The investments above fall into Level 1, which means fair values are determined by quoted market prices in active markets for identical assets or liabilities. The Organization is not required to use Level 2 or Level 3 for any of their assets.

Investment income included in unrestricted net assets from cash equivalents and investments, net of investment expenses, is comprised of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Dividend and interest income	\$ 19,162	\$ 15,814
Realized and unrealized gains, net	18,292	6,046
	\$ 37,454	\$ 21,860

NOTE 4 – PLEDGES RECEIVABLE

Unconditional pledges receivable at December 31, 2014, were as follows:

Receivable in less than one year	\$ 2,263,651
Receivable in one to three years	1,890,000
Total unconditional pledges receivable	4,153,651
Less discounts to net present value	(6,280)
Net unconditional pledges receivable	\$ 4,147,371

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Computer Equipment	\$ 14,321	\$ 14,321
Office Equipment	8,532	8,532
Furniture	<u>2,866</u>	<u>2,866</u>
	25,719	25,719
Less: Accumulated Depreciation	<u>(17,512)</u>	<u>(14,088)</u>
Property and Equipment, net	<u><u>\$ 8,207</u></u>	<u><u>\$ 11,631</u></u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$3,424 and \$3,545, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2014</u>	<u>2013</u>
Scholarship grant programs	<u>\$ 19,114,296</u>	<u>\$ 14,949,401</u>
Total temporarily restricted net assets	<u><u>\$ 19,114,296</u></u>	<u><u>\$ 14,949,401</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose of restrictions specified by donors as follows:

	<u>2014</u>	<u>2013</u>
Scholarship grant programs	<u>\$ 7,922,265</u>	<u>\$ 6,228,323</u>
Total restrictions released	<u><u>\$ 7,922,265</u></u>	<u><u>\$ 6,228,323</u></u>

NOTE 7 – PENSION PLAN

The Organization sponsors a defined contribution pension plan in the form of a 401k plan. The organization matched up to 4% of each employee's contribution.. Pension expense was \$19,263 and \$17,883, respectively, for the years ended December 31, 2014 and 2013, which is reflected within employee benefits in the statements of functional expenses.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 8 – COMMITMENTS

During 2012, the Organization was released from its lease and relocated its offices. The Organization leases its offices under a new operating lease expiring September 30, 2017. The lease allows for one three-year extension. Monthly payments range from \$2,775 to \$3,570. Minimum future rental payments under this non-cancelable operating lease are as follows:

<u>Year Ending December 31:</u>	
2015	40,205
2016	41,225
2017	<u>31,535</u>
	<u>\$ 112,965</u>

Rent expense for the years ending December 31, 2014 and 2013, was \$39,861 and \$35,916, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events were evaluated by management on September 2, 2015, the date the financial statements were available to be issued.