

**CHILDREN'S SCHOLARSHIP FUND
PHILADELPHIA**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**

**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, 2013 and 2012, 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, 2013 and 2012, 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

June 24, 2014

CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

ASSETS	<u>2013</u>	<u>2012</u>
Cash and cash equivalents - Unrestricted	\$ 315,629	\$ 182,569
Cash and cash equivalents - Restricted	6,542,587	5,201,693
Certificates of deposit - Restricted	263,001	535,977
Investments	35,978	13,488
Pledges receivable, net collectible - Restricted	8,111,984	8,492,479
Other receivables - Restricted	31,829	-
Property and equipment, net	11,631	15,176
Security deposits	<u>2,775</u>	<u>2,775</u>
 Total Assets	 <u><u>\$ 15,315,414</u></u>	 <u><u>\$ 14,444,157</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses	\$ 12,415	\$ 24,213
Payroll liabilities	<u>4,528</u>	<u>-</u>
 Total Liabilities	 <u>16,943</u>	 <u>24,213</u>
 Net Assets:		
Unrestricted	349,070	189,795
Temporarily restricted	<u>14,949,401</u>	<u>14,230,149</u>
 Total Net Assets	 <u>15,298,471</u>	 <u>14,419,944</u>
 Total Liabilities and Net Assets	 <u><u>\$ 15,315,414</u></u>	 <u><u>\$ 14,444,157</u></u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenues and support:						
Individual contributions	\$ 119,650	\$ 318,424	\$ 438,074	\$ 75,038	\$ 245,645	\$ 320,683
Foundation and corporate contributions	130,852	5,366,840	5,497,692	265,800	7,681,267	7,947,067
Children's Scholarship Fund National contributions	1,397	1,262,311	1,263,708	-	1,088,172	1,088,172
Investment income	21,860	-	21,860	27,423	-	27,423
Total operating revenues and support	273,759	6,947,575	7,221,334	368,261	9,015,084	9,383,345
Net assets released from restrictions	6,228,323	(6,228,323)	-	4,501,216	(4,501,216)	-
Total operating revenues, support and net assets released from restrictions	6,502,082	719,252	7,221,334	4,869,477	4,513,868	9,383,345
Operating expenses:						
Program services						
Scholarships and grants	5,489,953	-	5,489,953	4,201,016	-	4,201,016
Program expenses	430,727	-	430,727	406,581	-	406,581
Total program services	5,920,680	-	5,920,680	4,607,597	-	4,607,597
Support services:						
Management and general expenses	142,542	-	142,542	122,844	-	312,442
Fundraising	279,585	-	279,585	201,895	-	12,297
Total support services	422,127	-	422,127	324,739	-	324,739
Total operating expenses	6,342,807	-	6,342,807	4,932,336	-	4,932,336
Increase (decrease) in net assets	159,275	719,252	878,527	(62,859)	4,513,868	4,451,009
Net Assets - Beginning of Year	189,795	14,230,149	14,419,944	252,654	9,716,281	9,968,935
Net Assets - End of Year	\$ 349,070	\$ 14,949,401	\$ 15,298,471	\$ 189,795	\$ 14,230,149	\$ 14,419,944

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Increase in net assets	\$ 878,527	\$ 4,451,009
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation	3,545	2,818
Loss on disposal of property and equipment	-	263
Unrealized and realized gain on investments	(6,046)	(14,204)
(Increase) decrease in assets		
Pledges receivable	380,495	(3,306,751)
Security deposits	-	(975)
Other receivables	(31,829)	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(11,798)	12,651
Payroll liabilities	4,528	-
Net Cash Provided By Operating Activities	<u>1,217,422</u>	<u>1,144,811</u>
Cash Flows From Investing Activities:		
Proceeds redeemed from certificates of deposit	272,976	973,592
Proceeds from sale (purchase) of securities, net	-	13,040
Purchases of investments	(16,444)	-
Purchases of property and equipment	-	(13,136)
Net Cash Provided By Investing Activities	<u>256,532</u>	<u>973,496</u>
Net Increase In Cash	1,473,954	2,118,307
Cash and Cash Equivalents - Beginning of Year	<u>5,384,262</u>	<u>3,265,955</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,858,216</u>	<u>\$ 5,384,262</u>
Cash and cash equivalents - Unrestricted	\$ 315,629	\$ 182,569
Cash and cash equivalents - Restricted	<u>6,542,587</u>	<u>5,201,693</u>
	<u>\$ 6,858,216</u>	<u>\$ 5,384,262</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013				2012			
	Management and General Expenses	Program Expenses	Fundraising Expenses	Totals	Management and General Expenses	Program Expenses	Fundraising Expenses	Totals
Compensation expenses								
Payroll	\$ 63,284	\$ 218,438	\$ 214,728	\$ 496,450	\$ 48,096	\$ 159,821	\$ 155,313	\$ 363,230
Payroll taxes	5,657	19,525	19,194	44,376	3,700	12,297	11,950	27,947
Employee benefits	5,334	18,409	18,096	41,839	2,748	9,130	8,872	20,750
	<u>74,275</u>	<u>256,372</u>	<u>252,018</u>	<u>582,665</u>	<u>54,544</u>	<u>181,248</u>	<u>176,135</u>	<u>411,927</u>
Advertising	-	13,500	-	13,500	-	21,196	-	21,196
Computer expense	4,376	-	1,459	5,835	5,079	-	1,693	6,772
Depreciation	3,545	-	-	3,545	2,818	-	-	2,818
Dues and subscriptions	4,596	-	-	4,596	3,457	-	-	3,457
Events and partnerships	-	-	12,704	12,704	-	-	12,297	12,297
Insurance expense	4,700	-	-	4,700	4,663	-	-	4,663
Office expense	5,247	5,247	-	10,494	5,306	5,306	-	10,612
Outside services	8,187	19,103	-	27,290	13,080	29,167	-	42,247
Postage and delivery	6,222	14,359	3,350	23,931	4,763	10,993	2,565	18,321
Printing and reproduction	12,019	27,737	6,472	46,228	10,583	24,422	5,698	40,703
Program evaluation	-	12,512	-	12,512	-	20,957	-	20,957
Rent	14,366	21,550	-	35,916	13,310	19,964	-	33,274
Scholarship program expenses	-	51,697	-	51,697	-	84,650	-	84,650
Telephone	2,680	3,829	1,149	7,658	2,820	4,028	1,208	8,056
Travel and entertainment	2,432	4,865	2,433	9,730	2,298	4,597	2,299	9,194
Utilities	(103)	(44)	-	(147)	123	53	-	176
	<u>74,275</u>	<u>256,372</u>	<u>252,018</u>	<u>582,665</u>	<u>54,544</u>	<u>181,248</u>	<u>176,135</u>	<u>411,927</u>
Total Expenses	<u>\$ 142,542</u>	<u>\$ 430,727</u>	<u>\$ 279,585</u>	<u>\$ 852,854</u>	<u>\$ 122,844</u>	<u>\$ 406,581</u>	<u>\$ 201,895</u>	<u>\$ 731,320</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 four 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 14,500 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, 2013 and 2012.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

**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, 2013 and 2012. 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, 2013 AND 2012**

**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, 2013 and 2012 by \$3,395,361 and \$4,690,782, respectively.

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. The organization had pledges receivable from two sources totaling \$6,017,500 at December 31, 2012. These pledges comprised 70% of the net pledges receivable at December 31, 2012.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

**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.

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 2011, 2012, and 2013 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 \$1,533 per year for four years.

For the years ended December 31, 2013 and 2012, Children's Scholarship Fund National (CSF) contributed funding for scholarships of \$1,262,311 and \$1,088,172, respectively, to the Organization.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 3 – INVESTMENTS

Investments in securities are summarized as follows at December 31, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	<u>\$ 33,943</u>	<u>\$ 35,978</u>	<u>\$ 12,457</u>	<u>\$ 13,488</u>

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Dividend and interest income	\$ 15,814	\$ 13,219
Realized and unrealized gains, net	6,046	14,204
	<u>\$ 21,860</u>	<u>\$ 27,423</u>

NOTE 4 – PLEDGES RECEIVABLE

Unconditional pledges receivable at December 31, 2013, were as follows:

Receivable in less than one year	\$ 4,666,660
Receivable in one to three years	<u>3,471,200</u>
Total unconditional pledges receivable	8,137,860
Less discounts to net present value	<u>(25,876)</u>
Net unconditional pledges receivable	<u>\$ 8,111,984</u>

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</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>(14,088)</u>	<u>(10,543)</u>
Property and Equipment, net	<u>\$ 11,631</u>	<u>\$ 15,176</u>

Depreciation expense for the years ended December 31, 2013 and 2012 was \$3,545 and \$2,818, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Scholarship grant programs	<u>\$ 14,949,401</u>	<u>\$ 14,230,149</u>
Total temporarily restricted net assets	<u>\$ 14,949,401</u>	<u>\$ 14,230,149</u>

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

	<u>2013</u>	<u>2012</u>
Scholarship grant programs	<u>\$ 6,228,323</u>	<u>\$ 4,501,216</u>
Total restrictions released	<u>\$ 6,228,323</u>	<u>\$ 4,501,216</u>

NOTE 7 – PENSION PLAN

The Organization sponsors a defined contribution pension plan in the form of a Simple Individual Retirement Account (Simple IRA). The organization matched up to 4% of each employee's contribution at December 31, 2013, and 3% at December 31, 2012. Pension expense was \$17,883 and \$6,625, respectively, for the years ended December 31, 2013 and 2012, which is reflected within employee benefits in the statements of functional expenses.

CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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</u> <u>December 31:</u>	
2014	39,185
2015	40,205
2016	41,225
2017	<u>31,535</u>
	<u><u>\$ 152,150</u></u>

Rent expense for the years ending December 31, 2013 and 2012, was \$35,916 and \$33,274, respectively.

NOTE 9 – RECLASSIFICATION

Certain prior year accounts were reclassified in order to be comparable with current year classifications.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were evaluated by management on June 24, 2014, the date the financial statements were available to be issued.