

**CHILDREN'S SCHOLARSHIP FUND
PHILADELPHIA**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

**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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and, 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 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 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, 2017 and 2016, 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

August 9, 2018

CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

| ASSETS | 2017 | 2016 |
|--|---------------|---------------|
| Cash and cash equivalents - Unrestricted | \$ 262,834 | \$ 345,914 |
| Cash and cash equivalents - Restricted | 8,702,415 | 12,795,228 |
| Certificates of deposit - Restricted | 7,513,214 | 1,267,006 |
| Pledges receivable, net collectible - Restricted | 288,709 | 161,190 |
| Investments - Unrestricted | 49,151 | 43,374 |
| Property and equipment, net | 916 | 2,321 |
| Security deposits | 2,775 | 2,775 |
| Other Assets | - | 3,000 |
| | \$ 16,820,014 | \$ 14,620,808 |
| Total Assets | \$ 16,820,014 | \$ 14,620,808 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accrued expenses - Unrestricted | \$ 48,433 | \$ 30,360 |
| Accrued expenses - Restricted | 267,405 | 550,110 |
| Payroll liabilities | 3,917 | 3,997 |
| | 319,755 | 584,467 |
| Total Liabilities | 319,755 | 584,467 |
| Net Assets: | | |
| Unrestricted | 263,326 | 363,027 |
| Temporarily restricted | 16,236,933 | 13,673,314 |
| | 16,500,259 | 14,036,341 |
| Total Net Assets | 16,500,259 | 14,036,341 |
| Total Liabilities and Net Assets | \$ 16,820,014 | \$ 14,620,808 |

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | 2017 | | | 2016 | | |
|---|-------------------|---------------------------|----------------------|-------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Operating revenues and support: | | | | | | |
| Individual contributions | \$ 124,363 | \$ 3,265,508 | \$ 3,389,871 | \$ 203,751 | \$ 3,061,995 | \$ 3,265,746 |
| Foundation and corporate contributions | 312,500 | 8,925,221 | 9,237,721 | 440,100 | 8,986,428 | 9,426,528 |
| Children's Scholarship Fund National contributions | - | 1,140,000 | 1,140,000 | - | 910,127 | 910,127 |
| Administrative Income | 121,923 | - | 121,923 | 173,336 | - | 173,336 |
| Investment income | 5,775 | 64,814 | 70,589 | 65,536 | 43,398 | 108,934 |
| Total operating revenues and support | 564,561 | 13,395,543 | 13,960,104 | 882,723 | 13,001,948 | 13,884,671 |
| Net assets released from restrictions | 10,831,618 | (10,831,618) | - | 10,662,242 | (10,662,242) | - |
| Total operating revenues, support and net assets released from restrictions | 11,396,179 | 2,563,925 | 13,960,104 | 11,544,965 | 2,339,706 | 13,884,671 |
| Operating expenses: | | | | | | |
| Program services | | | | | | |
| Scholarships and grants | 9,979,743 | - | 9,979,743 | 10,039,578 | - | 10,039,578 |
| Program expenses | 788,237 | - | 788,237 | 665,937 | - | 665,937 |
| Total program services | 10,767,980 | - | 10,767,980 | 10,705,515 | - | 10,705,515 |
| Support services | | | | | | |
| Management and general expenses | 286,123 | 256 | 286,379 | 258,766 | 118 | 258,884 |
| Fundraising | 441,777 | 50 | 441,827 | 435,013 | - | 435,013 |
| Total support services | 727,900 | 306 | 728,206 | 693,779 | 118 | 693,897 |
| Total operating expenses | 11,495,880 | 306 | 11,496,186 | 11,399,294 | 118 | 11,399,412 |
| Increase (Decrease) in Net Assets | (99,701) | 2,563,619 | 2,463,918 | 145,671 | 2,339,588 | 2,485,259 |
| Net Assets - Beginning of Year | 363,027 | 13,673,314 | 14,036,341 | 217,356 | 11,333,726 | 11,551,082 |
| Net Assets - End of Year | <u>\$ 263,326</u> | <u>\$ 16,236,933</u> | <u>\$ 16,500,259</u> | <u>\$ 363,027</u> | <u>\$ 13,673,314</u> | <u>\$ 14,036,341</u> |

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|----------------------|
| Cash Flows From Operating Activities: | | |
| Increase in net assets | \$ 2,463,918 | \$ 2,485,259 |
| Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities: | | |
| Depreciation | 1,405 | 2,650 |
| Unrealized and realized (gain) loss on investments | 8,572 | (69,863) |
| Stock donations included in contributions | (110,842) | - |
| (Increase) decrease in assets | | |
| Pledges receivable | (127,519) | 2,306,220 |
| Other assets | 3,000 | - |
| Increase (decrease) in liabilities | | |
| Accounts payable and accrued expenses | (264,632) | 521,339 |
| Payroll liabilities | (80) | 1,892 |
| Net Cash Provided By Operating Activities | <u>1,973,822</u> | <u>5,247,497</u> |
| Cash Flows From Investing Activities: | | |
| Proceeds redeemed from certificates of deposit | 2,000,000 | 2,488,000 |
| Net (purchases) sales of investments | <u>(8,149,715)</u> | <u>59,470</u> |
| Net Cash Provided By (Used By) Investing Activities | <u>(6,149,715)</u> | <u>2,547,470</u> |
| Net Increase (Decrease) In Cash | (4,175,893) | 7,794,967 |
| Cash and Cash Equivalents - Beginning of Year | <u>13,141,142</u> | <u>5,346,175</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 8,965,249</u> | <u>\$ 13,141,142</u> |
| Cash and cash equivalents - Unrestricted | \$ 262,834 | \$ 345,914 |
| Cash and cash equivalents - Restricted | <u>8,702,415</u> | <u>12,795,228</u> |
| | <u>\$ 8,965,249</u> | <u>\$ 13,141,142</u> |

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | 2017 | | | | 2016 | | | |
|------------------------------|--|---------------------|-------------------|---------------------|--|---------------------|-------------------------|---------------------|
| | Management and General Expenses | Program Expenses | Fundraising | Totals | Management and General Expenses | Program Expenses | Fundraising Expenses | Totals |
| Compensation expenses | | | | | | | | |
| Payroll | \$ 136,683 | \$ 420,239 | \$ 233,588 | \$ 790,510 | \$ 108,243 | \$ 311,286 | \$ 287,939 | \$ 707,468 |
| Payroll taxes | 11,084 | 34,079 | 18,943 | 64,106 | 9,181 | 26,403 | 24,423 | 60,007 |
| Employee benefits | 13,537 | 41,618 | 23,133 | 78,288 | 15,582 | 44,809 | 41,448 | 101,839 |
| | <u>161,304</u> | <u>495,936</u> | <u>275,664</u> | <u>932,904</u> | <u>133,006</u> | <u>382,498</u> | <u>353,810</u> | <u>869,314</u> |
| Advertising | - | 29,262 | 3,251 | 32,513 | - | 36,191 | - | 36,191 |
| Computer expense | 5,860 | - | 1,953 | 7,813 | 7,373 | - | 2,457 | 9,830 |
| Depreciation | 1,405 | - | - | 1,405 | 663 | 1,987 | - | 2,650 |
| Dues and subscriptions | 6,396 | - | - | 6,396 | 3,784 | - | - | 3,784 |
| Events and partnerships | - | - | 80,761 | 80,761 | - | - | 44,296 | 44,296 |
| Insurance expense | 6,698 | - | - | 6,698 | 6,489 | - | - | 6,489 |
| Marketing | - | 4,490 | 499 | 4,989 | - | 3,365 | - | 3,365 |
| Office expense | 10,520 | 10,520 | - | 21,040 | 11,982 | 11,983 | - | 23,965 |
| Outside services | 46,742 | 140,228 | 46,743 | 233,713 | 50,570 | 117,997 | - | 168,567 |
| Postage and delivery | 4,152 | 9,341 | 7,265 | 20,758 | 4,922 | 11,073 | 8,612 | 24,607 |
| Printing and reproduction | 7,439 | 16,739 | 13,019 | 37,197 | 8,788 | 19,769 | 15,376 | 43,933 |
| Program evaluation | - | 22,926 | - | 22,926 | - | 29,107 | - | 29,107 |
| Rent | 28,915 | 43,373 | - | 72,288 | 26,001 | 39,001 | - | 65,002 |
| Scholarship program expenses | - | 4,365 | - | 4,365 | - | 4,276 | - | 4,276 |
| Telephone | 3,999 | 5,333 | 3,999 | 13,331 | 2,650 | 3,535 | 2,651 | 8,836 |
| Travel and entertainment | 2,949 | 5,724 | 8,673 | 17,346 | 2,656 | 5,155 | 7,811 | 15,622 |
| | <u>\$ 286,379</u> | <u>\$ 788,237</u> | <u>\$ 441,827</u> | <u>\$ 1,516,443</u> | <u>\$ 258,884</u> | <u>\$ 665,937</u> | <u>\$ 435,013</u> | <u>\$ 1,359,834</u> |
| Total Expenses | | | | | | | | |

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 ten dollars expended from Children's Scholarship Fund (national).

Since 2001, the Organization has awarded 22,500 new four-year scholarships to low-income Philadelphia children.

The Organization receives corporate contributions under two Pennsylvania tax credit programs, the Educational Improvement Tax Credit (EITC) and Opportunity Scholarship Tax Credit (OSTC), which require corporations to receive approval from the state in order to make the contribution. Due to a delay in the passing of the 2015 state budget until 2016, the state's approval for these credits was also delayed. The Organization received verbal confirmation from contributors intending to make contributions under these tax credit programs, but the receipt and recognition of these contributions was delayed until 2016. Therefore, the Organization, in some cases, received donations for two years of scholarship support in 2016.

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.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

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, 2017 and 2016.

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, 2017 and 2016. 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.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

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.

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, 2017 and 2016 by \$14,785,400 and \$12,957,547, respectively.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

Concentration of Credit Risk (Continued)

The Organization had pledges receivable from one source totaling \$282,660 at December 31, 2017. These pledges comprised 100% of the net pledges receivable at December 31, 2017. The organization had pledges receivable from two sources totaling \$141,190 at December 31, 2016. These pledges comprised 88% of the net pledges receivable at December 31, 2016.

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 \$13,000 were received during the year ended December 31, 2017 and included in unrestricted contributions. No in-kind contributions were received during the year ended December 31, 2016.

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 2015, 2016, and 2017 remain open to examination by taxing authorities.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, Children's Scholarship Fund National (CSF) contributed funding for scholarships of \$1,140,000 and \$910,127, respectively, to the Organization.

NOTE 3 – INVESTMENTS

Investments in securities are summarized as follows at December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|--------------|-----------|------------|-----------|------------|
| | Cost | Fair Value | Cost | Fair Value |
| Mutual Funds | \$ 50,816 | \$ 49,151 | \$ 47,902 | \$ 43,374 |

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, 2017 and 2016:

| | 2017 | 2016 |
|------------------------------------|-----------|------------|
| Dividend and interest income | \$ 79,161 | \$ 39,071 |
| Realized and unrealized gains, net | (8,572) | 69,863 |
| | \$ 70,589 | \$ 108,934 |

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 4 – PLEDGES RECEIVABLE

Unconditional pledges receivable at December 31, 2017, were as follows:

| | |
|--|--------------------------|
| Receivable in less than one year | \$ 150,000 |
| Receivable in one to three years | <u>141,150</u> |
| Total unconditional pledges receivable | 291,150 |
| Less discounts to net present value | <u>(2,441)</u> |
| Net unconditional pledges receivable | <u><u>\$ 288,709</u></u> |

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 consisted of the following:

| | <u>2017</u> | <u>2016</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>(24,803)</u> | <u>(23,398)</u> |
| Property and Equipment, net | <u><u>\$ 916</u></u> | <u><u>\$ 2,321</u></u> |

Depreciation expense for the years ended December 31, 2017 and 2016 was \$1,405 and \$2,650, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Scholarship grant programs | \$ 15,784,432 | \$ 13,673,314 |
| William Penn grant | 452,501 | - |
| Total temporarily restricted net assets | <u><u>\$ 16,236,933</u></u> | <u><u>\$ 13,673,314</u></u> |

CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 \$22,734 and \$17,167, respectively, for the years ended December 31, 2017 and 2016, which is reflected within employee benefits in the statements of functional expenses.

NOTE 8 – COMMITMENTS

The Organization leases its office under an operating lease expiring March 31, 2023. Monthly payments are scheduled to escalate over the term of the lease and range from \$4,799 to \$6,153. Minimum future rental payments under this non-cancelable operating lease are as follows:

| <u>December 31:</u> | |
|---------------------|-------------------|
| 2018 | 66,768 |
| 2019 | 68,339 |
| 2020 | 69,909 |
| 2021 | 71,481 |
| 2022 | 73,052 |
| Thereafter | <u>18,459</u> |
| | <u>\$ 368,008</u> |

Rent expense for the years ending December 31, 2017 and 2016, was \$72,288 and \$65,002, respectively.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events were evaluated by management on August 9, 2018, the date the financial statements were available to be issued.