

**CHILDREN'S SCHOLARSHIP FUND
PHILADELPHIA**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, 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, 2018 and 2017, 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

May 31, 2019

CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS	2018	2017
Cash and cash equivalents - Without donor restrictions	\$ 317,531	\$ 262,834
Cash and cash equivalents - With donor restrictions	15,416,763	8,702,415
Certificates of deposit - With donor restrictions	250,751	7,513,214
Pledges receivable, net collectible - With donor restrictions	253,150	288,709
Investments - Without donor restrictions	45,403	49,151
Investments - With donor restrictions	2,363,275	-
Prepaid expenses	14,399	-
Property and equipment, net	415	916
Security deposits	2,775	2,775
	<u>2,775</u>	<u>2,775</u>
 Total Assets	<u>\$ 18,664,462</u>	<u>\$ 16,820,014</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued expenses - Without donor restrictions	\$ 7,118	\$ 48,433
Accrued expenses - With donor restrictions	280,583	267,405
Payroll liabilities	3,409	3,917
	<u>3,409</u>	<u>3,917</u>
 Total Liabilities	<u>291,110</u>	<u>319,755</u>
Net Assets:		
Without donor restrictions	369,996	263,326
With donor restrictions	18,003,356	16,236,933
	<u>18,003,356</u>	<u>16,236,933</u>
 Total Net Assets	<u>18,373,352</u>	<u>16,500,259</u>
 Total Liabilities and Net Assets	<u>\$ 18,664,462</u>	<u>\$ 16,820,014</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support:						
Individual contributions	\$ 352,669	\$ 4,031,691	\$ 4,384,360	\$ 124,363	\$ 3,265,508	\$ 3,389,871
Foundation and corporate contributions	397,060	7,349,857	7,746,917	312,500	8,925,221	9,237,721
Children's Scholarship Fund National contributions	-	1,200,000	1,200,000	-	1,140,000	1,140,000
Administrative Income	108,438	-	108,438	121,923	-	121,923
Investment income	(7,329)	72,953.00	65,624	5,775	64,814	70,589
Total operating revenues and support	850,838	12,654,501	13,505,339	564,561	13,395,543	13,960,104
Net assets released from restrictions	10,887,893	(10,887,893)	-	10,831,618	(10,831,618)	-
Total operating revenues, support and net assets released from restrictions	11,738,731	1,766,608	13,505,339	11,396,179	2,563,925	13,960,104
Operating expenses:						
Program services						
Scholarships and grants	10,015,774	-	10,015,774	9,979,743	-	9,979,743
Program expenses	862,157	-	862,157	788,237	-	788,237
Total program services	10,877,931	-	10,877,931	10,767,980	-	10,767,980
Support services						
Management and general expenses	305,472	185	305,657	286,123	256	286,379
Fundraising	448,658	-	448,658	441,777	50	441,827
Total support services	754,130	185	754,315	727,900	306	728,206
Total operating expenses	11,632,061	185	11,632,246	11,495,880	306	11,496,186
Increase (Decrease) in Net Assets	106,670	1,766,423	1,873,093	(99,701)	2,563,619	2,463,918
Net Assets - Beginning of Year	263,326	16,236,933	16,500,259	363,027	13,673,314	14,036,341
Net Assets - End of Year	<u>\$ 369,996</u>	<u>\$ 18,003,356</u>	<u>\$ 18,373,352</u>	<u>\$ 263,326</u>	<u>\$ 16,236,933</u>	<u>\$ 16,500,259</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018				2017			
	Management and General Expenses	Program Expenses	Fundraising	Totals	Management and General Expenses	Program Expenses	Fundraising Expenses	Totals
Compensation expenses								
Payroll	\$ 176,257	\$ 503,957	\$ 288,189	\$ 968,403	\$ 136,683	\$ 420,239	\$ 233,588	\$ 790,510
Payroll taxes	14,680	41,971	24,001	80,652	11,084	34,079	18,943	64,106
Employee benefits	17,204	49,188	28,129	94,521	13,537	41,618	23,133	78,288
	<u>208,142</u>	<u>595,116</u>	<u>340,319</u>	<u>1,143,576</u>	<u>161,304</u>	<u>495,936</u>	<u>275,664</u>	<u>932,904</u>
Advertising	-	26,306	2,923	29,229	-	29,262	3,251	32,513
Computer expense	7,436	-	2,479	9,915	5,860	-	1,953	7,813
Depreciation	501	-	-	501	1,405	-	-	1,405
Dues and subscriptions	5,000	-	-	5,000	6,396	-	-	6,396
Events and partnerships	-	3,731	49,868	53,599	-	-	80,761	80,761
Insurance expense	8,427	-	-	8,427	6,698	-	-	6,698
Marketing	-	38,354	4,262	42,616	-	4,490	499	4,989
Office expense	13,471	13,471	-	26,942	10,520	10,520	-	21,040
Outside services	18,573	56,356	25,320	100,249	46,742	140,228	46,743	233,713
Postage and delivery	2,960	6,659	5,179	14,798	4,152	9,341	7,265	20,758
Printing and reproduction	5,438	12,236	9,517	27,191	7,439	16,739	13,019	37,197
Program evaluation	-	18,382	-	18,382	-	22,926	-	22,926
Rent	31,196	46,795	-	77,991	28,915	43,373	-	72,288
Scholarship program expenses	-	37,394	-	37,394	-	4,365	-	4,365
Telephone	2,309	3,079	2,309	7,697	3,999	5,333	3,999	13,331
Travel and entertainment	2,204	4,278	6,482	12,964	2,949	5,724	8,673	17,346
	<u>208,142</u>	<u>595,116</u>	<u>340,319</u>	<u>1,143,576</u>	<u>161,304</u>	<u>495,936</u>	<u>275,664</u>	<u>932,904</u>
Total Expenses	<u>\$ 305,657</u>	<u>\$ 862,157</u>	<u>\$ 448,658</u>	<u>\$ 1,616,471</u>	<u>\$ 286,379</u>	<u>\$ 788,237</u>	<u>\$ 441,827</u>	<u>\$ 1,516,443</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Increase in net assets	\$ 1,873,093	\$ 2,463,918
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation	501	1,405
Unrealized and realized (gain) loss on investments	147,169	8,572
Stock donations included in contributions	(169,648)	(110,842)
(Increase) decrease in assets		
Pledges receivable	35,559	(127,519)
Other assets	(14,399)	3,000
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(28,137)	(264,632)
Payroll liabilities	(508)	(80)
Net Cash Provided By Operating Activities	<u>1,843,630</u>	<u>1,973,822</u>
Cash Flows From Investing Activities:		
Proceeds redeemed from certificates of deposit	10,380,500	2,000,000
Net (purchases) sales of investments	<u>(5,455,085)</u>	<u>(8,149,715)</u>
Net Cash (Used By) Investing Activities	<u>4,925,415</u>	<u>(6,149,715)</u>
Net Increase (Decrease) In Cash	6,769,045	(4,175,893)
Cash and Cash Equivalents - Beginning of Year	<u>8,965,249</u>	<u>13,141,142</u>
Cash and Cash Equivalents - End of Year	<u>\$ 15,734,294</u>	<u>\$ 8,965,249</u>
Cash and cash equivalents - Without donor restrictions	\$ 317,531	\$ 262,834
Cash and cash equivalents - With donor restrictions	<u>15,416,763</u>	<u>8,702,415</u>
	<u>\$ 15,734,294</u>	<u>\$ 8,965,249</u>

See accompanying notes to financial statements

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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.

Since 2001, the Organization has awarded 24,500 new four-year scholarships to date and have served approximately 5,200 low-income Philadelphia children attending over 170 area schools in 2018.

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.

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.

The FASB issued ASU 2016-14, *Not-for-profit Entities Presentation of Financial Statements of Not-for-Profit Entities*, which amends the standards of the presentation and accompanying disclosures of the financial statements.

According to the amendments financial statements issued for fiscal years beginning after December 15, 2017 must classify and report net assets, at a minimum, in two net asset classes based on the existence or absence of donor-imposed restrictions. ASU 2016-14, allows the use of the terms *net assets "with donor restrictions"* and *net assets "without donor restrictions"* to describe two required net asset classes. As a result, the Organization's financial statements distinguish between "Without donor restriction" and "With donor restrictions" of net assets and changes in net assets. The two types of net assets are as follows:

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

Net Assets "With donor restrictions": net assets subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Net Assets "Without donor restrictions": net assets not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

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 mutual funds and equity securities with readily determinable fair values. All investments are carried at fair value in the statement of financial position at December 31, 2018 and 2017. According to ASU 2016, Investment internal investment management and custodial expenses must be netted against investment income and reflected in the Statements of Activities. Further, the disclosure of the components of net investment return must not be disclosed in these financial statements.

Pledges Receivable

Unconditional pledge receivables 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, 2018 AND 2017**

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

With or Without Donor Restrictions

The Organization follows FASB ASC Section 958-605-25, *Not-For-Profit Entities, Revenue Recognition* in recording contributions received.

Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in without donor restriction 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 with donor restriction 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), then with donor restriction net assets are reclassified to without donor restriction net assets and reported in the Statement of Activities as net assets released from restrictions. According to ASU 2016-14, 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, 2018 and 2017 by \$15,023,639 and \$14,785,400, respectively.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

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

Concentration of Credit Risk (Continued)

The Organization had pledges receivable from one source totaling \$114,150 at December 31, 2018. These pledges comprised 56% of the net pledges receivable at December 31, 2018. The organization had pledges receivable from one source totaling \$288,709 at December 31, 2017. These pledges comprised 100% of the net pledges receivable at December 31, 2017.

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, 2018.

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 2016, 2017, and 2018 remain open to examination by taxing authorities.

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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, 2018 and 2017, Children's Scholarship Fund National (CSF) contributed funding for scholarships of \$1,200,000 and \$1,140,000, respectively, to the Organization which are considered restricted funds as well.

For 2018, the following reflects the Organization's financial assets of the balance sheet date, reduced by the amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Also amounts not available include amounts set aside for operating purposes.

	2018
Financial assets, at year-end	
Cash	\$ 15,985,045
Investments	2,408,678
Pledge receivable	253,150
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor - imposed restriction:	
Restricted by donors	(18,003,356)
Financial assets available to meet cash needs for general expenditures within one year	\$ 643,517

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 – INVESTMENTS

Investments in securities are summarized as follows at December 31, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 2,547,327	\$ 2,408,678	\$ 50,816	\$ 49,151

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.

NOTE 4 – PLEDGES RECEIVABLE

Unconditional pledges receivable at December 31, 2018, were as follows:

Receivable in less than one year	\$ 253,150
Receivable in one to three years	-
Total unconditional pledges receivable	253,150
Less discounts to net present value	-
Net unconditional pledges receivable	\$ 253,150

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Computer Equipment	\$ 14,321	\$ 14,321
Office Equipment	8,532	8,532
Furniture	2,866	2,866
	25,719	25,719
Less: Accumulated Depreciation	(25,304)	(24,803)
Property and Equipment, net	\$ 415	\$ 916

**CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 – PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended December 31, 2018 and 2017 was \$501 and \$1,405, respectively.

NOTE 6 – 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 \$26,268 and \$22,734, respectively, for the years ended December 31, 2018 and 2017, which is reflected within employee benefits in the statements of functional expenses.

NOTE 7 – FUNCTIONAL EXPENSES

Accordingly, ASU 2016-14 expands the requirement to present an analysis of expenses by functional and natural expense classifications. Further, a description of the allocation methods and bases used in classifying expenses among the functional expense categories must be disclosed. The Organization has included a Statement of Functional Expenses in these financial statements. See Page 6. The allocation methods used are as follows:

1. Time spent allocation method is used for payroll, payroll tax expense and employee benefit costs. This method is a direct method where each employee is assigned to a function.
2. Direct allocation method is used by assigning each expense (i.e., invoice, line item on an invoice, individual employee) to a functional category based on direct usage. This is utilized for scholarship program expense.
3. Indirect allocation is used based on historical and objective basis to allocate expenses based on financial or nonfinancial data to the functional expense categories. This is utilized for occupancy expenses including rent and utilities. Also it includes, support services, office expenses and advertising expenses.

CHILDREN'S SCHOLARSHIP FUND PHILADELPHIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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. Also, the Organization leases a copier under an operating lease expiring January 31, 2022 with monthly payments of \$139. Minimum future rental payments under these non-cancelable operating leases are as follows:

Year Ending December 31:	
2019	\$ 70,007
2020	71,577
2021	73,149
2022	73,052
2023	18,459
	<u>\$ 306,244</u>

Rent expense for the years ending December 31, 2018 and 2017, was \$77,991 and \$72,288, respectively.

NOTE 9 – RECLASSIFICATION

Accordingly, certain comparative figures have been reclassified and renamed to conform to ASU 2016-14, *Not-for-Profit Entities Presentation of Financial Statements of Not-for-Profit Entities*. (see Note 1).

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were evaluated by management on May 31, 2019, the date the financial statements were available to be issued.