

Financial Statements Together with
Report of Independent Certified Public
Accountants

The Children's Scholarship Fund

For the year ended August 31, 2023
with summarized comparative financial information
for the year ended August 31, 2022

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion

We have audited the accompanying financial statements of The Children's Scholarship Fund (the "Fund"), which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of August 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is

not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on 2022 summarized comparative information

We have previously audited the Fund's 2022 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 1, 2022. In our opinion, the accompanying summarized comparative information as of and for the year ended August 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York
November 21, 2023

The Children's Scholarship Fund

STATEMENT OF FINANCIAL POSITION

As of August 31, 2023

with summarized comparative financial information as of August 31, 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 7,764,037	\$ 21,425,941
Investments (Note C)	28,124,984	10,361,483
Contributions receivable, net (Note D)	-	1,763,214
Prepaid expenses and other assets	64,868	34,626
Deposits	23,346	23,346
New Hampshire Education Freedom Accounts	4,671,165	2,474,597
Operating lease right-of-use assets (Note I)	230,009	-
Property and equipment, net (Note E)	34,062	52,795
	\$ 40,912,471	\$ 36,136,002
Total assets		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 22,313	\$ 11,531
Due to State of New Hampshire (Education Freedom Accounts)	5,378,521	2,764,783
Refundable advances	55,243	637,434
Operating lease liabilities (Note I)	248,552	-
Accrued expenses and other liabilities	165,509	143,610
	5,870,138	3,557,358
Total liabilities		
Commitments		
Net assets		
Without donor restrictions	9,954,492	8,572,395
With donor restrictions (Note F)	25,087,841	24,006,249
	35,042,333	32,578,644
Total liabilities and net assets	\$ 40,912,471	\$ 36,136,002

The accompanying notes are an integral part of this financial statement.

The Children's Scholarship Fund

STATEMENT OF ACTIVITIES

For the year ended August 31, 2023
with summarized comparative financial information as of August 31, 2022

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Operating revenues and support				
Contributions	\$ 2,768,786	\$ 20,123,040	\$ 22,891,826	\$ 23,785,605
Fundraising events (net of costs of direct benefits to donors of \$2,070)	-	2,494	2,494	3,031
Program service revenue	1,138,185	-	1,138,185	860,103
Investment income	1,309,290	-	1,309,290	115,237
Total operating revenues and support	5,216,261	20,125,534	25,341,795	24,763,976
Net assets released from restrictions (Note F)	19,043,942	(19,043,942)	-	-
Total operating revenues, support and net assets released from restrictions	24,260,203	1,081,592	25,341,795	24,763,976
Operating expenses				
Program services:				
Scholarships and grants (Note G)	19,227,637	-	19,227,637	20,245,323
Program management, outreach and support	1,888,331	-	1,888,331	1,459,006
Total program services	21,115,968	-	21,115,968	21,704,329
Support services:				
Management and general	502,138	-	502,138	423,517
Fundraising	1,260,000	-	1,260,000	1,192,095
Total support services	1,762,138	-	1,762,138	1,615,612
Total operating expenses	22,878,106	-	22,878,106	23,319,941
CHANGES IN NET ASSETS	1,382,097	1,081,592	2,463,689	1,444,035
Net assets, beginning of year	8,572,395	24,006,249	32,578,644	31,134,609
Net assets, end of year	\$ 9,954,492	\$ 25,087,841	\$ 35,042,333	\$ 32,578,644

The accompanying notes are an integral part of this financial statement.

The Children's Scholarship Fund

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended August 31, 2023
with summarized comparative totals for the year ended August 31, 2022

	Program Services	Support Services		2023 Total Expenses	2022 Total Expenses
		Fundraising	Management and General		
Scholarships and grants	\$ 19,227,637	\$ -	\$ -	\$ 19,227,637	\$ 20,245,323
Salaries	1,190,825	780,995	229,767	2,201,587	1,827,823
Payroll taxes	83,672	53,996	13,261	150,929	130,284
Employee benefits	210,501	97,626	25,406	333,533	258,162
Occupancy costs	41,942	61,988	8,780	112,710	211,340
Professional fees	26,607	56,916	182,517	266,040	196,974
Donor communication costs	-	84,960	-	84,960	121,113
Event costs	-	2,038	-	2,038	2,197
Offices expenses	20,301	14,211	2,325	36,837	36,922
Information technology	248,911	22,768	765	272,444	143,293
Travel	18,949	55,512	28,245	102,706	59,158
Depreciation and amortization	16,510	10,129	1,435	28,074	29,990
Insurance	27,287	10,866	1,612	39,765	36,380
Miscellaneous	2,826	7,995	8,025	18,846	20,982
Total expenses	<u>\$ 21,115,968</u>	<u>\$ 1,260,000</u>	<u>\$ 502,138</u>	<u>\$ 22,878,106</u>	<u>\$ 23,319,941</u>

The accompanying notes are an integral part of this financial statement.

The Children's Scholarship Fund

STATEMENT OF CASH FLOWS

As of August 31, 2023

with summarized comparative financial information as of August 31, 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from contributors	\$ 24,075,670	\$ 22,372,107
Cash received from State of NH EFA, net of returned funds	15,242,920	9,004,046
Investment and other income	1,275,229	113,280
Scholarships and grants paid	(19,227,637)	(20,245,323)
Cash paid to vendors, suppliers and employees	(3,566,178)	(2,991,326)
Cash paid to vendor to fund NH EFA accounts	<u>(13,689,066)</u>	<u>(7,853,757)</u>
Net cash provided by operating activities	<u>4,110,938</u>	<u>399,027</u>
Cash flows from investing activities:		
Purchases of investments	(34,544,079)	(16,941,109)
Sales of investments	16,780,578	13,165,740
Purchases of property and equipment	<u>(9,341)</u>	<u>(27,792)</u>
Net cash used in investing activities	<u>(17,772,842)</u>	<u>(3,803,161)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,661,904)	(3,404,134)
Cash and cash equivalents, beginning of year	<u>21,425,941</u>	<u>24,830,075</u>
Cash and cash equivalents, end of year	<u><u>\$ 7,764,037</u></u>	<u><u>\$ 21,425,941</u></u>

The accompanying notes are an integral part of this financial statement.

The Children's Scholarship Fund
NOTES TO FINANCIAL STATEMENTS
August 31, 2023 and 2022

NOTE A - THE CHILDREN'S SCHOLARSHIP FUND

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

Since CSF's first scholarships were awarded in 1999, more than 200,750 children from low-income families have received tuition assistance through CSF grants. See Note G for additional information.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

The Fund's financial statements distinguish between net assets and changes in net assets without donor restrictions and those with donor restrictions as follows:

Net assets without donor restrictions - consist of all funds which are expendable at the discretion of the Fund's management and Board of Directors for carrying on daily operations. These funds have neither been restricted by donors nor set aside for any specific purpose.

Net assets with donor restrictions - net assets that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the Fund pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

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

Investments

Investments in Treasury bills are stated at their fair value in the statement of financial position. Net realized and unrealized gains and losses for the period are shown in the statement of activities.

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation or amortization is computed on a straight-line basis over the estimated useful lives of the related assets as follows:

Office and computer equipment and systems	Three years
Furniture and fixtures	Five years
Leasehold improvements	Useful life of the asset or the term of the lease, whichever is shorter

Contributions

The Fund recognizes revenue from contributions in accordance with guidance that requires the Fund to evaluate whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be a contribution, the Fund evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Fund is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The Fund records contributions when an unconditional promise to give is received from a donor. Contributions are recorded at the fair value of the assets received and are classified as either without donor restrictions or with donor restrictions, based on donor-imposed restrictions, if any.

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

Program Service Revenue

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), CSF recognizes revenue when control of the promised goods or services are transferred to the customers in an amount that reflects the consideration CSF expects to be entitled to in exchange for those goods or services. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

ASC 606 also requires disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. CSF has identified program service revenue to be subject to ASC 606. CSF recognizes revenue from contracts with customers, as goods or services are transferred or provided in accordance with ASC 606.

In connection with its agreement with the State of New Hampshire, CSF acts as an administrative agent for funds to be disbursed to qualified students for educational expenses. In return for these administrative services CSF retains no more than 10% of the funds received annually as a recovery for administrative costs incurred. ASC 606 allows as a practical expedient, for an entity that has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date, the entity may recognize revenue in the amount to which the entity has a right to invoice.

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

This administrative fee is recognized as program service revenue over time as CSF performs these administrative services, based on direct and allocated costs incurred, which corresponds with the fulfillment of CSF's performance obligations under the contract.

As the amounts and the students that will receive funding under the program is determined by the State of New Hampshire, CSF has accounted for the student funds as an agency transaction whereby revenue is recognized as the net fee earned. The administrative costs incurred related to the transaction are recorded as revenue within program service revenue and as an expense within operating expenses in the statement of activities. Accordingly, CSF has recognized the upfront payment to be distributed to students as a liability within Due to State of New Hampshire (Education Freedom Accounts) on the statement of financial position, which is reduced as funds are subsequently approved for qualified educational expenses or returned to the State of New Hampshire. The Fund has engaged Class Wallet to facilitate the distribution of funds to students and as such has recorded the amounts held by Class Wallet as New Hampshire Education Freedom Accounts on the statement of financial position. Amounts not utilized under the program will be returned to the State of New Hampshire.

Scholarship Awards

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

Leases

CSF adopted ASU 2016-02, *Leases (Topic 842)* as of September 1, 2022. After the adoption of this standard, CSF determines if an arrangement contains a lease at inception based on whether there is an identified asset and whether CSF controls the use of the identified asset throughout the period of use. CSF classifies leases as either finance or operating. CSF does not have any finance leases at adoption. Right-of-use ("ROU") assets are recognized at the lease commencement date and represent CSF's right to use an underlying asset for the lease term and lease liabilities represent CSF's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments over the remaining lease term. Present value of lease payments is discounted based on CSF's incremental borrowing rate.

CSF's operating lease ROU assets are measured based on the corresponding operating lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) lease incentives under the lease. Options to renew or terminate the lease are recognized as part of our ROU assets and lease liabilities when it is reasonably certain the options will be exercised. ROU assets are also assessed for impairments consistent with the long-lived asset guidance.

CSF does not allocate consideration between lease and non-lease components, such as operating costs, as CSF has elected to not separate lease and non-lease components for any leases within its existing classes of assets. Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for usage-based fees are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred.

Operating leases are presented separately as operating lease right-of-use assets and operating lease liabilities in the accompanying statement of financial position.

Prior to the adoption of ASC 842, CSF recognized rent expense on a straight-line basis over the term of the lease. The difference between cash rent payments and the recognition of rent expense was recorded as a deferred rent liability within accrued expenses and other liabilities on the statement of financial position.

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis based on either financial or non-financial data, such as the number of employees or estimates of time and effort incurred by personnel.

Use of Estimates

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

Concentrations of Credit Risk

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

Fair Value of Financial Instruments

The Fund follows guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The guidance also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities, subject to the guidance, measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require significant management judgment or estimation.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets.

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Income Taxes

The Fund follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Fund is exempt from federal income tax under Section 501(c)(3) of the Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Fund has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which there was nexus; and to identify and evaluate other matters that may be considered tax positions. The Fund has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Presentation of Certain Prior Year Summarized Information

The accompanying financial statements include prior year summarized comparative information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Fund's consolidated financial statements as of and for the year ended August 31, 2022, from which the summarized comparative information was derived.

Certain reclassifications have been made to the prior year summarized financial statements to conform to the current year presentation.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard requires the recognition of a right-of-use asset and lease liability on the statement of financial position for substantially all leases. The standard retained a dual model for lease classification, requiring leases to be classified as finance or operating lease to determine recognition in the statement of activities and cash flows. Additionally, in July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements*, which provided entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative effect adjustment to beginning retained earnings in the period of adoption. CSF elected the modified retrospective transition method and did not restate prior comparative periods. The standards also provide additional transition relief, of which CSF has elected to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (e.g., operating or finance lease) existing as of the date of adoption, (3) not reassess initial direct costs for any existing leases, and (4) not utilize hindsight when assessing lease term and ROU asset impairment. The standards require more detailed disclosures to enable users of financial statements to understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for public companies beginning after December 15, 2018 and nonpublic companies beginning after December 15, 2021. CSF adopted this standard as of September 1, 2022. See Note I.

NOTE C - INVESTMENTS

The composition of the Fund's investments as of August 31, 2023 and 2022 were comprised solely of U.S. Treasury bills and were classified within Level 1 of the fair value hierarchy.

The Children’s Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

NOTE D - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable consist of the amounts expected to be collected within one year. All of the net receivables were restricted for scholarship awards.

In addition, as of August 31, 2023, CSF has received conditional promises totaling approximately \$14.9 million (\$12.9 million of which are restricted for scholarship awards). These gifts are primarily conditioned on satisfying matching fund requirements by CSF and/or its grantee scholarship organizations and accordingly have not been recognized in the accompanying financial statements.

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment at August 31, 2023 and 2022 consisted of the following:

	2023	2022
Office and computer equipment and systems	\$ 170,655	\$ 182,422
Furniture and fixtures	9,210	9,210
	179,865	191,632
Less: accumulated depreciation and amortization	(145,803)	(138,837)
Property and equipment, net	\$ 34,062	\$ 52,795

Depreciation and amortization expense for the years ended August 31, 2023 and 2022 was approximately \$28,000 and \$30,000, respectively.

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions of approximately \$25,088,000 and \$24,006,000 at August 31, 2023 and 2022, respectively, were primarily available for scholarships and grants.

Net assets were released from donor restrictions by satisfying the restricted purpose as follows:

	2023	2022
Scholarships and grants	\$ 17,627,637	\$ 19,503,188
Expended for operating costs	1,416,305	1,282,813
	\$ 19,043,942	\$ 20,786,001

NOTE G - SCHOLARSHIPS AND GRANTS

CSF awards partial scholarships so that children from low-income families can attend the private or parochial school of their choice. In addition, CSF makes matching grants to other scholarship organizations so they may also provide partial scholarship awards to children from low-income families. During the years ended August 31, 2023 and 2022, the total value of the scholarship payments made by CSF and other grantee scholarship organizations amounted to approximately \$54,455,000 and \$48,873,000, respectively. CSF distributed approximately \$19,228,000 and \$20,245,000 of these awards during fiscal years 2023 and

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

2022, respectively. The remaining \$35,227,000 in 2023 and \$28,628,000 in 2022 was funded by matching contributions provided by the other scholarship organizations.

There were no unconditional scholarships and grants payable as of August 31, 2023 or 2022.

NOTE H - EMPLOYEE BENEFIT PLAN

CSF has a defined contribution retirement plan which provides for CSF to make matching contributions of up to 5% of the compensation of eligible employees. The plan allows the participants to make voluntary contributions subject to Internal Revenue Service limitations. CSF incurred approximately \$104,000 and \$86,000 in pension expense relating to this plan for the years ended August 31, 2023 and 2022, respectively.

NOTE I - LEASES

CSF leases office space in New York City and New Hampshire with lease terms that expire on July 31, 2026 and April 30, 2023, respectively. Additionally, the terms of New York City lease agreement include escalating payments over the term of the lease. Upon adoption, ASC 842 *Leases* had an impact in CSF's statement of financial position. As part of the transition, CSF elected the following practical expedients:

- Package of practical expedients which eliminates the need to reassess (1) whether any expired or existing contracts are or contain leases; (2) the lease classification for any expired or existing leases; and (3) the initial direct costs for any existing leases.
- The practical expedient whereby the lease and non-lease components will not be separated for all classes of assets.
- Not to recognize ROU assets and corresponding lease liabilities with a lease term of 12 months or less from the lease commencement date.
- The Fund uses the risk-free rate as the discount rate in order to determine present value of the lease liabilities.

For existing leases, CSF did not elect the use of hindsight and did not reassess lease term upon adoption.

CSF adjusted the opening ROU asset balance based on its remaining deferred rent liabilities. On September 1, 2022, CSF recorded \$303,339 in operating lease ROU assets and \$324,014 in operating lease liabilities. The adoption of ASC 842 had no significant impact on CSF's changes in net assets.

As of August 31, 2023, CSF has no additional operating leases that have not yet commenced.

The components of lease cost for operating leases does not include any short-term or variable lease costs as of August 31, 2023. Lease costs of approximately \$83,000 are disclosed on the statement of functional expenses in occupancy costs.

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

Supplemental cash flow information related to leases was as follows during 2023:

Cash paid for amounts included in the measurement of	\$ 85,304
Operating cash flows used in operating leases	
Supplemental disclosure of noncash leasing ROU	
obtained in exchange for new operating lease liabilities	303,339

The following table represents the weighted-average remaining lease term and discount rate as of August 31, 2023:

Operating leases:	
Weighted average remaining lease term (years)	3
Weighted average discount rate	3.465%

Future undiscounted lease payments for CSF's operating lease liabilities as of August 31, 2023:

	Amount
2024	\$ 87,436
2025	89,624
2026	84,082
Total future lease payments	261,142
Less: imputed interest	(12,590)
Present value of lease liabilities	\$ 248,552

Disclosures Related to Periods Prior to Adoption of ASC 842

Total rent expense for the year ended August 31, 2022 was \$173,000. Rent expense related to lease agreements was recognized on a straight-line basis over the lease term.

Future minimum lease payments under non-cancelable operating leases as of August 31, 2022 were as follows:

	Amount
2023	\$ 99,100
2024	95,700
2025	97,800
2026	91,600
Total	\$ 384,200

The Children's Scholarship Fund

NOTES TO FINANCIAL STATEMENTS - CONTINUED

August 31, 2023 and 2022

NOTE J - COMMITMENTS AND CONTINGENCIES

As of August 31, 2023, CSF has outstanding conditional grants to other scholarship organizations totaling approximately \$2.6 million for the purpose of awarding scholarships to children from low-income families that are in kindergarten through eighth grade. These grants are subject to the satisfaction of stipulated conditions, including the achievement of matching fund requirements. If these conditions are satisfied, expenditures will be recognized and payments will be made during the year ending August 31, 2024.

NOTE K - AVAILABLE RESOURCES AND LIQUIDITY

The Fund considers contributions without donor restrictions and investment income without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include management and general expenses, fundraising expenses and program management, outreach and support expenses.

In addition, the Fund receives significant contributions with donor restrictions that are used to fund scholarships and matching grants to other scholarship organizations. During fiscal year 2023, the Fund received donor restricted contributions for scholarships and matching grants of approximately \$18,660,000.

The Fund manages its financial assets to meet general expenditures, liabilities and scholarship and matching grant obligations as they come due. The Fund invests cash in excess of its near term requirements in various short-term investments including money market funds, U.S. Treasury bills and certificates of deposit.

The table below presents financial assets available for general expenditures within one year at August 31, 2023:

Cash and cash equivalents	\$ 7,764,037
Investments	<u>28,124,984</u>
Total financial assets	<u>35,889,021</u>
Less amounts not available to be used within one year:	
Donor contributions restricted for scholarships and grants	<u>(25,087,841)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 10,801,180</u>

NOTE L - SUBSEQUENT EVENTS

CSF evaluated its August 31, 2023 financial statements for subsequent events through November 21, 2023, the date the financial statements were available to be issued. CSF is not aware of any subsequent events that would require recognition or disclosure in the financial statements.