



INNER-CITY SCHOLARSHIP FUND, INC.

Financial Statements

August 31, 2015

(with summarized comparative financial information
as of and for the year ended August 31, 2014)

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Inner-City Scholarship Fund, Inc.:

We have audited the accompanying financial statements of Inner-City Scholarship Fund, Inc., which comprise the balance sheet as of August 31, 2015, and the related statements of activities and cash flows for the year 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 organization's preparation and fair presentation of the financial statements 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 organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inner-City Scholarship Fund, Inc. as of August 31, 2015, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited the Inner-City Scholarship Fund, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

April 5, 2016

INNER-CITY SCHOLARSHIP FUND, INC.

Balance Sheet

August 31, 2015

(with comparative financial information as of August 31, 2014)

Assets	2015	2014
Cash and cash equivalents	\$ 5,753,638	3,287,827
Loans to Parish Assistance Corporation (note 3)	2,156,505	2,156,505
Contributions receivable, net (note 5)	3,803,239	1,548,705
Investments (note 4)	11,007,454	11,617,936
Other assets	1,203,564	364,674
Fixed assets, net of accumulated depreciation of \$113,906 and \$89,829 in 2015 and 2014, respectively	132,421	156,498
Total assets	\$ 24,056,821	19,132,145
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 204,845	207,028
Grants payable	173,559	518,679
Payable to the Archdiocese of New York (note 6)	200,531	138,706
Payable to the Department of Education of the Archdiocese of New York (note 6)	—	25,000
Total liabilities	578,935	889,413
Net assets (notes 8 and 9):		
Unrestricted	6,100,981	4,990,996
Temporarily restricted	9,913,647	7,304,404
Permanently restricted	7,463,258	5,947,332
Total net assets	23,477,886	18,242,732
Total liabilities and net assets	\$ 24,056,821	19,132,145

See accompanying notes to financial statements.

INNER-CITY SCHOLARSHIP FUND, INC.

Statement of Activities

Year ended August 31, 2015

(with summarized financial information for the year ended August 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
Operating revenues:					
Contributions and bequests (notes 5 and 6)	\$ 2,989,588	11,743,232	50,000	14,782,820	12,099,151
Special events, net of direct donor benefits of \$516,707 and \$447,184 in 2015 and 2014, respectively	3,142,683	—	—	3,142,683	2,842,529
Investment (loss) return (note 3)	(152,801)	(337,957)	—	(490,758)	1,199,604
Net assets released from restrictions	<u>9,862,233</u>	<u>(9,862,233)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenues	<u>15,841,703</u>	<u>1,543,042</u>	<u>50,000</u>	<u>17,434,745</u>	<u>16,141,284</u>
Expenses (note 6):					
Program services:					
Grants:					
Externally managed scholarships (primarily administered by the Children's Scholarship Fund)	5,341,067	—	—	5,341,067	5,566,178
Internally managed scholarships	6,048,576	—	—	6,048,576	5,494,902
Financial aid grants	305,595	—	—	305,595	743,739
Young Executive Supporting Schools (YESS) grants	400,979	—	—	400,979	463,585
Other grants	181,838	—	—	181,838	420,351
Program administration:					
Scholarship programs	352,372	—	—	352,372	310,368
Other programs	<u>184,061</u>	<u>—</u>	<u>—</u>	<u>184,061</u>	<u>223,922</u>
Total program services	<u>12,814,488</u>	<u>—</u>	<u>—</u>	<u>12,814,488</u>	<u>13,223,045</u>
Supporting services:					
General and administrative	885,019	—	—	885,019	809,657
Development:					
Donor relations	773,337	—	—	773,337	661,296
Advertising and communications	758,147	—	—	758,147	771,909
Special events supporting services	<u>163,667</u>	<u>—</u>	<u>—</u>	<u>163,667</u>	<u>155,760</u>
Total development	<u>1,695,151</u>	<u>—</u>	<u>—</u>	<u>1,695,151</u>	<u>1,588,965</u>
Total supporting services	<u>2,580,170</u>	<u>—</u>	<u>—</u>	<u>2,580,170</u>	<u>2,398,622</u>
Total expenses	<u>15,394,658</u>	<u>—</u>	<u>—</u>	<u>15,394,658</u>	<u>15,621,667</u>
Increase in net assets before nonoperating activities	447,045	1,543,042	50,000	2,040,087	519,617
Nonoperating activities:					
Capital campaign contributions	662,940	1,066,201	—	1,729,141	915,245
Capital campaign endowment contributions	<u>—</u>	<u>—</u>	<u>1,465,926</u>	<u>1,465,926</u>	<u>—</u>
Increase in net assets	1,109,985	2,609,243	1,515,926	5,235,154	1,434,862
Net assets at beginning of year	<u>4,990,996</u>	<u>7,304,404</u>	<u>5,947,332</u>	<u>18,242,732</u>	<u>16,807,870</u>
Net assets at end of year	<u>\$ 6,100,981</u>	<u>9,913,647</u>	<u>7,463,258</u>	<u>23,477,886</u>	<u>18,242,732</u>

See accompanying notes to financial statements.

INNER-CITY SCHOLARSHIP FUND, INC.

Statement of Cash Flows

Year ended August 31, 2015

(with comparative financial information for the year ended August 31, 2014)

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 5,235,154	1,434,862
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net loss (gain) on investments	526,045	(731,009)
Depreciation	24,077	24,077
Contributions for endowment	(1,515,926)	(100,000)
Changes in operating assets and liabilities:		
Contributions receivable	(2,254,534)	490,450
Other assets	(838,890)	(146,790)
Accounts payable and accrued expenses	(2,183)	34,117
Grants payable	(345,120)	418,119
Payable to the Archdiocese of New York	61,825	(107,273)
Payable to the Department of Education of the Archdiocese of New York	(25,000)	25,000
Net cash provided by operating activities	865,448	1,341,553
Cash flows from investing activities:		
Increase in loans to Parish Assistance Corporation	—	(1,350,845)
Purchase of investments	(605,918)	(11,638,362)
Proceeds from sale of investments	690,355	13,068,653
Net cash provided by investing activities	84,437	79,446
Cash flows from financing activities:		
Contributions for endowment	1,515,926	100,000
Net cash provided by financing activities	1,515,926	100,000
Net increase in cash and cash equivalents	2,465,811	1,520,999
Cash and cash equivalents at beginning of year	3,287,827	1,766,828
Cash and cash equivalents at end of year	\$ 5,753,638	3,287,827

See accompanying notes to financial statements.

INNER-CITY SCHOLARSHIP FUND, INC.

Notes to Financial Statements

August 31, 2015

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(1) Organization

Inner-City Scholarship Fund, Inc. (ICSF) is a not-for-profit organization exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. ICSF provides families with demonstrable financial need the opportunity to give their children a values-based K–12 Catholic education within the Archdiocese of New York. ICSF exists to ensure that the gift of a Catholic school education continues to be a viable option for current and future generations of students of all faiths.

ICSF's scholarship programs are all need based. The Be A Student's Friend (BASF) program matches a willing sponsor with a low-income student. BASF supporters can opt to be anonymous and receive periodic reports on a student's progress or they can choose to get to know the student personally.

In addition, ICSF uses a portion of the funds raised to help underwrite a scholarship program administered by the Children's Scholarship Fund, an unaffiliated not-for-profit organization that was established to address the decline in enrollment at Catholic schools by providing scholarships to students who transfer into an Archdiocese of New York inner city school from a public school.

As each family awarded a scholarship must qualify for continued support annually, no liability has been reflected in the financial statements for ICSF's commitment to share in the ongoing cost associated with children who continue to qualify for the scholarship in the future. ICSF has conditionally committed approximately \$6 million for the 2015–2016 academic year.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables and payables. Other significant accounting policies are set forth below.

(b) Basis of Presentation

ICSF's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of ICSF and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of ICSF or by the passage of time. ICSF classifies the portion of a donor-restricted endowment fund that is not classified as permanently restricted as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by New York Prudent Management of Institutional Funds Act (NYPMIFA).

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- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by ICSF. Generally, the donors of these assets permit ICSF to use all or part of the income earned on related investments to support financial aid grants.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

(c) *Cash and Cash Equivalents*

ICSF considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents except for those short-term instruments, if any, maintained in the investment portfolio (note 4). Cash consists of amounts held in operating bank accounts at a financial institution which, at times exceed the federally insured limits.

(d) *Contributions*

Contributions, including unconditional promises to give, are recognized when received. Unconditional promises are recorded net of an allowance for amounts deemed uncollectible and a present value discount.

(e) *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs to the valuation techniques used to measure fair value are prioritized by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- *Level 1* – valuation inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that ICSF has the ability to access at measurement date.
- *Level 2* – valuation inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.
- *Level 3* – valuation inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. The fair value of investments is discussed in note 4. The carrying value of ICSF's short-term financial instruments approximates fair value because of their short maturity. The carrying value of contributions receivable

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approximates its fair value. These estimated fair values, however, involve unobservable inputs considered to be Level 3 in the fair value hierarchy.

(f) Operating Activities

Operating activities in the statement of activities include all revenue and all expenses incurred by ICSF, except for capital campaign contributions.

(g) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies 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.

(h) Recently Issued Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-07 (Update No. 2015-07), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Update No. 2015-07 is effective for fiscal years beginning after December 15, 2015. ICSF elected to early adopt the provisions of Update No. 2015-07 and applied the provisions of the update retrospectively to 2014.

(i) Comparative Financial Information

The accompanying statement of activities is presented with 2014 comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with ICSF's 2014 financial statements, from which the summarized information was derived.

(3) Loans to Parish Assistance Corporation

Amounts loaned to Parish Assistance Corporation earned interest at a rate of 1.5% during fiscal years 2015 and 2014 and are payable on demand. Interest income was \$32,348 and \$21,825 in 2015 and 2014, respectively.

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(4) Investments

Investments are reported at fair value. As a practical expedient, the investment in Ascension Alpha Fund (Ascension) is reflected at the Net Asset Value (NAV) provided by the fund manager. The value is reviewed and evaluated by management. The reported value may differ significantly from the value that would have been used had a ready market for these investments exist.

Investments at August 31, 2015 and 2014 consist of the following:

	2015	2014
Ascension Alpha Fund	\$ 11,007,454	11,617,936

ICSF has the right to redeem all or a portion of its shares in Ascension on a daily basis with one trading day prior written notice. Ascension's goal is to allow its investors to achieve risk-adjusted returns while attempting to preserve capital in adverse market conditions through the implementation of diversified investment strategies. Ascension offers its investors the ability to invest only in those strategies/asset classes selected. In addition, the investments selected within each strategy conform to socially responsible investment guidelines that promote Catholic Values. The investment strategies are classified into three categories: growth, inflation, and deflation/recession achieved through investments in equity and fixed income securities and alternative investment vehicles. ICSF has the following allocation within Ascension as of August 31, 2015 and 2014, respectively:

	2015	2014
Ascension Alpha Fund asset allocation:		
U.S. equity	32 %	32 %
International equity	19	19
Emerging markets equity	7	8
Directional hedge funds	11	10
Core fixed income	11	12
Opportunistic credit	12	12
High yield	8	7
	100 %	100 %

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(5) Contributions Receivable

Contributions receivable consist of the following at August 31, 2015 and 2014:

	2015	2014
Amounts expected to be collected in:		
Less than one year	\$ 1,028,720	1,030,330
One to five years	3,010,000	550,000
	4,038,720	1,580,330
Less discount at 5.75%	(235,481)	(31,625)
	\$ 3,803,239	1,548,705

At August 31, 2015 and 2014, contributions receivable from one donor represent approximately 67% and 63%, respectively, of the gross receivable.

During 2007, ICSF received a grant not to exceed \$22.5 million through August 31, 2013, to provide funding for scholarships to students demonstrating financial need in accordance with the guidelines of the Cardinal's Scholarship Program. ICSF recognized all of this revenue in previous periods as the conditions were met. In fiscal 2013, ICSF received an additional commitment from this funder to provide another \$11.7 million through fiscal 2019 as follows: \$2.5 million in fiscal 2013, \$2.6 million in fiscal 2014, \$2.3 million in fiscal 2015, \$1.9 million in fiscal 2016, \$1.3 million in fiscal 2017, \$800,000 in fiscal 2018, and \$300,000 in fiscal 2019. As the receipt of future amounts is conditional, revenue is recognized as conditions are met. ICSF recognized approximately \$2.3 million and \$2.6 million in fiscal 2015 and 2014, respectively, under these grant agreements.

(6) Related Parties

During 2015, ICSF recognized a grant of \$3.5 million from the Alfred E. Smith Memorial Foundation payable through August 31, 2019, to provide funding for scholarships to allow 405 students to remain in Catholic school from Universal Pre-K to Kindergarten. In fiscal 2015, ICSF received \$810,000 of this amount, with the remaining payable as follows: \$752,000 in fiscal 2016, \$698,000 in fiscal 2017, \$647,000 in fiscal 2018, and \$593,000 in fiscal 2019. ICSF will administer the scholarship and provide annual reporting on the progress of the program.

The payable to the Archdiocese of New York represents amounts due for items such as salaries, benefits, rent, data services, and other allocated services. The amounts charged for such services approximated \$1,859,000 and \$1,811,000 in 2015 and 2014, respectively.

ICSF made grants to the Department of Education, an affiliated organization, of \$131,000 and \$370,000 in 2015 and 2014, respectively. Such expenses are included in other grants in the accompanying statements of activities.

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(7) Pension Plan

ICSF employees who satisfy age and service requirements participate in the noncontributory defined benefit Archdiocesan Pension Plan and the Archdiocesan Supplemental Qualified Pension Plan. Total pension expense was \$80,780 and \$77,647 in 2015 and 2014, respectively. Because these operate as multiemployer plans, information as to vested and nonvested earned benefits, as well as plan assets, as they relate ICSF employees, is not readily available.

The following table discloses the name and funded status of the plans as of December 31, 2014 and 2013 (the dates of the last actuarial valuation):

<u>Legal name and plan number</u>	<u>EIN</u>	<u>2014</u>		<u>2013</u>	
		<u>Accumulated benefit obligation</u>	<u>Fair value plan assets</u>	<u>Accumulated benefit obligation</u>	<u>Fair value plan assets</u>
The Archdiocesan Pension Plan for the Archdiocese of New York	25-1926855	\$ 1,423,183,768	1,170,446,094	1,388,762,648	1,133,253,414
The Archdiocesan Supplemental Qualified Pension Plan for the Archdiocese of New York	25-1926855	\$ 3,366,693	2,372,064	2,903,388	1,145,140

(8) Net Assets

Temporarily restricted net assets at August 31, 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Cardinal's Scholarship Program	\$ 3,829,092	1,055,540
Internally managed scholarships	3,540,544	4,350,390
Financial aid for schools	1,477,810	1,599,577
Gift annuities held by Archdiocese of New York for the benefit of ICSF	1,066,201	298,897
	<u>\$ 9,913,647</u>	<u>7,304,404</u>

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Income on permanently restricted net assets at August 31, 2015 and 2014 is restricted for the following purposes:

	2015	2014
Internally managed scholarships	\$ 7,092,258	5,576,332
Financial aid for schools	371,000	371,000
	\$ 7,463,258	5,947,332

(9) Endowment

ICSF's endowment consists of seven donor-restricted funds, three temporarily restricted funds, and one unrestricted board-designated fund, and its composition by net asset category as of August 31, 2015 and 2014 is as follows:

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	—	507,026	7,463,258	7,970,284
Board designated		4,000,820	502,272	—	4,503,092
	\$	4,000,820	1,009,298	7,463,258	12,473,376

		2014			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$	—	1,191,874	5,947,332	7,139,206
Board designated		4,460,148	552,785	—	5,012,933
	\$	4,460,148	1,744,659	5,947,332	12,152,139

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Changes in endowment net assets for the years ended August 31, 2015 and 2014 are as follows:

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, August 31, 2014	\$ 4,460,148	1,744,659	5,947,332	12,152,139
Contributions	—	—	1,515,926	1,515,926
Investment loss	(188,088)	(337,957)	—	(526,045)
Appropriation for expenditure	(271,240)	(397,404)	—	(668,644)
Endowment net assets, August 31, 2015	\$ <u>4,000,820</u>	<u>1,009,298</u>	<u>7,463,258</u>	<u>12,473,376</u>

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, August 31, 2013	\$ 3,738,165	1,381,298	5,847,332	10,966,795
Contributions	564,407	8,440	100,000	672,847
Investment return	445,144	723,087	—	1,168,231
Appropriation for expenditure	(287,568)	(368,166)	—	(655,734)
Endowment net assets, August 31, 2014	\$ <u>4,460,148</u>	<u>1,744,659</u>	<u>5,947,332</u>	<u>12,152,139</u>

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. There were no deficiencies of this nature as of August 31, 2015 or 2014.

The endowment portfolio seeks maximum real return, consistent with preservation of real capital.

Annually, the Board of Trustees approves a spending rate on its donor-restricted endowment funds, which is applied to each fund's average value and is consistent with ICSF's priority of growing the endowment (preservation of purchasing power). For 2015, the Board of Trustees approved spending rates ranging from 5% to 6% on the various funds. The board has approved a spending rate of 5% on its board-designated endowment funds in 2016.

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(10) Subsequent Events

In connection with the preparation of the financial statements, ICSF evaluated subsequent events after the balance sheet date of August 31, 2015 through April 5, 2016, which was the date the financial statements were available to be issued, and has concluded that there are no subsequent events for disclosure.