



**INNER-CITY SCHOLARSHIP FUND, INC.**

Financial Statements

August 31, 2016

(with summarized comparative financial information  
as of and for the year ended August 31, 2015)

(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, 2016, 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, 2016, 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 Inner-City Scholarship Fund, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

January 9, 2017

**INNER-CITY SCHOLARSHIP FUND, INC.**

Balance Sheet

August 31, 2016

(with comparative financial information as of August 31, 2015)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 5,882,215	5,753,638
Loans to Parish Assistance Corporation (note 3)	2,156,505	2,156,505
Contributions receivable, net (note 5)	4,427,674	3,803,239
Investments (note 4)	18,056,965	11,007,454
Other assets	1,326,268	1,203,564
Fixed assets, net of accumulated depreciation of \$17,658 and \$113,906 in 2016 and 2015, respectively	251,949	132,421
Total assets	\$ 32,101,576	24,056,821
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 252,565	204,845
Grants payable	34,123	173,559
Payable to the Archdiocese of New York (note 6)	514,904	200,531
Total liabilities	801,592	578,935
Net assets (notes 8 and 9):		
Unrestricted	7,345,939	6,100,981
Temporarily restricted	9,625,640	9,913,647
Permanently restricted	14,328,405	7,463,258
Total net assets	31,299,984	23,477,886
Total liabilities and net assets	\$ 32,101,576	24,056,821

See accompanying notes to financial statements.

**INNER-CITY SCHOLARSHIP FUND, INC.**

Statement of Activities

Year ended August 31, 2016

(with summarized financial information for the year ended August 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Operating revenues:					
Contributions and bequests (notes 5 and 6)	\$ 3,479,905	8,466,876	—	11,946,781	14,782,820
Special events, net of direct donor benefits of \$575,669 and \$516,707 in 2016 and 2015, respectively	4,432,451	—	—	4,432,451	3,142,683
Investment return (loss) (note 4)	274,341	575,769	—	850,110	(490,758)
Change in value of gift annuity	—	61,511	—	61,511	—
Net assets released from restrictions	9,392,163	(9,392,163)	—	—	—
Total operating revenues	<u>17,578,860</u>	<u>(288,007)</u>	<u>—</u>	<u>17,290,853</u>	<u>17,434,745</u>
Expenses (note 6):					
Program services:					
Grants:					
Externally managed scholarships (primarily administered by CSF)	5,855,622	—	—	5,855,622	5,341,067
Internally managed scholarships	7,567,043	—	—	7,567,043	6,048,576
Financial aid grants	304,607	—	—	304,607	305,595
Young Executive Supporting Schools (YESS) grants	363,713	—	—	363,713	400,979
Other grants	198,112	—	—	198,112	181,838
Program administration:					
Scholarship programs	357,617	—	—	357,617	352,372
Other programs	63,679	—	—	63,679	184,061
Total program services	<u>14,710,393</u>	<u>—</u>	<u>—</u>	<u>14,710,393</u>	<u>12,814,488</u>
Supporting services:					
General and administrative	744,699	—	—	744,699	885,019
Development:					
Donor relations	877,095	—	—	877,095	773,337
Advertising and communications	747,111	—	—	747,111	758,147
Special events supporting services	175,604	—	—	175,604	163,667
Total development	<u>1,799,810</u>	<u>—</u>	<u>—</u>	<u>1,799,810</u>	<u>1,695,151</u>
Total supporting services	<u>2,544,509</u>	<u>—</u>	<u>—</u>	<u>2,544,509</u>	<u>2,580,170</u>
Total expenses	<u>17,254,902</u>	<u>—</u>	<u>—</u>	<u>17,254,902</u>	<u>15,394,658</u>
Increase (decrease) in net assets before nonoperating activities	323,958	(288,007)	—	35,951	2,040,087
Nonoperating activities:					
Capital campaign contributions	921,000	—	—	921,000	1,729,141
Capital campaign endowment contributions (note 6)	—	—	6,865,147	6,865,147	1,465,926
Increase (decrease) in net assets	1,244,958	(288,007)	6,865,147	7,822,098	5,235,154
Net assets at beginning of year	6,100,981	9,913,647	7,463,258	23,477,886	18,242,732
Net assets at end of year	\$ <u>7,345,939</u>	<u>9,625,640</u>	<u>14,328,405</u>	<u>31,299,984</u>	<u>23,477,886</u>

See accompanying notes to financial statements.

**INNER-CITY SCHOLARSHIP FUND, INC.**

Statement of Cash Flows

Year ended August 31, 2016

(with comparative financial information for the year ended August 31, 2015)

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Increase in net assets	\$ 7,822,098	5,235,154
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net (gain) loss on investments	(805,002)	526,045
Depreciation	35,715	24,077
Contributions for endowment	(6,865,147)	(1,515,926)
Contributed property from the Archdiocese of New York	(269,607)	—
Write-off of property transferred to the Archdiocese of New York	114,364	—
Changes in operating assets and liabilities:		
Contributions receivable	1,555,079	(2,254,534)
Other assets	(122,704)	(838,890)
Accounts payable and accrued expenses	47,720	(2,183)
Grants payable	(139,436)	(345,120)
Payable to the Archdiocese of New York	314,373	61,825
Payable to the Department of Education of the Archdiocese of New York	—	(25,000)
Net cash provided by operating activities	1,687,453	865,448
Cash flows from investing activities:		
Purchase of investments	(6,618,374)	(605,918)
Proceeds from sale of investments	373,865	690,355
Net cash (used in) provided by investing activities	(6,244,509)	84,437
Cash flows from financing activities:		
Contributions for endowment	4,685,633	1,515,926
Net cash provided by financing activities	4,685,633	1,515,926
Net increase in cash and cash equivalents	128,577	2,465,811
Cash and cash equivalents at beginning of year	5,753,638	3,287,827
Cash and cash equivalents at end of year	\$ 5,882,215	5,753,638

See accompanying notes to financial statements.

# INNER-CITY SCHOLARSHIP FUND, INC.

## Notes to Financial Statements

August 31, 2016

(with summarized comparative financial information  
as of and for the year ended August 31, 2015)

### (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 \$7.2 million for the 2016–2017 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).

## INNER-CITY SCHOLARSHIP FUND, INC.

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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 or published 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.

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**(f) Plant Assets**

Plant asset acquisitions are capitalized at cost, when purchased, or at fair value at date of gift, when donated. Plant assets are depreciated using the straight-line method over estimated remaining useful lives ranging from 3 to 10 years (or life of lease, if shorter) for equipment and leasehold improvements.

**(g) Operating Activities**

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

**(h) 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.

**(i) Comparative Financial Information**

The accompanying statement of activities is presented with 2015 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 2015 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 2016 and 2015 and are payable on demand. Interest income was \$32,348 in 2016 and 2015, respectively.

**(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 existed.

Investments at August 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Ascension Alpha Fund	\$ 18,056,965	11,007,454

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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, 2016 and 2015, respectively:

	<b>2016</b>	<b>2015</b>
Ascension Alpha Fund asset allocation:		
U.S. equity	29 %	32 %
International equity	17	19
Emerging markets equity	6	7
Directional hedge funds	10	11
Core fixed income	18	11
Opportunistic credit	12	12
High yield	8	8
	100 %	100 %

**(5) Contributions Receivable**

Contributions receivable consist of the following at August 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Amounts expected to be collected in:		
Less than one year	\$ 325,850	1,028,720
One to five years	4,258,693	3,010,000
	4,584,543	4,038,720
Less discount at 2.69%	(156,869)	(235,481)
	\$ 4,427,674	3,803,239

At August 31, 2016 and 2015, contributions receivable from one donor, as discussed in note 6, represent 41% and 67%, respectively, of the gross receivable balance.

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

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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 \$1.9 million and \$2.3 million in fiscal 2016 and 2015, 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 2016 and 2015, ICSF received \$815,000 and \$810,000, respectively, with the remaining payable as follows: \$625,000 in fiscal years 2017 through 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 \$1,632,625 and \$1,859,000 in 2016 and 2015, respectively. The payable outstanding at August 31, 2016 and 2015 is \$514,904 and \$200,531, respectively.

During 2016, the Archdiocese of New York contributed property of \$269,607 as well as \$2,250,000 for the capital campaign.

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

#### (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 \$53,838 and \$80,780 in 2016 and 2015, 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.

**INNER-CITY SCHOLARSHIP FUND, INC.**

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The following table discloses the name and funded status of the plans as of December 31, 2015 and 2014 (the dates of the last actuarial valuation):

<u>Legal name and plan number</u>	<u>EIN</u>	<u>2015</u>		<u>2014</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	\$ 1,485,190,650	1,175,257,479	1,423,183,768	1,170,446,094
The Archdiocesan Supplemental Qualified Pension Plan for the Archdiocese of New York	25-1926855	\$ 4,132,669	2,940,168	3,366,693	2,372,064

**(8) Net Assets**

Temporarily restricted net assets at August 31, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Cardinal's Scholarship Program	\$ 2,670,418	3,829,092
Internally managed scholarships	4,095,195	3,540,544
Financial aid for schools	1,732,315	1,477,810
Gift annuities held by Archdiocese of New York for the benefit of ICSF	1,127,712	1,066,201
	<u>\$ 9,625,640</u>	<u>9,913,647</u>

Income on permanently restricted net assets at August 31, 2016 and 2015 is restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Internally managed scholarships	\$ 13,957,405	7,092,258
Financial aid for schools	371,000	371,000
	<u>\$ 14,328,405</u>	<u>7,463,258</u>

**INNER-CITY SCHOLARSHIP FUND, INC.**

Notes to Financial Statements

August 31, 2016

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**(9) Endowment**

ICSF's endowment by net asset category as of August 31, 2016 and 2015 is as follows:

		<b>2016</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor restricted	\$	—	739,883	14,328,405	15,068,288
Board designated		5,583,887	502,351	—	6,086,238
	\$	<u>5,583,887</u>	<u>1,242,234</u>	<u>14,328,405</u>	<u>21,154,526</u>

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

Changes in endowment net assets for the years ended August 31, 2016 and 2015 are as follows:

		<b>2016</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, August 31, 2015	\$	4,000,820	1,009,298	7,463,258	12,473,376
Contributions		1,583,939	—	6,865,147	8,449,086
Investment return		229,233	575,769	—	805,002
Appropriation for expenditure		(230,105)	(342,833)	—	(572,938)
Endowment net assets, August 31, 2016	\$	<u>5,583,887</u>	<u>1,242,234</u>	<u>14,328,405</u>	<u>21,154,526</u>

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	<b>2015</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
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	\$ 4,000,820	1,009,298	7,463,258	12,473,376

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, 2016 or 2015.

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 (preserve of purchasing power). For 2016, the Board of Trustees approved spending rates ranging from 4% to 5% on the various funds. The board has approved a spending rate of 4% on its board-designated endowment funds in 2017.

**(10) Subsequent Events**

In connection with the preparation of the financial statements, ICSF evaluated subsequent events after the balance sheet date of August 31, 2016 through January 9, 2017, which was the date the financial statements were available to be issued, and has concluded that there are no subsequent events for disclosure.