

CPA Compiled Financial Statements

Year Ended 05/31/2015

**PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
MOUNT PLEASANT, SOUTH CAROLINA**

COMPILED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED MAY 31, 2015 AND
THE INITIAL PERIOD ENDED MAY 31, 2014**

**PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
COMPILED FINANCIAL STATEMENTS
MAY 31, 2015 AND 2014**

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American Institute of CPAs | Public Company Accounting Oversight Board | SC Association of CPAs

INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors
Palmetto Kids FIRST Scholarship Program, Inc.
Mount Pleasant, South Carolina

We have compiled the accompanying statements of assets, liabilities, and net assets - cash basis of Palmetto Kids FIRST Scholarship Program, Inc. (a nonprofit organization) as of May 31, 2015 and 2014, and the related statements of revenues, expenses, and other changes in net assets—cash basis for the year ended May 31, 2015 and the initial period ended May 31, 2014. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

June 29, 2015
Mount Pleasant, South Carolina

PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS—CASH BASIS
MAY 31, 2015 AND 2014

	2015	2014
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 2,011,524	\$ 468,277
Trading securities	-	15,636
Total current assets	2,011,524	483,913
Total assets	\$ 2,011,524	\$ 483,913
<u>NET ASSETS</u>		
<u>Net Assets</u>		
Unrestricted	\$ 1,492	\$ 1,415
Temporarily restricted	2,010,032	482,498
Total net assets	2,011,524	483,913
Total liabilities and net assets	\$ 2,011,524	\$ 483,913

See Independent Accountants' Compilation Report.

**PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES—CASH BASIS
FOR THE YEAR ENDED MAY 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 7,735,175	\$ 1,527,534	\$ 9,262,709
Investment return	(3,857)	-	(3,857)
Total support and revenue	<u>7,731,318</u>	<u>1,527,534</u>	<u>9,258,852.00</u>
Net Assets Released From Restrictions	482,498	(482,498)	-
Expenses			
Program services			
Scholarships and grants	7,272,040	-	7,272,040
Supporting services			
Management fee and other administration	459,201	-	459,201
Total expenses	<u>7,731,241</u>	<u>-</u>	<u>7,731,241</u>
Increase in net assets	77	1,527,534	1,527,611
Net Assets, beginning of year	<u>1,415</u>	<u>482,498</u>	<u>483,913</u>
Net Assets, end of year	<u>\$ 1,492</u>	<u>\$ 2,010,032</u>	<u>\$ 2,011,524</u>

See Independent Accountants' Compilation Report.

**PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES—CASH BASIS
FOR THE INITIAL PERIOD ENDED MAY 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 2,167,154	\$ 482,498	\$ 2,649,652
Investment return	1,232	-	1,232
Total support and revenue	<u>2,168,386</u>	<u>482,498</u>	<u>2,650,884</u>
Expenses			
Program services			
Scholarships and grants	2,034,671	-	2,034,671
Supporting services			
Management fee	132,300	-	132,300
Total expenses	<u>2,166,971</u>	<u>-</u>	<u>2,166,971</u>
Increase in net assets	1,415	482,498	483,913
Net Assets, beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, end of period	<u>\$ 1,415</u>	<u>\$ 482,498</u>	<u>\$ 483,913</u>

See Independent Accountants' Compilation Report.

**PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2015 AND 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Basic Program, and Single Purpose Mission

Palmetto Kids FIRST Scholarship Program, Inc. ("Palmetto Kids FIRST") was incorporated as a South Carolina nonprofit corporation on June 20, 2013. Palmetto Kids FIRST's mission is to provide scholarship grants to K through 12th grade "exceptional needs" children by means of the efficient implementation of the 2013-2014 South Carolina State Budget Proviso 1.85, and as it may be subsequently renewed (the "Proviso"). The Proviso is also commonly referred to as the Educational Credit for Exceptional Needs Children (ECENC).

Palmetto Kids FIRST is a State of South Carolina approved Scholarship Funding Organization ("SFO") as defined under the terms of the Proviso. Activities of Palmetto Kids FIRST are limited to accepting contributions eligible for a tax credit under the terms of the Proviso and issuing scholarships to eligible children in accordance with the Proviso and in maintenance of Palmetto Kids FIRST status as an approved SFO. Palmetto Kids FIRST engages in no other activities outside the purposes reasonably contemplated by the Proviso.

Basis of Accounting

The financial statements of Palmetto Kids FIRST are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Management has determined that the cash basis of accounting is an acceptable basis for the preparation of Palmetto Kids FIRST financial statements, and the opinion in our Independent Auditors' Report is not modified with respect to this matter.

Financial Statement Presentation

In accordance with *Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) 958-205, and Not-for-Profit Entities Financial Statement Presentation*, Palmetto Kids FIRST is required to report information regarding its financial position and activities according to three classes of net assets. Supports and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Palmetto Kids FIRST and changes therein are classified and reported as follows:

- ***Unrestricted Net Assets***
Net assets that are not subjected to donor-imposed restrictions.
- ***Temporarily Restricted Net Assets***
Net assets subject to Proviso or donor-imposed restrictions that may or will be met either by actions of Palmetto Kids FIRST and/or the passage of time. Temporarily restricted net assets represent net assets *designated specifically for scholarship and grants* pursuant to the Proviso and in maintenance of Palmetto Kids FIRST status as an approved SFO.
- ***Permanently Restricted Net Assets***
Net assets subject to Proviso or donor-imposed restrictions that may be maintained permanently by Palmetto Kids FIRST. Palmetto Kids FIRST *does not* have any permanently restricted net assets at May 31, 2015 and 2014.

Donor-Imposed Restrictions

Palmetto Kids FIRST limits any donor-imposed restrictions on contributions to those allowed by the Proviso so that the contribution will be eligible for a tax credit. In order for contributions to be eligible for a tax credit, the Proviso prohibits donors from designating a specific child or school as the beneficiary of the contribution. Palmetto Kids FIRST *does not* accept contributions designated for the benefit of a specific child or school.

PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The Program considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

In-Kind Support

Palmetto Kids FIRST receives in-kind contributions of publicly traded securities on a regular basis. These contributions are valued at the mid-point of the daily high and low of the share price as of the date of receipt. To minimize market risk, in-kind contributions of publicly traded securities are regularly liquidated upon receipt.

Revenue Recognition

Contributions are recognized in accordance with donor provisions (when allowed by the Proviso) and accounting standards.

Functional Allocation of Expenses

The cost of providing Palmetto Kids FIRST's various programs and supporting services have been summarized on a functional basis. Accordingly certain costs have been allocated among the program and supporting services benefited.

Income Taxes

Palmetto Kids FIRST is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements.

Educational Credit for Exceptional Needs Children (ECENC)

The 2013-2014 South Carolina State Budget Proviso 1.85, allowed for the creation of nonprofit Scholarship Funding Organizations that can solicit contributions and issue scholarship grants in an amount not exceeding \$10,000 or the total cost of tuition (whichever is less) for eligible children with "exceptional needs" to attend an approved South Carolina independent school. These funds may be used for tuition, transportation or textbook expenses for eligible "exceptional needs" children attending approved South Carolina independent schools. The Proviso also limits Scholarship Funding Organizations to administrative expenses of not more than 5% of its annual contributions and revenue.

Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. The revenue recognition guidance for not-for-profit entities requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. In addition, that guidance indicates that those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. This standard goes into effect prospectively for fiscal years beginning after June 15, 2014. Upon adoption, Palmetto Kids FIRST does not consider this standard will have a material impact on its financial position or results of its activities.

PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2015 AND 2014

2. CONCENTRATION OF CREDIT RISK

Palmetto Kids FIRST places its cash and cash equivalents with high quality financial institutions. At times, deposits may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits of \$250,000. As of May 31, 2014, no amounts exceeded FDIC limits.

Palmetto Kids FIRST recognizes investments in securities are exposed to various risks, such as interest rate, market and credit risk. Palmetto Kids FIRST recognizes the level of risk associated with investment securities and the level of uncertainty related to changes in value of the investments. Securities and cash accounts maintained by Palmetto Kids FIRST at investment firms are insured by the Securities Investors Protection Corporation (SIPC) up to \$500,000 (\$250,000 for cash balances). SIPC insurance does not cover changes in value attributed to market valuation changes.

3. INVESTMENTS

Recognizing the risk associated with holding securities, investments of Palmetto Kids FIRST are generally limited to only cash and cash equivalents. Palmetto Kids FIRST does however receive in-kind contributions of publicly traded securities on a regular basis. To minimize market and other risk, in-kind contributions of publicly traded securities are liquidated upon receipt.

In-kind contributions received (but not yet liquidated) along with their cost, fair value and net unrealized gain (loss) at May 31, 2014 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gain (Loss)</u>
Common stock	\$ 15,636	\$ 15,636	\$ -
	<u>\$ 15,636</u>	<u>\$ 15,636</u>	<u>\$ -</u>

4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are to be used for the following purposes at May 31:

	<u>2015</u>	<u>2014</u>
Restricted to scholarship grants for eligible "exceptional needs" children enrolled at approved South Carolina independent schools	<u>\$ 2,010,032</u>	<u>\$ 482,498</u>

PALMETTO KIDS FIRST SCHOLARSHIP PROGRAM, INC.
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2015 AND 2014

5. COMMITMENTS AND CONTINGENCIES

Management Agreement

On February 1, 2014, Palmetto Kids FIRST signed a management agreement with an independent third-party to manage all the organization's activities. These activities include management of all the day to day operations and office support; management of the South Carolina tax credit process and all necessary communications with the South Carolina Department of Revenue, Education Oversight Committee, Department of Education and South Carolina Secretary of State; and all back office operations necessary to run Palmetto Kids FIRST. In compliance with the terms of the Proviso and in maintenance of Palmetto Kids FIRST's status as an approved SFO, the fee for this service, combined with any other administrative expenses, will not exceed 5% of annual contributions revenue (or applicable legislative maximums).

Tax Credit Availability

2013-2014 South Carolina State Budget Proviso 1.85 provided for \$8 million of SC tax credits to be available for contributions made between January 1, 2014 and June 30, 2014. Approximately \$5.9 million of these initial tax credits were claimed with Palmetto Kids FIRST accounting for approximately \$4.7 million or 80% of the total claimed. The program was legislatively renewed as part of the 2014-2015 South Carolina State Budget as Proviso 1.80. Another \$8 million of SC tax credits were made available for contributions between July 1, 2014 and June 30, 2015. All \$8 million of these tax credits were claimed as of approximately November 12, 2014 with Palmetto Kids FIRST accounting for approximately \$7.3 million or 91% of the total claimed. No additional Proviso tax credits are currently available at this time.

Palmetto Kids FIRST is currently dependent on future annual renewals of this program as a budget proviso, or potentially codification as a permanent law. The program is currently under consideration for extension as the 2015-2016 South Carolina State Budget Proviso 1.68. Several permanent law bills are also under consideration by the South Carolina General Assembly. Although an increase to the previous \$8 million amount of available tax credits is being discussed, it is impossible to determine at this time what amount, if any, of tax credits may be available in the future.

6. SUBSEQUENT EVENTS

Management has evaluated the effect subsequent events would have on the financial statements of Palmetto Kids FIRST Scholarship Program, Inc. at May 31, 2015 through June 29, 2015, which is the date the financial statements were available to issue. Based upon this evaluation, there were no material adjustments to these financial statements, except as noted below:

The South Carolina General Assembly ratified Proviso 1.68 on June 23, 2015, and the program is awaiting the Governors signature as of the date of these financial statements.