

# **Communities In Schools, Inc.**

## **Audited Financial Statements**

*Years ended September 30, 2022 and 2021  
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements

Years ended September 30, 2022 and 2021

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## Report of Independent Auditors

Board of Directors  
Communities In Schools, Inc.

### ***Opinion***

We have audited the financial statements of Communities In Schools, Inc. (CIS), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 CIS as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 CIS 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 (GAAP), 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 CIS's ability to continue as a going concern for one year after the date that 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 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 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 CIS'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 CIS'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.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia  
January 25, 2023

Communities In Schools, Inc.

Statements of Financial Position

As of September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 36,910,129	\$ 28,301,678
Cash held for restricted purposes	135,992	135,629
Investments	33,804,724	41,338,102
Pledges receivable, net	9,513,734	1,097,275
Government grants receivable	1,706	-
Other assets	952,993	988,283
Furniture and equipment, net	<u>1,120,167</u>	<u>1,609,042</u>
Total assets	<u>\$ 82,439,445</u>	<u>\$ 73,470,009</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,298,859	\$ 4,050,720
Deferred revenue	84,750	-
Deferred rent	<u>396,176</u>	<u>514,399</u>
Total liabilities	<u>2,779,785</u>	<u>4,565,119</u>
Net assets:		
Without donor restrictions	34,194,236	20,504,260
With donor restrictions	<u>45,465,424</u>	<u>48,400,630</u>
Total net assets	<u>79,659,660</u>	<u>68,904,890</u>
Total liabilities and net assets	<u>\$ 82,439,445</u>	<u>\$ 73,470,009</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and revenue</b>			
Corporate, foundation and individual contributions	\$ 26,690,489	\$ 17,557,389	\$ 44,247,878
In kind contributions, see Note F	30,237,033	-	30,237,033
Grants-governmental agencies	-	1,706	1,706
Other revenue	376,722	-	376,722
Net assets released from restrictions:			
Satisfaction of program restrictions	13,350,445	(13,350,445)	-
Release of distribution of endowment earnings	<u>1,307,841</u>	<u>(1,307,841)</u>	<u>-</u>
Total support and revenue	<u>71,962,530</u>	<u>2,900,809</u>	<u>74,863,339</u>
<b>Expenses</b>			
Program services:			
Advocacy and thought leadership	1,147,720	-	1,147,720
Public awareness and communications	2,379,450	-	2,379,450
In kind services, see Note F	30,237,033	-	30,237,033
Student supports	15,845,181	-	15,845,181
External consulting services	<u>2,274,956</u>	<u>-</u>	<u>2,274,956</u>
Total program services	<u>51,884,340</u>	<u>-</u>	<u>51,884,340</u>
Supporting services:			
General and administrative	4,027,501	-	4,027,501
Fundraising	<u>1,450,036</u>	<u>-</u>	<u>1,450,036</u>
Total supporting services	<u>5,477,537</u>	<u>-</u>	<u>5,477,537</u>
Total expenses	<u>57,361,877</u>	<u>-</u>	<u>57,361,877</u>
Change in net assets before investment income	14,600,653	2,900,809	17,501,462
Investment income, net	<u>(910,677)</u>	<u>(5,836,015)</u>	<u>(6,746,692)</u>
Change in net assets	13,689,976	(2,935,206)	10,754,770
Net assets, beginning of year	<u>20,504,260</u>	<u>48,400,630</u>	<u>68,904,890</u>
Net assets, end of year	<u>\$ 34,194,236</u>	<u>\$ 45,465,424</u>	<u>\$ 79,659,660</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and revenue</b>			
Corporate, foundation and individual contributions	\$ 10,593,301	\$ 10,345,427	\$ 20,938,728
In kind contributions, see Note F	29,849,330	-	29,849,330
Grants-governmental agencies	10,069	1,540,485	1,550,554
Other revenue	592,952	-	592,952
Net assets released from restrictions:			
Satisfaction of program restrictions	23,765,991	(23,765,991)	-
Release of distribution of endowment earnings	<u>1,283,985</u>	<u>(1,283,985)</u>	<u>-</u>
Total support and revenue	<u>66,095,628</u>	<u>(13,164,064)</u>	<u>52,931,564</u>
<b>Expenses</b>			
Program services:			
Advocacy and thought leadership	1,284,230	-	1,284,230
Public awareness and communications	2,612,609	-	2,612,609
In kind services, see Note F	29,849,330	-	29,849,330
Student supports	18,116,677	-	18,116,677
External consulting services	<u>2,681,139</u>	<u>-</u>	<u>2,681,139</u>
Total program services	<u>54,543,985</u>	<u>-</u>	<u>54,543,985</u>
Supporting services:			
General and administrative	3,523,297	-	3,523,297
Fundraising	<u>1,818,478</u>	<u>-</u>	<u>1,818,478</u>
Total supporting services	<u>5,341,775</u>	<u>-</u>	<u>5,341,775</u>
Total expenses	<u>59,885,760</u>	<u>-</u>	<u>59,885,760</u>
Change in net assets before investment income	6,209,868	(13,164,064)	(6,954,196)
Investment income, net	<u>948,934</u>	<u>5,836,834</u>	<u>6,785,768</u>
Change in net assets	7,158,802	(7,327,230)	(168,428)
Net assets, beginning of year	<u>13,345,458</u>	<u>55,727,860</u>	<u>69,073,318</u>
Net assets, end of year	<u>\$ 20,504,260</u>	<u>\$ 48,400,630</u>	<u>\$ 68,904,890</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Statement of Functional Expenses

Year ended September 30, 2022

	Advocacy & Thought Leadership	Public Awareness & Communication	Student Supports	External Services	General & Administrative	Fundraising	Total
Salaries	\$ 192,152	\$ 782,035	\$ 2,820,392	\$ 594,214	\$ 2,138,991	\$ 633,817	\$ 7,161,601
Employee benefits	46,823	188,665	680,202	144,214	512,566	149,078	1,721,548
Network investment	589,797	-	8,616,800	841,479	-	-	10,048,076
Other contracted services	261,599	440,525	1,362,527	389,081	743,346	407,762	3,604,840
Travel, meals, & conferences	3,267	43,898	394,470	42,327	162,602	30,595	677,159
Rent & storage fees	3,744	148,513	225,886	7,488	363,390	45,552	794,573
Advertising	-	556,609	-	-	8,438	-	565,047
Hardware & software purchases	54	11,217	459,014	29,645	388,237	9,674	897,841
Internet services	-	9,980	149,981	-	159,654	8,963	328,578
Depreciation	-	-	323,471	61,352	234,311	-	619,134
Other	15,433	23,753	155,339	49,831	404,266	57,825	706,447
Indirect allocation	34,851	174,255	657,099	115,325	(1,088,300)	106,770	-
Total incurred expenses	1,147,720	2,379,450	15,845,181	2,274,956	4,027,501	1,450,036	27,124,844
In kind services	-	30,237,033	-	-	-	-	30,237,033
Total expenses	<u>\$ 1,147,720</u>	<u>\$ 32,616,483</u>	<u>\$ 15,845,181</u>	<u>\$ 2,274,956</u>	<u>\$ 4,027,501</u>	<u>\$ 1,450,036</u>	<u>\$ 57,361,877</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Statement of Functional Expenses

Year ended September 30, 2021

	Advocacy & Thought Leadership	Public Awareness & Communication	Student Supports	External Services	General & Administrative	Fundraising	Total
Salaries	\$ 310,189	\$ 653,046	\$ 2,736,795	\$ 752,001	\$ 2,044,809	\$ 911,980	\$ 7,408,820
Employee benefits	68,931	141,234	583,314	152,182	561,090	199,687	1,706,438
Network investment	589,797	-	11,990,126	1,062,240	-	28	13,642,191
Other contracted services	195,143	389,610	1,107,531	520,494	605,049	317,978	3,135,805
Travel, meals, & conferences	764	5,571	14,119	4,804	14,127	6,517	45,902
Rent & storage fees	36,269	110,213	211,707	25,438	281,547	117,998	783,172
Advertising	-	1,018,991	-	-	6,810	-	1,025,801
Hardware & software purchases	100	7,576	496,184	12,411	575,054	10,293	1,101,618
Internet services	4	95,993	72,208	4	160,864	97	329,170
Depreciation	-	-	30,099	-	207,545	-	237,644
Other	16,989	16,870	68,637	20,037	451,641	45,695	619,869
Indirect allocation	66,044	173,505	805,957	131,528	(1,385,239)	208,205	-
Total incurred expenses	1,284,230	2,612,609	18,116,677	2,681,139	3,523,297	1,818,478	30,036,430
In kind services	-	29,849,330	-	-	-	-	29,849,330
Total expenses	<u>\$ 1,284,230</u>	<u>\$ 32,461,939</u>	<u>\$ 18,116,677</u>	<u>\$ 2,681,139</u>	<u>\$ 3,523,297</u>	<u>\$ 1,818,478</u>	<u>\$ 59,885,760</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Statements of Cash Flows

Years ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 10,754,770	\$ (168,428)
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Change in fair value of investments	8,258,451	(5,748,475)
Depreciation and amortization	619,134	237,645
Donated securities	-	(47,851)
Present value discount	96,612	7,639
Changes in assets and liabilities:		
Pledges receivable	(8,513,071)	4,751,997
Government grants receivable	(1,706)	-
Other assets	(35,290)	311,068
Accounts payable and accrued liabilities	(1,751,861)	1,761,995
Deferred revenue	84,750	(113,099)
Deferred rent	<u>(118,223)</u>	<u>(96,494)</u>
Net cash provided by operating activities	9,393,566	895,997
<b>Cash flows from investing activities</b>		
Purchase of investments	(9,170,953)	(13,809,864)
Sale of investments	8,516,460	14,028,519
Purchase of furniture and equipment	<u>(130,259)</u>	<u>(458,649)</u>
Net cash (used) by investing activities	<u>(784,752)</u>	<u>(239,994)</u>
Change in cash and cash equivalents	8,608,814	656,003
Cash and cash equivalents, beginning of year	<u>28,437,307</u>	<u>27,781,304</u>
Cash and cash equivalents, end of year	<u>\$ 37,046,121</u>	<u>\$ 28,437,307</u>
<b>Cash and cash equivalents</b>		
Cash and cash equivalents	\$ 36,910,129	\$ 28,301,678
Cash held for restricted purposes	<u>135,992</u>	<u>135,629</u>
	<u>\$ 37,046,121</u>	<u>\$ 28,437,307</u>

See accompanying notes to the financial statements.

# Communities In Schools, Inc.

## Notes to Financial Statements

Years ended September 30, 2022 and 2021

### **Note A - Organization and Significant Accounting Policies**

#### *Organization*

Communities In Schools, Inc. (CIS) was incorporated in Georgia on April 28, 1977 and commenced operations in June 1977. CIS is a not-for-profit corporation, the purpose of which is to surround students with a community of support, empowering them to stay in school and achieve in life. CIS works through four primary areas to achieve its mission:

Public Awareness and Communications – Building awareness of America’s dropout problem and positioning CIS as a solution to this problem.

Student Supports – Working with CIS state offices and local affiliates to build capacity within the CIS network as well as evaluating and disseminating evidence-based program practices.

Advocacy and Thought Leadership – Educating legislators, public officials, and the general public on a non-partisan basis on the types of and benefits of public policies conducive to improving public education, by means of research, publications, lectures and legislative involvement. Establish CIS as a thought leader in integrated student supports including keeping abreast of trends about the sectors and educating partners in the education field through convening and printed materials.

External Services – Working with school districts to provide a variety of services including implementing the CIS model, provide training opportunities on integrated student supports and providing turn around school services as well as providing organizational development consulting to new affiliates.

#### *National and Local Organizations*

CIS developed a replication plan to build a network of locally supported not-for-profit organizations responsible for implementing CIS programs in local communities. CIS’ separately incorporated local organizations’ activities are not included in CIS’ financial statements. There were 100 local and 12 state and 100 local and 10 state CIS organizations at September 30, 2022 and 2021, respectively.

#### *Basis of Presentation*

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Consequently, revenue is recognized when earned and expense is recognized when the obligation is incurred. Additionally, as required by GAAP, CIS reports its net assets as follows:

Net Assets Without Donor Restriction – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Basis of Presentation (continued)*

Net Assets With Donor Restriction – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. For net assets held in perpetuity, the donors of these assets permit CIS to use all or part of the income earned on related investments for either general or donor-specified purposes. Distributions are released from restriction when they are drawn down by CIS.

##### *Use of Estimates*

The preparation of financial statements in conformity with 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.

##### *Cash and Cash Equivalents*

CIS considers all cash and highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. Throughout the year, CIS has cash balances in financial institutions that are in excess of Federal Deposit Insurance Corporation (FDIC) coverage. Management does not consider these balances to be a significant credit risk.

##### *Cash Held for Restricted Purposes*

CIS maintains certain funds as collateral under the terms of its corporate office-operating lease. These monies are reflected as cash held for restricted purposes on the statement of financial position.

##### *Investments and Fair Value Measurements*

Investments are recorded at fair value. Investment income or loss, including realized and unrealized gains and losses, net of fees, is included in the statement of activities as an increase or decrease in net assets without donor restrictions unless the income or loss is restricted by donor or law.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Investments and Fair Value Measurements (continued)*

GAAP establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted (unadjusted) for identical assets or liabilities traded in active markets that CIS has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, estimates of fair value are made using methods, models and assumptions that management believes are relevant to the particular asset or liability, which may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

During 2022 and 2021, CIS's endowment was invested in equity, US fixed income, and alternative assets comprised of hedge funds, real estate and infrastructure, and hard assets. A portion of the hedge fund holdings are not publicly traded; their fair value is based on CIS' pro-rata share of the net asset value of the respective funds at the statement of financial position date, which are based on the fair value of the underlying securities held by each respective fund. These investments measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

These alternative investments are open-ended funds that offer subscription and redemption options to investors. Subscription provisions are monthly, and redemption provisions are quarterly and require up to 95 business day written notice prior to execution. As of September 30, 2022 and 2021, there are unfunded commitments related to these investments as described in Note C - Investments and Fair Value Measurement.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Risks and Uncertainties*

CIS invests in various investment securities which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of financial position.

The ongoing COVID-19 coronavirus pandemic (COVID-19) continues to have a global impact creating uncertainty, volatility, and disruption across economies and financial markets. CIS' operational and financial performance will depend on certain developments, including the duration and spread of COVID-19 and its impact on CIS and its contributors, employees and vendors. As such, COVID-19 could have a material adverse effect on CIS' financial position in the future. The ultimate duration and impact of the COVID-19 outbreak on CIS' financial position cannot be reasonably estimated at this time.

##### *Pledges and Grants Receivable*

Unconditional promises to give are recorded as contributions in the period the promise is made. Contributions and grants receivable primarily consist of amounts due for federal and nonfederal grants. Contributions and grants receivable are presented at their net realizable value. CIS management periodically reviews the status of all receivable balances for collectability based on its knowledge of the relationship with the donor and the age of the receivable balance. As a result of these reviews, CIS does not believe an allowance for doubtful accounts is necessary as of September 30, 2022 and 2021. See Note B for additional information.

##### *Fixed Assets*

Fixed assets are stated at cost when acquired, or fair value when donated. All fixed assets greater than \$5,000 are capitalized at cost. Furniture, equipment and software are depreciated using the straight-line method over the estimated useful life of the asset, ranging from three to five years. The office cubicles and leasehold improvements are depreciated over the remainder of the life of the office lease when the asset is put into service.

##### *Functional Allocation of Expenses*

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among programs and supporting services based on headcount and actual time and expenses incurred.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Support and Revenues*

##### Other revenue

Goods provided - CIS recognizes revenue from sales of advisory and training products which are considered the performance obligations. CIS satisfies the performance obligations once the product is provided to the customer which is when the customer takes title. CIS' revenue is measured based on the amount of fixed consideration that is expected to be received and is agreed upon with the customer. Sales advisory and products are generally not returnable. Amounts received in advance are recorded as deferred revenue and recognized as revenue once the performance obligation has been satisfied. Training products are generally not returnable. Revenue is recognized once the training has been delivered.

Services rendered - CIS recognizes revenue from services when the services are provided which is considered the performance obligation. CIS satisfies the performance obligations once the advisory services have been provided over the agreed upon time frame. CIS' revenue is measured based on the amount of fixed consideration that is expected to be received and is agreed upon with the customer. Services provided are generally not returnable. Amounts received in advance are recorded as deferred revenue and recognized as revenue once the performance obligation has been satisfied.

##### Grants and contributions

Grants and contributions are recognized when an unconditional promise to give is received. Conditional promises to give, with a measurable performance obligation or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Grants and contributions received prior to meeting the conditions are reported as refundable advances in the statements of financial position. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions. When a donor restriction expires, through accomplishment of a purpose or expiration of a time restriction, net assets with donor restriction are reclassified as net assets without donor restriction and reported as net assets released from restriction in the statements of activities. However, contributions and related investment revenue which are both received and released from restriction in the same year are reported as net assets without donor restriction in that year.

A portion of CIS' revenue is derived from cost-reimbursable grants from various sources. Amounts received are recognized as revenue without donor restriction when expenses have been incurred in compliance with specific contracts or grant provisions. Amounts received prior to incurring qualifying expenses are reported as refundable advances in the statements of financial position. Grants receivable represent amounts expended and not yet reimbursed under a Federal grant awarded to CIS.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Income Tax Status*

CIS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified by the Internal Revenue Service as a publicly supported organization.

Management has concluded that CIS has properly maintained its exempt status. In accordance with GAAP, CIS has concluded that there are no uncertain tax positions and has further concluded that revenue within the statement of activities has been properly classified as exempt as of September 30, 2022.

##### *Subsequent Events*

CIS has evaluated subsequent events for disclosure and recognition through January 25, 2023, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date. See Note K for additional information.

##### *Endowment Funds*

CIS reports its endowment activity in accordance with the accounting guidance for Endowments of Not-for-Profit Organizations, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). CIS has made the required disclosures in Note J, *Endowment Funds*.

##### *Adopted Accounting Pronouncements*

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The amendment is intended to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements in presentation and disclosure requirements. Under the ASU, not-for-profit entities are required to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. CIS adopted the provisions of this ASU during the year ending September 30, 2022. There was no effect on the amounts reported in the financial statements as a result of adoption.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

**Note B - Pledges Receivable**

Pledges receivable represent unconditional promises to give by donors. At September 30, pledges receivable are comprised as follows:

	<u>2022</u>	<u>2021</u>
Receivable within one year	\$ 7,267,985	\$ 404,914
Receivable in one to three years	<u>2,350,000</u>	<u>700,000</u>
	9,617,985	1,104,914
Discount to present value	<u>(104,251)</u>	<u>(7,639)</u>
Pledges receivable, net	<u>\$ 9,513,734</u>	<u>\$ 1,097,275</u>

The multi-year pledges receivable were discounted at 2.63% and 0.44% at September 30, 2022 and 2021, respectively.

**Note C - Investments and Fair Value Measurements**

Investment income (loss) recorded in the statements of activities consisted of the following for the years ended September 30:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 1,650,463	\$ 1,139,747
Change in fair value, net	(8,258,451)	5,748,475
Investment fees	<u>(138,704)</u>	<u>(102,454)</u>
Investment income (loss), net	<u>\$ (6,746,692)</u>	<u>\$ 6,785,768</u>

Investments at September 30, 2022 are classified as the following in accordance with the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Mutual funds	\$ 4,291,142	\$ -	\$ -	\$ 4,291,142
Tax Free Daily Income Trust	36,844	-	-	36,844
U.S. Fixed Income	6,625,074	-	-	6,625,074
Equity	14,996,953	-	-	14,996,953
Real Estate & Infrastructure	1,397,972	-	-	1,397,972
Hard Assets	725,241	-	-	725,241
Unsettled transactions, net	<u>(309,101)</u>	-	-	<u>(309,101)</u>
Total investments	<u>\$ 27,764,125</u>	<u>\$ -</u>	<u>\$ -</u>	27,764,125
Alternative investment funds valued using practical expedient				<u>6,040,599</u>
				<u>\$ 33,804,724</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

**Note C - Investments and Fair Value Measurements (Continued)**

Investments at September 30, 2021 are classified as the following in accordance with the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Mutual funds	\$ 5,063,275	\$ -	\$ -	\$ 5,063,275
Tax Free Daily Income Trust	104,917	-	-	104,917
Treasury Securities	123,000	-	-	123,000
U.S. Fixed Income	7,432,738	-	-	7,432,738
Equity	20,711,227	-	-	20,711,227
Real Estate & Infrastructure	1,047,288	-	-	1,047,288
Hard Assets	915,199	-	-	915,199
Total investments	<u>\$ 35,397,644</u>	<u>\$ -</u>	<u>\$ -</u>	35,397,644
Alternative investment funds valued using practical expedient				<u>5,940,458</u>
				<u>\$ 41,338,102</u>

During 2022 and 2021, CIS held positions in several alternative investment funds. The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2022 are summarized as follows:

	<u>Fair Value</u>	<u>Remaining Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds	\$ 5,077,551	\$ 4,300,000	Quarterly	Up to 95 days
Real Estate & Infrastructure	\$ 963,048	\$ 700,000	Quarterly	Up to 95 days

The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2021 are summarized as follows:

	<u>Fair Value</u>	<u>Remaining Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds	\$ 5,176,559	\$ 4,300,110	Quarterly	Up to 95 days
Real Estate & Infrastructure	\$ 763,899	\$ 700,000	Quarterly	Up to 95 days

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note C - Investments and Fair Value Measurements (Continued)**

Investments in alternative investment funds are typically valued, as a practical expedient, utilizing the net asset valuations provided by the underlying private investment companies or their administrators, without adjustment, when the net asset valuations of the investments are calculated in a manner consistent with GAAP for investment companies. CIS applies the practical expedient to its investments in private investment companies, unless it is probable that CIS will sell a portion of an investment at an amount different from the net asset valuation. If it is probable that CIS will sell an investment at an amount different from the net asset valuation or in other situations where the practical expedient is not available, CIS considers other factors in addition to the net asset valuation, such as features of the investment, including subscriptions and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments in alternative investment funds that are not valued using the practical expedient are included in Level 2 or 3 of the fair value hierarchy. In determining the level, CIS considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restriction on the disposition of the investment. CIS also considers the nature of the portfolios of the underlying private investment companies and their ability to liquidate their underlying investments. If CIS does not know when it will have the ability to redeem the investment or it does not have the ability to redeem its investment in the near term, the investment is included in Level 3 of the fair value hierarchy. As of September 30, 2022, no adjustments were made to the valuations provided by the underlying private investment companies.

CIS's holdings contain investments in hedge funds and real estate investments not publicly traded and are value based on the unit net asset value of each fund. At September 30, 2022 and 2021, these holdings are \$6,040,599 and \$5,940,458, respectively, of CIS' investment portfolio. The investment strategies of these holdings are as follows:

<b>Fund valued with NAV</b>	<b>Investment Strategy</b>
Clarion Private Investors, LLC	Real estate fund
Grosvenor Alternative Investments	Globally diversified, multi-strategy fund

#### **Note D - Fixed Assets**

Fixed assets consists of the following as of September 30:

	2022	2021
Furniture	\$ 288,340	\$ 288,340
Equipment	2,945,826	2,815,567
Leasehold improvements	501,029	501,029
	3,735,195	3,604,936
Accumulated depreciation and amortization	(2,615,028)	(1,995,894)
Furniture equipment, net	\$ 1,120,167	\$ 1,609,042

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note E - Related Parties**

CIS receives cash from grants and contributions designated by the grantors to be given to specific state and local CIS affiliates. The total amount held by CIS and owed to affiliates was \$1,035,016 and \$2,973,285 as of September 30, 2022 and 2021, respectively. The amount owed to affiliates is recorded within accounts payable and accrued liabilities on the statements of financial position.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 1.60% and 5.32% of CIS' total support and revenues in 2022 and 2021, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 7.34% and 98.41% of total pledges receivable in 2022 and 2021, respectively. The contributions received were made to support the general operations of CIS and designated funds for college and career readiness support and innovation challenge awards.

#### **Note F - In Kind Contributions**

Total donated services recorded for fiscal year 2022 and 2021 was \$30,237,033 and \$29,849,330, respectively. In 2022 and 2021, in-kind contributions consisted of donated media services from the Causeway Agency, these services were recorded at fair value using the current rates of the professionals providing the services. The services exclusively benefited the public awareness and communications program and were recorded without donor restrictions.

#### **Note G - Retirement Plans**

CIS sponsors a defined contribution pension plan (the Plan). All CIS employees are eligible to participate in the Plan immediately upon hiring. Employees are eligible to receive CIS' voluntary and matching contributions after they have completed one full year of service with CIS. At the Board's discretion, CIS makes contributions to the Plan. During the years ending September 30, 2022 and 2021, these contributions were 3 percent of an employee's salary and a matching component of up to 3 percent of an employee's contribution. CIS contributed \$357,270 and \$338,698 to the Plan in 2022 and 2021, respectively. The Plan is exempt from federal income taxes under Section 403(b) of the IRC. CIS is the Plan sponsor.

During the year ending September 30, 2013, CIS created a deferred compensation 457 plan. This plan was created for the benefit of certain executive employees. CIS contributed approximately \$37,500 and \$48,537 to the Plan in 2022 and 2021, respectively. The related assets and liabilities for the plan are included in CIS' statements of financial position within other assets and accounts payable and accrued liabilities.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note H - Commitments**

CIS has entered into a non-cancelable operating lease agreement for office space in Arlington, Virginia. The lease commenced on April 15, 2009. In 2014, CIS was relocated to another office space and the lease was extended to March 31, 2025. The new lease provides CIS with a release of liability from the previous lease which was enforceable through October 2019. Under this operating lease, the rent charged to CIS escalates annually at 2.5%. In addition, rent for the first 6 months of the lease term was abated.

Under GAAP, CIS must record its rent expense on a straight-line basis over the life of the lease resulting in the difference between the straight-lined expense and cash outlay as deferred rent in the statements of financial position. The deferred rent liability was \$396,176 and \$514,399 as of September 30, 2022 and 2021, respectively.

CIS established an irrevocable standby letter of credit, a requirement of the lease agreement noted above. The letter of credit amount was \$135,992 and \$135,629 respectively as of September 30, 2022 and 2021, respectively.

Rent expense was \$786,234 and \$771,334 in fiscal years 2022 and 2021, respectively. Future minimum payments required under the above lease are as follows:

2023	\$	913,000
2024		936,000
2025		<u>479,000</u>
Total	\$	<u><u>2,328,000</u></u>

#### **Note I - Net Assets with Donor Restrictions**

Net assets with donor restrictions are available for use in programs or a specific time period specified by donors. The net assets released from donor restrictions for the year ended September 30, 2022 and 2021 are attributable to expenses incurred related to these specific programs or time period. Net assets with donor restrictions were released from restrictions for the following programs or by the passage of time during 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Public awareness and communications	\$ 289,214	\$ 584,538
Student supports	11,186,650	12,238,169
Advocacy & thought leadership	350,000	379,890
General & administrative	1,132,114	3,929,073
External consulting services	392,467	879,342
Fundraising	-	754,979
Satisfaction of time restriction:	-	5,000,000
	<u>\$ 13,350,445</u>	<u>\$ 23,765,991</u>

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### Note I - Net Assets with Donor Restrictions (Continued)

The net assets with donor restrictions of CIS are available for the following programs or purposes as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Public awareness and communications	\$ -	\$ 13,008
Student supports	4,975,997	9,662,062
Advocacy & thought leadership	696,940	1,042,361
External consulting services	9,898,807	321,247
General & administrative	630,205	954,621
Endowment corpus	25,010,080	25,010,080
Endowment earnings	4,253,395	11,397,251
	<u>\$ 45,465,424</u>	<u>\$ 48,400,630</u>

#### Note J - Endowment Funds

CIS' endowment funds consist of an individual donor fund as of September 30, 2022 and 2021 established for various purposes. The endowment is a donor-restricted endowment fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

##### Interpretation of Relevant Law

CIS is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. The Board of Directors of CIS has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless the fund donor stipulates the contrary.

## Communities In Schools, Inc.

### Notes to Financial Statements (Continued)

#### **Note J - Endowment Funds (Continued)**

##### Interpretation of Relevant Law (continued)

CIS considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. CIS has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, CIS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of CIS

##### Return Objectives and Risk Parameters

CIS has adopted investment and spending policies for endowment assets that attempt to maintain the real purchasing power of the Fund and provide a stable source of liquidity and financial support for the mission of CIS. Under these policies, the board acknowledges the importance of preserving capital but recognizes the necessity of accepting risk if the Fund is to be able to meet its long-term investment goals.

##### Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, CIS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The current asset allocation for endowment funds targets a composition of 65% in equities and 15% in fixed income and cash, with allowance of up to 20% in alternative investments as approved by the Board of Directors.

##### Spending Policy and How the Investment Objectives Relate to Spending Policy

Distributions from the Fund will be made in accordance with UPMIFA as adopted by the Commonwealth of Virginia. UPMIFA allows the institution to determine the prudent amount to be appropriated for expenditure from endowment funds within the restrictions of any gift agreements.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

**Note J - Endowment Funds (Continued)**

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

The policy spending rate for the Fund shall be 4 percent of the Fund's average balance at the end of the prior three fiscal years. In the case that investment returns for the prior fiscal year are in the negative and/or the endowment balance has lost value such that it is nearing the original value of gifts donated to the permanent endowment the Finance Committee may determine that a lesser amount will be distributed and submit the proposed reduced amount for Board approval.

Appropriations from the Fund in excess of the policy spending rate may be made when CIS has a unique, non-routine special initiative that is underfunded. In such cases, the Committee will determine the prudent amount to be appropriated and submit the proposed appropriation for Board approval. Any other special appropriations or decision not to spend the amount indicated by the policy spending rate must also be approved in advance by the Board of Directors.

Endowment net assets, by fund, were comprised of the following as of September 30, 2022:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted:			
Original gift amount required to be maintained	\$ -	\$ 25,010,080	\$ 25,010,080
Amounts subject to appropriation	-	<u>4,253,395</u>	<u>4,253,395</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 29,263,475</u>	<u>\$ 29,263,475</u>

Endowment net assets, by fund, were comprised of the following as of September 30, 2021:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted:			
Original gift amount required to be maintained	\$ -	\$ 25,010,080	\$ 25,010,080
Amounts subject to appropriation	-	<u>11,397,251</u>	<u>11,397,251</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 36,407,331</u>	<u>\$ 36,407,331</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

**Note J - Endowment Funds (Continued)**

The changes in the endowment net assets are as follows for the year ended September 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 36,407,331	\$ 36,407,331
Investment return, net	-	(5,836,015)	(5,836,015)
Expenditure appropriations	-	(1,307,841)	(1,307,841)
Total endowment net assets	<u>\$ -</u>	<u>\$ 29,263,475</u>	<u>\$ 29,263,475</u>

The changes in the endowment net assets are as follows for the year ended September 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 31,854,481	\$ 31,854,481
Investment return, net	-	5,836,835	5,836,835
Expenditure appropriations	-	(1,283,985)	(1,283,985)
Total endowment net assets	<u>\$ -</u>	<u>\$ 36,407,331</u>	<u>\$ 36,407,331</u>

**Note K - Liquidity and Availability of Resources**

CIS's financial assets available for general expenditure within one year of the date of the statements of financial position are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 6,727,080	\$ 11,300,940
Accounts receivable	7,896	63,478
Pledges receivable	7,267,985	404,914
Reserves appropriated for current use	9,781,122	4,852,213
Short-term investments	4,529,205	3,630,770
Long-term investments appropriated for current use	1,350,000	1,300,000
	<u>\$ 29,663,288</u>	<u>\$ 21,552,315</u>

CIS is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, CIS must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of CIS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

**Note L - Payroll Protection Program**

On February 9, 2021 CIS received a loan pursuant to the Paycheck Protection Program (the Program), a program implemented and federally authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of \$1,427,386 (the PPP Loan). The loan is a two-year loan with a maturity date of February 9, 2023. The loan bears an annual interest rate of 1%, and is unsecured and guaranteed by the Small Business Administration (SBA). CIS elected to account for this PPP Loan in accordance with the FASB ASC 958-605 conditional contribution model. Under the conditional contribution model, the PPP Loan forgiveness is recognized as revenue when conditions are substantially met.

Management determined that all conditions including eligibility and terms of the loan agreement were substantially met as of September 30, 2021 and received forgiveness for the full loan amount on January 26, 2022. The entire PPP loan amount was recognized as revenue for the year ended September 30, 2021.