

Communities In Schools, Inc.

Audited Financial Statements

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements

Years ended September 30, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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.

Adoption of New Accounting Standard

As discussed in Note A to the financial statements, effective October 1, 2022, CIS adopted Financial Accounting Standards Board Accounting Standards Update 2016-02 and subsequent amendments, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

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' 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' 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' 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
February 23, 2024

Communities In Schools, Inc.

Statements of Financial Position

As of September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 46,245,294	\$ 36,910,129
Cash held for restricted purposes	136,401	135,992
Investments	36,048,020	33,804,724
Pledges receivable, net	3,861,500	9,513,734
Government grants receivable	91,333	1,706
Other assets	1,125,457	952,993
Furniture and equipment, net	687,219	1,120,167
ROU asset - operating lease	<u>1,118,267</u>	<u>-</u>
Total assets	<u>\$ 89,313,491</u>	<u>\$ 82,439,445</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,625,767	\$ 2,298,859
Deferred revenue	11,500	84,750
Deferred rent	-	396,176
Lease liability - operating lease	<u>1,373,950</u>	<u>-</u>
Total liabilities	<u>5,011,217</u>	<u>2,779,785</u>
Net assets:		
Without donor restrictions	27,785,541	34,194,236
With donor restrictions	<u>56,516,733</u>	<u>45,465,424</u>
Total net assets	<u>84,302,274</u>	<u>79,659,660</u>
Total liabilities and net assets	<u>\$ 89,313,491</u>	<u>\$ 82,439,445</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Corporate, foundation and individual contributions	\$ 8,146,420	\$ 24,583,001	\$ 32,729,421
In kind contributions, see Note F	45,274,223	-	45,274,223
Other revenue	648,201	-	648,201
Net assets released from restrictions:			
Satisfaction of program restrictions	15,391,303	(15,391,303)	-
Release of distribution of endowment earnings	<u>1,357,197</u>	<u>(1,357,197)</u>	<u>-</u>
Total support and revenue	<u>70,817,344</u>	<u>7,834,501</u>	<u>78,651,845</u>
Expenses			
Program services:			
Advocacy and thought leadership	1,021,137	-	1,021,137
Public awareness and communications	3,308,392	-	3,308,392
In kind services, see Note F	45,274,223	-	45,274,223
Student supports	20,800,005	-	20,800,005
External consulting services	<u>3,176,535</u>	<u>-</u>	<u>3,176,535</u>
Total program services	<u>73,580,292</u>	<u>-</u>	<u>73,580,292</u>
Supporting services:			
General and administrative	4,285,489	-	4,285,489
Fundraising	<u>1,600,510</u>	<u>-</u>	<u>1,600,510</u>
Total supporting services	<u>5,885,999</u>	<u>-</u>	<u>5,885,999</u>
Total expenses	<u>79,466,291</u>	<u>-</u>	<u>79,466,291</u>
Change in net assets before investment income	(8,648,947)	7,834,501	(814,446)
Investment income, net	<u>2,240,252</u>	<u>3,216,808</u>	<u>5,457,060</u>
Change in net assets	(6,408,695)	11,051,309	4,642,614
Net assets, beginning of year	<u>34,194,236</u>	<u>45,465,424</u>	<u>79,659,660</u>
Net assets, end of year	<u>\$ 27,785,541</u>	<u>\$ 56,516,733</u>	<u>\$ 84,302,274</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>
Support and revenue			
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>
Expenses			
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 loss	14,600,653	2,900,809	17,501,462
Investment loss, 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 Functional Expenses

Year ended September 30, 2023

	Advocacy & Thought Leadership	Public Awareness & Communication	Student Supports	External Services	General & Administrative	Fundraising	Total
Salaries	\$ 219,856	\$ 1,212,917	\$ 3,270,607	\$ 1,096,557	\$ 2,483,718	\$ 923,522	\$ 9,207,177
Employee benefits	53,933	295,968	804,482	269,570	607,561	227,178	2,258,692
Network investment	446,450	-	11,201,082	489,032	-	-	12,136,564
Other contracted services	219,600	304,984	1,676,720	673,414	704,617	28,193	3,607,528
Travel, meals, & conferences	11,191	36,483	1,226,490	129,858	368,743	30,148	1,802,913
Rent & storage fees	-	4,300	-	-	789,560	-	793,860
Advertising	-	1,045,622	-	-	7,008	-	1,052,630
Hardware & software purchases	166	9,812	445,978	9,366	703,046	6,477	1,174,845
Internet services	1	2,163	551,361	1	123,716	3,176	680,418
Depreciation	-	-	338,212	60,496	215,523	-	614,231
Loss on disposal of asset	-	-	-	-	1,282	-	1,282
Other	14,896	30,385	192,924	35,828	422,554	165,341	861,928
Indirect allocation	55,044	365,758	1,092,149	412,413	(2,141,839)	216,475	-
Total incurred expenses	1,021,137	3,308,392	20,800,005	3,176,535	4,285,489	1,600,510	34,192,068
In kind services	-	45,274,223	-	-	-	-	45,274,223
Total expenses	<u>\$ 1,021,137</u>	<u>\$ 48,582,615</u>	<u>\$ 20,800,005</u>	<u>\$ 3,176,535</u>	<u>\$ 4,285,489</u>	<u>\$ 1,600,510</u>	<u>\$ 79,466,291</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.

Statements of Cash Flows

Years ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 4,642,614	\$ 10,754,770
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Change in fair value of investments	(2,133,622)	8,258,451
Depreciation and amortization	614,231	619,134
Present value discount on pledges receivable	(104,251)	96,612
Noncash lease expense	700,222	-
Changes in assets and liabilities:		
Pledges receivable	5,756,485	(8,513,071)
Government grants receivable	(91,333)	(1,706)
Other assets	172,464	(35,290)
Accounts payable and accrued liabilities	1,326,908	(1,751,861)
Deferred revenue	(73,250)	84,750
Deferred rent	-	(118,223)
Lease liability	(840,716)	-
Net cash provided by operating activities	<u>9,969,752</u>	<u>9,393,566</u>
Cash flows from investing activities		
Purchase of investments	(10,425,875)	(9,170,953)
Sale of investments	9,974,261	8,516,460
Purchase of furniture and equipment	(182,564)	(130,259)
Net cash (used) by investing activities	<u>(634,178)</u>	<u>(784,752)</u>
Change in cash and cash equivalents	9,335,574	8,608,814
Cash and cash equivalents, beginning of year	<u>37,046,121</u>	<u>28,437,307</u>
Cash and cash equivalents, end of year	<u>\$ 46,381,695</u>	<u>\$ 37,046,121</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 46,245,294	\$ 36,910,129
Cash held for restricted purposes	136,401	135,992
	<u>\$ 46,381,695</u>	<u>\$ 37,046,121</u>

See accompanying notes to the financial statements.

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2023 and 2022

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 95 local and 8 state and 5 regional affiliates and 100 local and 12 state CIS organizations at September 30, 2023 and 2022, 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.

Adoption of Accounting Standard

CIS adopted ASC Topic 842, *Leases* on October 1, 2022. Among other requirements, lessees are required to identify leases as either operating or finance and to recognize the following for all leases (with the exception of short-term leases) as of the date of adoption: 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use (ROU) asset, which is an asset that represents the lessee's ROU, or control the use of a specified asset for the lease term. On adoption, CIS elected to utilize the year of adoption modified retrospective approach. CIS also elected to apply practical expedients applicable to CIS in the updated guidance for transition for leases in effect at adoption, including using hindsight to determine the lease term of existing leases, the option to not reassess whether an existing contract is a lease or contains a lease and whether the lease is an operating or finance lease. As a result of adopting, CIS recognized a ROU asset of \$1,818,490 and a lease liability of \$2,214,666 on October 1, 2022.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

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.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

During 2023 and 2022, CIS' 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, 2023 and 2022, there are unfunded commitments related to these investments as described in Note C - Investments and Fair Value Measurement.

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.

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, 2023 and 2022. See Note B for additional information.

Furniture and Equipment

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 using the straight-line method over the lesser of their estimated useful life or the life of the office lease when the asset is put into service.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Leases

CIS determines if an arrangement is a lease or contains a lease at inception of a contract and classifies each lease as an operating or finance lease. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. CIS records a right-of-use (ROU) asset for the right to use an underlying asset for the lease term and a lease liability, on a discounted basis, for the obligation to make lease payments arising from the lease. CIS has elected the risk free rate as the discount rate for all its underlying leased assets. The lease term includes options to extend the lease that CIS is not reasonably certain to exercise. ROU assets are subject to review for impairment.

For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred. CIS has elected as an accounting policy not to record ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset.

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.

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. Payment is due based on the terms of the individual agreements with customers.

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. Payment is due based on the terms of the individual agreements with customers.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Support and Revenues (continued)

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.

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, 2023.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through February 23, 2024, the date on which these financial statements were available to be issued.

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*.

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>2023</u>	<u>2022</u>
Receivable within one year	\$ 3,861,500	\$ 7,267,985
Receivable in one to three years	-	2,350,000
	<u>3,861,500</u>	<u>9,617,985</u>
Discount to present value	-	(104,251)
Pledges receivable, net	<u>\$ 3,861,500</u>	<u>\$ 9,513,734</u>

The multi-year pledges receivable were discounted at 2.63% at September 31, 2022.

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>2023</u>	<u>2022</u>
Interest and dividends	\$ 2,478,632	\$ 1,650,463
Change in fair value, net	3,101,782	(8,258,451)
Investment fees	(123,354)	(138,704)
Investment income (loss), net	<u>\$ 5,457,060</u>	<u>\$ (6,746,692)</u>

Investments at September 30, 2023 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	\$ 5,044,946	\$ -	\$ -	\$ 5,044,946
Tax Free Daily Income Trust	604	-	-	604
Treasury Securities	68,386	-	-	68,386
U.S. Fixed Income	8,538,503	-	-	8,538,503
Equity	15,364,493	-	-	15,364,493
Real Estate & Infrastructure	1,127,041	-	-	1,127,041
Hard Assets	784,547	-	-	784,547
Unsettled transactions, net	<u>4,395</u>	-	-	<u>4,395</u>
Total investments	<u>\$ 30,932,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>30,932,915</u>
Alternative investment funds valued using practical expedient				<u>5,115,105</u>
				<u>\$ 36,048,020</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C - Investments and Fair Value Measurements (Continued)

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
Treasury Securities	6,625,074	-	-	6,625,074
U.S. Fixed Income	14,996,953	-	-	14,996,953
Equity	1,397,972	-	-	1,397,972
Real Estate & Infrastructure	725,241	-	-	725,241
Hard Assets	<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>

During 2023 and 2022, CIS held positions in several alternative investment funds. The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2023 are summarized as follows:

	<u>Fair Value</u>	<u>Remaining Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge Funds	\$ 4,326,664	\$ 3,466,532	Quarterly	Up to 95 days
Real Estate & Infrastructure	\$ 788,841	\$ 700,000	Quarterly	Up to 95 days

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

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, 2023, no adjustments were made to the valuations provided by the underlying private investment companies.

CIS' 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, 2023 and 2022, these holdings are \$5,115,105 and \$6,040,599, respectively, of CIS' investment portfolio. The investment strategies of these holdings are as follows:

Fund valued with NAV	Investment Strategy
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:

	2023	2022
Furniture	\$ 288,341	\$ 288,340
Equipment	2,542,062	2,945,826
Leasehold improvements	501,029	501,029
	3,331,432	3,735,195
Accumulated depreciation and amortization	(2,644,213)	(2,615,028)
Furniture and equipment, net	\$ 687,219	\$ 1,120,167

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 \$1,128,918 and \$1,035,016 as of September 30, 2023 and 2022, 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 1.30% and 1.60% of CIS' total support and revenues in 2023 and 2022, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 15.84% and 7.34% of total pledges receivable in 2023 and 2022, 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 2023 and 2022 was \$45,274,223 and \$30,237,033, respectively. In 2023 and 2022, 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 \$415,625 and \$357,270 to the Plan in 2023 and 2022, 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 \$40,500 and \$37,500 to the Plan in 2023 and 2022, 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 - Leases

CIS entered into an operating lease for office space in Arlington, Virginia which runs from September 2014 through March 2025. The lease also contains yearly rental increases based on CPI. At the end of the initial lease term, CIS has the option to renew the lease for one renewal term of 5 years. CIS is not reasonably certain to exercise this option as of the year ended September 30, 2023.

CIS' lease costs, terms and discount rates are as follows for the year ending September 30, 2023:

	<u>2023</u>
Operating lease cost:	
Lease cost	<u>\$ 722,611</u>
Total lease cost	<u><u>\$ 722,611</u></u>

Other Information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 913,104
ROU assets obtained in exchange for new operating lease liabilities	\$ 2,214,666

Weighted-average remaining lease term - operating leases 1.5 years

Weighted-average discount rate - operating leases 4.12 %

Future minimum lease payments and reconciliation to the statement of financial position as of September 30, 2023 are as follows:

	<u>Operating</u>
FY 2024	\$ 935,931
FY 2025	<u>478,668</u>
Total undiscounted future lease payments	1,414,599
Less: present value adjustment	<u>(40,649)</u>
Lease liability	<u><u>\$ 1,373,950</u></u>

Prior to the adoption of ASC Topic 842, Leases, rent expense of \$786,234 was included within expenses in the statement of activities and changes in net assets for the year ended September 30, 2022.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

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, 2023 and 2022 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 2023 and 2022:

	2023	2022
Satisfaction of purpose restrictions:		
Public awareness and communications	\$ 12,515	\$ 289,214
Student supports	13,141,937	11,186,650
Advocacy & thought leadership	352,554	350,000
General & administrative	1,432,661	1,132,114
External consulting services	450,036	392,467
Fundraising	1,600	-
	\$ 15,391,303	\$ 13,350,445

The net assets with donor restrictions of CIS are available for the following programs or purposes as of September 30, 2023 and 2022:

	2023	2022
Public awareness and communications	\$ -	\$ -
Student supports	20,357,068	4,975,997
Advocacy & thought leadership	350,000	696,940
External consulting services	3,813,279	9,898,807
General & administrative	873,301	630,205
Endowment corpus	25,010,080	25,010,080
Endowment earnings	6,113,005	4,253,395
	\$ 56,516,733	\$ 45,465,424

Note J - Endowment Funds

CIS' endowment funds consist of an individual donor fund as of September 30, 2023 and 2022 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, 2023:

	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>6,113,005</u>	<u>6,113,005</u>
Total endowment net assets	<u>\$ -</u>	<u>\$ 31,123,085</u>	<u>\$ 31,123,085</u>

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>

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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 29,263,475	\$ 29,263,475
Investment return, net	-	3,216,807	3,216,807
Expenditure appropriations	-	(1,357,197)	(1,357,197)
Total endowment net assets	<u>\$ -</u>	<u>\$ 31,123,085</u>	<u>\$ 31,123,085</u>

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>

Note K - Liquidity and Availability of Resources

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 12,076,723	\$ 6,727,080
Accounts receivable	205,239	7,896
Pledges receivable	3,861,500	7,267,985
Reserves appropriated for current use	6,500,000	9,781,122
Short-term investments	5,114,228	4,529,205
Long-term investments appropriated for current use	1,350,000	1,350,000
	<u>\$ 29,107,690</u>	<u>\$ 29,663,288</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.