

Communities In Schools, Inc.

Audited Financial Statements

*Years ended September 30, 2020 and 2019
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements

Years ended September 30, 2020 and 2019

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Report of Independent Auditors

Board of Directors
Communities In Schools, Inc.
Arlington, Virginia

We have audited the accompanying financial statements of Communities In Schools, Inc. (CIS), which comprise the statements of financial position as of September 30, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities In Schools, Inc. as of September 30, 2020 and 2019, 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.

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

Vienna, Virginia
January 19, 2021

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2020	2019
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 27,647,608	\$ 31,832,695
Cash held for restricted purposes	133,696	130,943
Investments	35,450,268	33,946,548
Pledges receivable, net	5,856,911	15,544,720
Government grants receivable	-	118,317
Other assets	1,609,515	896,526
Furniture and equipment, net	<u>1,388,037</u>	<u>1,120,190</u>
 Total assets	 <u><u>\$ 72,086,035</u></u>	 <u><u>\$ 83,589,939</u></u>
 Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,288,725	\$ 1,909,551
Deferred revenue	113,099	17,224
Deferred rent	<u>610,893</u>	<u>686,190</u>
 Total liabilities	 <u>3,012,717</u>	 <u>2,612,965</u>
 Net assets:		
Without donor restrictions	13,345,458	10,472,544
With donor restrictions	<u>55,727,860</u>	<u>70,504,430</u>
 Total net assets	 <u>69,073,318</u>	 <u>80,976,974</u>
 Total liabilities and net assets	 <u><u>\$ 72,086,035</u></u>	 <u><u>\$ 83,589,939</u></u>

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Corporate, foundation and individual contributions	\$ 7,290,095	\$ 5,153,848	\$ 12,443,943
In kind contributions, see Note F	34,549,985	-	34,549,985
Grants-governmental agencies	-	1,244,091	1,244,091
Other revenue	1,011,562	-	1,011,562
Net assets released from restrictions:			
Satisfaction of program restrictions	22,246,080	(22,246,080)	-
Release of distribution of endowment earnings	1,000,000	(1,000,000)	-
Total support and revenue	<u>66,097,722</u>	<u>(16,848,141)</u>	<u>49,249,581</u>
Expenses			
Program services:			
Advocacy and thought leadership	1,345,058	-	1,345,058
Public awareness and communications	3,258,706	-	3,258,706
In kind services, see Note F	34,549,985	-	34,549,985
Student Supports	17,046,203	-	17,046,203
External Consulting Services	2,697,942	-	2,697,942
Total program services	<u>58,897,894</u>	<u>-</u>	<u>58,897,894</u>
Supporting services:			
General and administrative	3,098,532	-	3,098,532
Fundraising	1,974,529	-	1,974,529
Total supporting services	<u>5,073,061</u>	<u>-</u>	<u>5,073,061</u>
Total expenses	<u>63,970,955</u>	<u>-</u>	<u>63,970,955</u>
Change in net assets before investment income	2,126,767	(16,848,141)	(14,721,374)
Investment income, net	746,147	2,071,571	2,817,718
Change in net assets	2,872,914	(14,776,570)	(11,903,656)
Net assets, beginning of year	10,472,544	70,504,430	80,976,974
Net assets, end of year	<u>\$ 13,345,458</u>	<u>\$ 55,727,860</u>	<u>\$ 69,073,318</u>

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Corporate, foundation and individual contributions	\$ 6,814,383	\$ 15,304,857	\$ 22,119,240
In kind contributions, see Note F	28,290,791	-	28,290,791
Grants-governmental agencies	-	931,674	931,674
Other revenue	1,135,772	-	1,135,772
Net assets released from restrictions:			
Satisfaction of program restrictions	22,832,648	(22,832,648)	-
Release of distribution of endowment earnings	4,342,537	(4,342,537)	-
Total support and revenue	63,416,131	(10,938,654)	52,477,477
Expenses			
Program services:			
Advocacy and thought leadership	1,470,430	-	1,470,430
Public awareness and communications	3,409,505	-	3,409,505
In kind services, see Note F	28,290,791	-	28,290,791
Student Supports	21,908,529	-	21,908,529
External Consulting Services	2,407,657	-	2,407,657
Total program services	57,486,912	-	57,486,912
Supporting services:			
General and administrative	3,298,632	-	3,298,632
Fundraising	1,774,681	-	1,774,681
Total supporting services	5,073,313	-	5,073,313
Total expenses	62,560,225	-	62,560,225
Change in net assets before investment income	855,906	(10,938,654)	(10,082,748)
Investment income, net	726,225	615,840	1,342,065
Change in net assets	1,582,131	(10,322,814)	(8,740,683)
Net assets, beginning of year	8,890,413	80,827,244	89,717,657
Net assets, end of year	<u>\$ 10,472,544</u>	<u>\$ 70,504,430</u>	<u>\$ 80,976,974</u>

Communities in Schools, Inc.

Statements of Functional Expenses

Years ended September 30, 2020 and 2019

For the Year Ended September 30, 2020

	Advocacy & Thought Leadership	Public Awareness & Communication	Student Supports	External Services	General & Administrative	Fundraising	Total
Salaries	\$ 340,037	\$ 766,819	\$ 2,351,996	\$ 1,023,785	\$ 1,839,569	\$ 795,154	\$ 7,117,360
Employee benefits	84,426	191,384	588,582	257,074	456,999	193,595	1,772,060
Network investment	419,877	-	10,821,956	-	-	30,684	11,272,517
Other contracted services	328,219	361,596	1,176,304	857,360	680,115	449,605	3,853,199
Travel, meals, & conferences	2,192	14,829	357,688	111,517	70,506	13,135	569,867
Rent & storage fees	50,416	111,398	253,990	23,298	243,304	121,457	803,863
Advertising	-	1,424,978	-	237,302	15,749	-	1,678,029
Hardware & software purchases	68	12,630	394,362	9,240	454,425	5,042	875,767
Internet services	350	98,164	169,113	2,957	150,859	116	421,559
Depreciation	-	-	50,078	-	271,859	-	321,937
Loss on disposal of fixed assets	-	-	-	-	7,520	-	7,520
Other	16,980	24,852	86,488	35,715	442,739	120,518	727,292
Indirect allocation	102,493	252,056	795,646	139,694	(1,535,112)	245,223	-
Total incurred expenses	1,345,058	3,258,706	17,046,203	2,697,942	3,098,532	1,974,529	29,420,970
In kind services	-	34,549,985	-	-	-	-	34,549,985
Total expenses	\$ 1,345,058	\$ 37,808,691	\$ 17,046,203	\$ 2,697,942	\$ 3,098,532	\$ 1,974,529	\$ 63,970,955

For the Year Ended September 30, 2019

	Advocacy & Thought Leadership	Public Awareness & Communication	Student Supports	External Services	General & Administrative	Fundraising	Total
Salaries	\$ 389,977	\$ 746,852	\$ 2,559,543	\$ 724,416	\$ 1,893,736	\$ 920,264	\$ 7,234,788
Employee benefits	92,050	175,644	612,925	173,754	449,603	220,253	1,724,229
Network investment	448,000	-	15,029,064	-	-	24,750	15,501,814
Other contracted services	345,939	374,160	879,247	842,060	831,579	116,219	3,389,204
Travel, meals, & conferences	35,727	87,420	1,125,763	267,911	112,883	72,407	1,702,111
Rent & storage fees	38,439	117,316	259,365	13,301	234,925	122,500	785,846
Advertising	3,654	1,571,318	1,825	267,312	7,186	348	1,851,643
Hardware & software purchases	3,433	7,055	281,047	473	353,429	6,814	652,251
Internet services	5,965	42,871	184,598	1,624	170,809	3,363	409,230
Depreciation	-	-	32,699	-	163,292	-	195,991
Loss on disposal of fixed assets	-	-	-	-	180	-	180
Other	29,473	63,506	215,852	36,073	437,331	39,912	822,147
Indirect allocation	77,773	223,363	726,601	80,733	(1,356,321)	247,851	-
Total incurred expenses	1,470,430	3,409,505	21,908,529	2,407,657	3,298,632	1,774,681	34,269,434
In kind services	-	28,140,084	150,707	-	-	-	28,290,791
Total expenses	\$ 1,470,430	\$ 31,549,589	\$ 22,059,236	\$ 2,407,657	\$ 3,298,632	\$ 1,774,681	\$ 62,560,225

The accompanying notes are an integral part of these financial statements.

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (11,903,656)	\$ (8,740,683)
Adjustments to reconcile change in net assets to net cash (used by)/provided by operating activities:		
Change in fair value of investments	(1,725,115)	334,594
Loss on disposal of fixed assets	7,520	181
Depreciation and amortization	321,937	195,992
Donated securities	(84,016)	(523,202)
Present value discount	(232,560)	(332,120)
Changes in assets and liabilities:		
Pledges receivable	9,920,369	11,457,213
Government grants receivable	118,317	159,959
Other assets	(402,825)	25,273
Accounts payable and accrued liabilities	379,174	218,902
Deferred revenue	95,875	17,224
Deferred rent	(75,297)	(54,617)
Net cash (used by)/provided by operating activities	<u>(3,580,277)</u>	<u>2,758,716</u>
Cash flows from investing activities		
Purchase of investments	(9,669,116)	(12,204,361)
Sale of investments	9,664,363	15,762,760
Purchase of furniture and equipment	(597,304)	(515,238)
Net cash (used by)/provided by investing activities	<u>(602,057)</u>	<u>3,043,161</u>
Change in cash and cash equivalents	(4,182,334)	5,801,877
Cash and cash equivalents, beginning of year	<u>31,963,638</u>	<u>26,161,761</u>
Cash and cash equivalents, end of year	<u>\$ 27,781,304</u>	<u>\$ 31,963,638</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 27,647,608	\$ 31,832,695
Cash held for restricted purpose	133,696	130,943
	<u>\$ 27,781,304</u>	<u>\$ 31,963,638</u>

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2020 and 2019

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 13 state and 102 local and 14 state and 112 local CIS organizations at September 30, 2020 and 2019, respectively.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

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.

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.

Changes in Accounting Principle

FASB ASC Topic 606, Revenue from Contracts with Customers, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. As of October 1, 2019, CIS has implemented ASU 2014-09 and its related amendments and has adjusted the presentation in these financial statements accordingly. The ASU has been applied using a modified retrospective approach to all periods presented, with no effect on net assets.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Clarifying the Scope and Accounting for Contributions Received and Contributions Made (Topic 958). The core principle of ASU 2018-08 is to clarify when the transfer of an asset or the extinguishment of a liability (the transaction) meets the definition of an exchange transaction or a contribution.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Changes in Accounting Principle (continued)

When the transaction is an exchange transaction, an entity must apply Topic 606, Revenue from Contracts with Customers or other applicable Topics. When the transaction is a contribution, the ASU clarifies when the contribution is conditional and when revenue should be recognized. As of October 1, 2019, CIS has implemented ASU 2018- 08 and has adjusted the presentation in the financial statements accordingly. The ASU has been applied on a modified prospective to the year ending September 30, 2020, with no effect on net assets.

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 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.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

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 2020 and 2019, 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, 2020 and 2019, there were no unfunded commitments related to these investments.

Risks and Uncertainties

CIS invests in various investment securities. Investment securities 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.

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. CIS' operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on CIS and its contributors, employees, and vendors. As such, COVID-19 could have a material adverse effect on the 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Pledges 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 the net amount due to CIS (less an allowance for doubtful accounts). 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, 2020 and 2019. All receivables are due in less than one year and accordingly no discount on present value has been allocated.

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 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.

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.

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 deferred revenue 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 deferred revenue 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, 2020.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through January 19, 2021, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date.

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 A – Organization and Significant Accounting Policies (Continued)

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note B – Pledges Receivable

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

	2020	2019
Receivable within one year	\$ 5,856,911	\$ 10,777,280
Receivable in one to three years	0	5,000,000
	5,856,911	15,777,280
Discount to present value	(0)	(232,560)
Pledges receivable, net	\$ 5,856,911	\$ 15,544,720

The multi-year pledge receivable at September 30, 2019 was discounted at 2.41%. There were no multi-year pledges at September 30, 2020.

Note C – Investments and Fair Value Measurements

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

	2020	2019
Interest and dividends	\$ 1,164,476	\$ 1,752,974
Change in fair value, net	1,725,115	(334,594)
Investment fees	(71,873)	(76,315)
Investment income, net	2,817,718	\$ 1,342,065

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

Investments at September 30, 2020 are classified as the following in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds	\$ 4,151,148	\$ -	\$ -	\$ 4,151,148
Tax Free Daily Income Trust	31,045	-	-	31,045
Treasury Securities	123,000			123,000
U.S. Fixed Income	7,013,199	-	-	7,013,199
Equity	17,507,618	-	-	17,507,618
Real Estate & Infrastructure	526,709	-	-	526,709
Hard Assets	1,100,353			1,100,353
Unsettled Transactions, Net	50,941	-	-	50,941
Total investments	<u>\$ 30,504,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>30,504,013</u>
	Alternative investment funds valued using practical expedient			4,946,255
	Total fair value of investments			<u>\$ 35,450,268</u>

Investments at September 30, 2019 are classified as the following in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds	\$ 3,700,079	\$ -	\$ -	\$ 3,700,079
Tax Free Daily Income Trust	123,685	-	-	123,685
U.S. Fixed Income	7,335,880	-	-	7,335,880
Equity	16,783,418	-	-	16,783,418
Real Estate & Infrastructure	590,125	-	-	590,125
Hard Assets	673,346	-	-	673,346
Total investments	<u>\$ 29,206,533</u>	<u>\$ -</u>	<u>\$ -</u>	<u>29,206,533</u>
	Alternative investment funds valued using practical expedient			4,740,015
	Total fair value of investments			<u>\$ 33,946,548</u>

During 2020 and 2019, CIS held positions in several alternative investment funds. The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2020 are summarized as follows:

	Fair Value	Remaining Commitment	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 4,225,685	\$ 3,900,235	Quarterly	Up to 95 days
Real Estate & Infrastructure	\$ 720,570	\$ 700,000	Quarterly	Up to 95 days

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2019 are summarized as follows:

	Fair Value	Remaining Commitment	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 4,009,316	\$ 3,901,171	Quarterly	Up to 95 days
Real Estate & Infrastructure	\$ 730,699	\$ 700,000	Quarterly	Up to 95 days

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, 2020, no adjustments were made to the valuations provided by the underlying private investment companies.

Of CIS's holdings at September 30, 2020 and 2019, \$4,946,255 and \$4,740,015, respectively, of hedge funds are not publicly traded and are valued based on the unit net asset value of each fund. The investment strategies of these holdings are as follows:

Fund valued with NAV	Investment Strategy
Clarion Private Investors, LLC	Real estate fund
Eton Park Overseas Fund, LTD.	Multi-strategy fund
Grosvenor Alternative Investments	Globally diversified, multi-strategy fund

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

	2020	2019
Furniture	\$ 288,340	\$ 288,340
Equipment	2,356,918	1,767,134
Leasehold improvements	501,029	501,029
	<u>3,146,287</u>	<u>2,556,503</u>
Accumulated depreciation and amortization	(1,758,250)	(1,436,313)
Furniture and equipment, net	<u>\$ 1,388,037</u>	<u>\$ 1,120,190</u>

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 \$1,117,810 and \$432,745 as of September 30, 2020 and 2019, 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 3.63% and 3.12% of CIS' total support and revenues in 2020 and 2019, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 2.15% and .49% of total pledges receivable in 2020 and 2019, 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 2020 and 2019 was \$34,549,985 and \$28,290,791, respectively. In-kind contributions were recorded at fair value as determined by the donors. In 2020, \$34,549,985 consisted of donated media services from the Causeway Agency. In 2019, in-kind donations consisted of \$28,140,083 in donated media services made by the Causeway Agency and \$150,707 in donated services from Deloitte Consulting related to a compensation study for the CIS affiliate network.

For the years ended September 30, 2020 and 2019, donated media placements were recorded as net assets without donor restriction with a corresponding expense being recorded. The donated media services primarily benefited the public awareness and communications program.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

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, 2020 and 2019, 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 \$320,154 and \$330,334 to the Plan in 2020 and 2019, 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 \$31,500 and \$36,000 to the Plan in 2020 and 2019, 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.

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 \$610,893 and \$686,190 as of September 30, 2020 and 2019, respectively.

CIS established an irrevocable standby letter of credit, a requirement of the lease agreement noted above. The letter of credit amount was \$133,696 as of September 30, 2020 and 2019, respectively.

Rent expense was \$802,073 and \$778,095 in fiscal years 2020 and 2019, respectively. Future minimum payments required under the above lease are as follows:

2021	\$	869,000
2022		891,000
2023		913,000
2024		936,000
2025		479,000
Total	\$	<u>4,088,000</u>

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 specified by donors. The net assets released from donor restrictions for the year ended September 30, 2020 and 2019 are attributable to expenses incurred related to these specific programs. Net assets with donor restrictions were released from restrictions for the following programs during 2020 and 2019:

	2020	2019
Public awareness and communications	\$ 730,276	\$ 590,723
Student supports	15,821,886	18,461,627
Advocacy & thought leadership	530,804	291,956
General & administrative	3,327,300	2,102,837
External consulting services	1,165,626	1,178,361
Fundraising	670,188	207,144
	\$ 22,246,080	\$ 22,832,648

The net assets with donor restrictions of CIS are available for the following programs or purposes as of September 30, 2020 and 2019:

	2020	2019
Public awareness and communications	\$ 649,480	\$ 929,692
Student Supports	17,906,420	30,756,832
Advocacy & thought leadership	459,830	808,245
External consulting services	949,443	3,247,932
General & administrative	3,325,539	3,524,787
Fundraising	582,667	454,032
Endowment corpus	25,010,080	25,010,080
Endowment earnings	6,844,401	5,772,830
	\$ 55,727,860	\$ 70,504,430

Note J – Endowment Funds

CIS' endowment funds consist of an individual donor fund as of September 30, 2020 and 2019 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 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)

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 55% in equities and 25% in fixed income and cash, with allowance of up to 25% 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.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

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, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted:			
Original gift amount required to be maintained	\$ -	\$ 25,010,080	\$ 25,010,080
Amounts subject to appropriation	-	6,844,401	6,844,401
Total endowment net assets	<u>\$ -</u>	<u>\$ 31,854,481</u>	<u>\$ 31,584,481</u>

Endowment net assets, by fund, were comprised of the following as of September 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted:			
Original gift amount required to be maintained	\$ -	\$ 25,010,080	\$ 25,010,080
Amounts subject to appropriation	-	5,772,830	5,772,830
Total endowment net assets	<u>\$ -</u>	<u>\$ 30,782,910</u>	<u>\$ 30,782,910</u>

The changes in the endowment net assets are as follows for the year ended September 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 30,782,910	\$ 30,782,910
Investment return, net	-	2,071,571	2,017,571
Expenditure appropriations	-	(1,000,000)	(1,000,000)
Total endowment net assets	<u>\$ -</u>	<u>\$ 31,854,481</u>	<u>\$ 31,854,481</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, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 34,509,607	\$ 34,509,607
Investment return, net	-	615,840	615,840
Expenditure appropriations	-	(4,342,537)	(4,342,537)
Total endowment net assets	<u>\$ -</u>	<u>\$ 30,782,910</u>	<u>\$ 30,782,910</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:

	2020	2019
Cash & Cash Equivalents	\$ 13,274,459	\$ 11,470,982
Accounts Receivable	794,400	257,245
Pledges Receivable	5,856,911	8,052,000
Government Grants Receivable	-	118,317
Short-term investments	2,529,238	1,863,635
Long-term investments appropriated for current use	1,000,000	1,300,000
	<u>\$ 23,455,008</u>	<u>\$ 23,062,179</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's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, CIS invests cash in excess of daily requirements in an interest-bearing money market account. This cash also includes short term reserves of \$10.6M. CIS invests its long-term reserves of \$4.3M in mutual funds. CIS has an endowment valued at \$31.8M. CIS receives an annual distribution based on 4% of the Fund's average balance at the end of the prior three fiscal years. This endowment distribution is valued at approximately \$1.3M per year and covers general operating costs. CIS elected to take a reduced distribution as of September 30, 2020 of \$1M due to receipt of the Payroll Protection Program loan. CIS can also request a special appropriation from the endowment fund in excess of the policy spending rate for a unique, non-routine special initiative that is underfunded. This appropriation must be approved by the board.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note L – Payroll Protection Program

On May 5, 2020 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 \$1,357,190 (the PPP Loan), which is a two year loan with a maturity date of May 5, 2022. The PPP 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. To the extent that the proceeds are used to pay qualified expenses, and other employment criteria required by the Program have been met by CIS, the PPP loan may be subject to forgiveness under the Program upon CIS' request after a "covered period" of 24 weeks. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of the PPP Loan is payable over the term of the agreement with a deferral of payments for 10 months after the end of the covered period.

Under the conditional contribution model, the PPP Loan forgiveness is recognized as revenue when conditions are substantially met. Management has determined that conditions including eligibility and terms of the loan agreement have been substantially met as of September 30, 2020 and received forgiveness of the loan on November 20, 2020. CIS recognized revenue of \$1,244,091 as grants in the statement of activities for the year ending September 30, 2020 based on management's assessment that a portion of barriers to revenue recognition had been met. CIS also recorded \$113,099 as deferred revenue in the statement of financial position as of September 30, 2020 based on management's assessments that a portion of barriers to revenue recognition have not been met.