

Communities In Schools, Inc.

Audited Financial Statements

*Years ended September 30, 2021 and 2020
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements

Years ended September 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 21, 2022

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 28,301,678	\$ 27,647,608
Cash held for restricted purposes	135,629	133,696
Investments	41,338,102	35,450,268
Pledges receivable, net	1,097,275	5,856,911
Other assets	988,283	1,609,515
Furniture and equipment, net	1,609,042	1,388,037
Total assets	<u>\$ 73,470,009</u>	<u>\$ 72,086,035</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 4,050,720	\$ 2,288,725
Refundable advance	-	113,099
Deferred rent	514,399	610,893
Total liabilities	<u>4,565,119</u>	<u>3,012,717</u>
Net assets:		
Without donor restrictions	20,504,260	13,345,458
With donor restrictions	48,400,630	55,727,860
Total net assets	<u>68,904,890</u>	<u>69,073,318</u>
Total liabilities and net assets	<u>\$ 73,470,009</u>	<u>\$ 72,086,035</u>

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2021

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

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	66,097,722	(16,848,141)	49,249,581
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	58,897,894	-	58,897,894
Supporting services:			
General and administrative	3,098,532	-	3,098,532
Fundraising	1,974,529	-	1,974,529
Total supporting services	5,073,061	-	5,073,061
Total expenses	63,970,955	-	63,970,955
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	\$ 13,345,458	\$ 55,727,860	\$ 69,073,318

Communities in Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2021

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

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

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

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2021	2020
Cash flows from operating activities		
Change in net assets	\$ (168,428)	\$ (11,903,656)
Adjustments to reconcile change in net assets to net cash (used by)/provided by operating activities:		
Change in fair value of investments	(5,748,475)	(1,725,115)
Loss on disposal of fixed assets	-	7,520
Depreciation and amortization	237,644	321,937
Donated securities	(47,850)	(84,016)
Present value discount	7,639	(232,560)
Changes in assets and liabilities:		
Pledges receivable	4,751,997	9,920,369
Government grants receivable	-	118,317
Other assets	311,068	(402,825)
Accounts payable and accrued liabilities	1,761,995	379,174
Deferred revenue	(113,099)	95,875
Deferred rent	(96,494)	(75,297)
Net cash provided/(used) by operating activities	<u>895,997</u>	<u>(3,580,277)</u>
Cash flows from investing activities		
Purchase of investments	(13,809,864)	(9,669,116)
Sale of investments	14,028,519	9,664,363
Purchase of furniture and equipment	(458,649)	(597,304)
Net cash (used) by investing activities	<u>(239,994)</u>	<u>(602,057)</u>
Change in cash and cash equivalents	656,003	(4,182,334)
Cash and cash equivalents, beginning of year	<u>27,781,304</u>	<u>31,963,638</u>
Cash and cash equivalents, end of year	<u>\$ 28,437,307</u>	<u>\$ 27,781,304</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 28,301,678	\$ 27,647,608
Cash held for restricted purpose	135,629	133,696
	<u>\$ 28,437,307</u>	<u>\$ 27,781,304</u>

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2021 and 2020

Note A – Organization and Significant Accounting Policies

Organization

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

CIS works through four primary areas to achieve its mission:

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

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

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

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

National and Local Organizations

CIS developed a replication plan to build a network of locally supported not-for-profit organizations responsible for implementing CIS programs in local communities. CIS’ separately incorporated local organizations’ activities are not included in CIS’ financial statements. There were 100 local, 10 state and 1 regional and 102 local, 12 state and 1 regional CIS organizations at September 30, 2021 and 2020, 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:

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents

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

Cash Held for Restricted Purposes

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

Investments and Fair Value Measurements

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

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:

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

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

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

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

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

During 2021 and 2020, 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, 2021 and 2020, there are unfunded commitments related to these investments as described in Note C – Investments and Fair Value Measurement.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Risks and Uncertainties

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

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.

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, 2021 and 2020. 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Support and Revenues

Other revenue

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

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

Grants and contributions

Grants and contributions are recognized when an unconditional promise to give is received. Conditional promises to give, with a measurable performance obligation or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Grants and contributions received prior to meeting the conditions are reported as refundable advances in the statements of financial position. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions. When a donor restriction expires, through accomplishment of a purpose or expiration of a time restriction, net assets with donor restriction are reclassified as net assets without donor restriction and reported as net assets released from restriction in the statements of activities. However, contributions and related investment revenue which are both received and released from restriction in the same year are reported as net assets without donor restriction in that year.

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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Income Tax Status

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

Management has concluded that CIS has properly maintained its exempt status. In accordance with GAAP, CIS has concluded that there are no uncertain tax positions and has further concluded that revenue within the statement of activities has been properly classified as exempt as of September 30, 2021.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through January 21, 2022, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date. See Notes K and L for additional information.

Endowment Funds

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

Note B – Pledges Receivable

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

	2021	2020
Receivable within one year	\$ 404,914	\$ 5,856,911
Receivable in one to three years	700,000	-
	1,104,914	5,856,911
Discount to present value	(7,639)	(-)
Pledges receivable, net	\$ 1,097,275	\$ 5,856,911

The multi-year pledge receivable at September 30, 2021 was discounted at .44%. There were no multi-year pledges at September 30, 2020.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

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:

	2021	2020
Interest and dividends	\$ 1,139,747	\$ 1,164,476
Change in fair value, net	5,748,475	1,725,115
Investment fees	(102,454)	(71,873)
Investment income, net	<u>\$ 6,785,768</u>	<u>\$ 2,817,718</u>

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

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

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>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

During 2021 and 2020, CIS held positions in several alternative investment funds. The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2021 are summarized as follows:

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

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

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, 2021, no adjustments were made to the valuations provided by the underlying private investment companies.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

CIS's holdings contain investments in hedge funds and real estate investments not publicly traded and are value based on the unit net asset value of each fund. At September 30, 2021 and 2020, these holdings are \$5,940,458 and \$4,946,255, 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
Eton Park Overseas Fund, LTD.	Multi-strategy fund
Grosvenor Alternative Investments	Globally diversified, multi-strategy fund

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

	2021	2020
Furniture	\$ 288,340	\$ 288,340
Equipment	2,815,567	2,356,918
Leasehold improvements	501,029	501,029
	3,604,936	3,146,287
Accumulated depreciation and amortization	(1,995,894)	(1,758,250)
Furniture and equipment, net	\$ 1,609,042	\$ 1,388,037

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 \$2,973,285 and \$1,117,810 as of September 30, 2021 and 2020, 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 5.32% and 3.63% of CIS' total support and revenues in 2021 and 2020, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 98.41% and 2.15% of total pledges receivable in 2021 and 2020, 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note F – In Kind Contributions

Total donated services recorded for fiscal year 2021 and 2020 was \$29,849,330 and \$34,549,985, respectively. In-kind contributions were recorded at fair value as determined by the donors. In 2021 and 2020, donated services consisted of donated media services from the Causeway Agency.

For the years ended September 30, 2021 and 2020, 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.

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, 2021 and 2020, 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 \$338,698 and \$320,154 to the Plan in 2021 and 2020, 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 \$48,537 and \$31,500 to the Plan in 2021 and 2020, 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 \$514,399 and \$610,893 as of September 30, 2021 and 2020, respectively.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note H – Commitments (Continued)

CIS established an irrevocable standby letter of credit, a requirement of the lease agreement noted above. The letter of credit amount was \$135,629 and \$133,696 respectively as of September 30, 2021 and 2020, respectively.

Rent expense was \$771,334 and \$802,073 in fiscal years 2021 and 2020, respectively. Future minimum payments required under the above lease are as follows:

2022	\$ 891,000
2023	913,000
2024	936,000
2025	479,000
Total	<u>\$ 3,219,000</u>

Note I – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for use in programs or a specific time period specified by donors. The net assets released from donor restrictions for the year ended September 30, 2021 and 2020 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 2021 and 2020:

	2021	2020
Satisfaction of purpose restrictions:		
Public awareness and communications	\$ 584,538	\$ 730,276
Student supports	12,238,169	15,821,886
Advocacy & thought leadership	379,890	530,804
General & administrative	3,929,073	3,327,300
External consulting services	879,342	1,165,626
Fundraising	754,979	670,188
Satisfaction of time restriction:	5,000,000	-
	<u>\$ 23,765,991</u>	<u>\$ 22,246,080</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note I – Net Assets with Donor Restrictions (Continued)

The net assets with donor restrictions of CIS are available for the following programs or purposes as of September 30, 2021 and 2020:

	2021	2020
Public awareness and communications	\$ 13,008	\$ 649,480
Student supports	9,662,062	17,906,420
Advocacy & thought leadership	1,042,361	459,830
External consulting services	321,247	949,443
General & administrative	954,621	3,325,539
Fundraising	-	582,667
Endowment corpus	25,010,080	25,010,080
Endowment earnings	11,397,251	6,844,401
	<u>\$ 48,400,630</u>	<u>\$ 55,727,860</u>

Note J – Endowment Funds

CIS' endowment funds consist of an individual donor fund as of September 30, 2021 and 2020 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.

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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

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.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

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

	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	-	11,397,251	11,397,251
Total endowment net assets	\$ -	\$ 36,407,331	\$ 36,407,331

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	\$ -	\$ 31,854,481	\$ 31,854,481

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

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

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, 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>

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:

	2021	2020
Cash & cash equivalents	\$ 11,300,940	\$ 13,274,459
Accounts receivable	63,478	794,400
Pledges receivable	404,914	5,856,911
Reserves appropriated for current use	4,852,213	-
Short-term investments	3,630,770	2,529,238
Long-term investments appropriated for current use	1,300,000	1,000,000
	<u>\$ 21,552,316</u>	<u>\$ 23,455,008</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, the NFP invests cash in excess of daily requirements in an interest bearing money market account. This cash also includes short term reserves of \$12.1M. CIS invests its long-term reserves of \$5.3M in mutual funds. CIS has an endowment valued at \$36.4M. 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. During the year ended September 30, 2021 CIS took a distribution from the endowment in the amount of \$1.283M. CIS elected to take a reduced distribution in during the year ended 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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note K - Liquidity and Availability of Resources (Continued)

spending rate for a unique, non-routine special initiative that is underfunded. This appropriation must be approved by the board.

For the year ended September 30, 2022 CIS has been approved by the board to take an unrestricted distribution from the reserves of \$2.5M to help CIS transition to the new 5-year strategic plan that will be created during the year ended September 30, 2022.

Note L – Payroll Protection Program

On February 9, 2021 and May 5, 2020 CIS received loans pursuant to the Paycheck Protection Program (the Program), a program implemented and federally authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, for an aggregate principal amount of \$1,427,386 and \$1,357,190 respectively (the PPP Loan). Both loans are two-year loans with maturity dates of February 9, 2023 and May 5, 2022, respectively. Both loans bear an annual interest rate of 1%, and are 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 first loan agreement have been substantially met as of September 30, 2020. The first loan of \$1,357,190 was forgiven in full on November 20, 2020. For the year ended September 30, 2020, CIS recognized revenue of \$1,244,091 as grants in the statement of activities. CIS recorded \$113,099 as refundable advance 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. In 2021, the \$113,099 of refundable advance was recognized as grants on the statement of activities.

Management has determined that all conditions including eligibility and terms of the second loan agreement have been substantially met as of September 30, 2021 and expects to receive forgiveness of the loan in the 2022 fiscal year. For the year ended September 30, 2021, CIS recorded grants revenue on the statement of activities amounting to \$1,427,386. CIS applied for forgiveness on November 19, 2021 and is awaiting response from the SBA. Ultimate loan forgiveness is subject to approval by the SBA.