

Communities In Schools, Inc.

Audited Financial Statements

*Years ended September 30, 2017 and 2016
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements

Years ended September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.



Vienna, Virginia
January 29, 2018

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2017	2016
Assets		
Cash and cash equivalents	\$ 8,969,039	\$ 24,195,598
Cash held for restricted purposes	128,936	128,748
Investments	36,181,736	18,816,268
Pledges receivable, net	7,633,241	5,873,810
Government grants receivable	152,565	153,982
Other assets	647,196	526,879
Fixed assets, net	349,257	594,043
Total assets	<u>\$ 54,061,970</u>	<u>\$ 50,289,328</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,865,650	\$ 1,362,086
Deferred rent	775,247	790,003
Total liabilities	<u>2,640,897</u>	<u>2,152,089</u>
Net assets:		
Unrestricted	6,806,038	9,428,326
Temporarily restricted	19,604,955	13,698,833
Permanently restricted	25,010,080	25,010,080
Total net assets	<u>51,421,073</u>	<u>48,137,239</u>
Total liabilities and net assets	<u>\$ 54,061,970</u>	<u>\$ 50,289,328</u>

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 7,915,289	\$ 11,880,405	\$ -	\$ 19,795,694
In kind contributions, see Note F	3,676,141	-	-	3,676,141
Other revenue	370,176	-	-	370,176
Net assets released from restrictions:				
Satisfaction of program restrictions	8,181,141	(8,181,141)	-	-
Release of distribution of endowment earnings	1,285,581	(1,285,581)	-	-
Total support and revenue	<u>21,428,328</u>	<u>2,413,683</u>	<u>-</u>	<u>23,842,011</u>
Expenses				
Program services:				
Advocacy	1,305,368	-	-	1,305,368
Public awareness and communications	3,109,745	-	-	3,109,745
Network operations	12,845,668	-	-	12,845,668
Total program services	<u>17,260,781</u>	<u>-</u>	<u>-</u>	<u>17,260,781</u>
Supporting services:				
General and administrative	1,904,481	-	-	1,904,481
Fundraising	1,673,013	-	-	1,673,013
Total supporting services	<u>3,577,494</u>	<u>-</u>	<u>-</u>	<u>3,577,494</u>
In kind services, see Note F	<u>3,676,141</u>	<u>-</u>	<u>-</u>	<u>3,676,141</u>
Total expenses	<u>24,514,416</u>	<u>-</u>	<u>-</u>	<u>24,514,416</u>
Change in net assets before investment income	(3,086,088)	2,413,683	-	(672,405)
Investment income, net	<u>463,800</u>	<u>3,492,439</u>	<u>-</u>	<u>3,956,239</u>
Change in net assets	(2,622,288)	5,906,122	-	3,283,834
Net assets, beginning of year	<u>9,428,326</u>	<u>13,698,833</u>	<u>25,010,080</u>	<u>48,137,239</u>
Net assets, end of year	<u>\$ 6,806,038</u>	<u>\$ 19,604,955</u>	<u>\$ 25,010,080</u>	<u>\$ 51,421,073</u>

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 6,158,971	\$ 7,384,740	\$ -	\$ 13,543,711
In kind contributions, see Note F	56,432,373	-	-	56,432,373
Other revenue	287,755	-	-	287,755
Net assets released from restrictions:				
Satisfaction of program restrictions	10,298,464	(10,298,464)	-	-
Release of distribution of endowment earnings	1,255,968	(1,255,968)	-	-
Total support and revenue	<u>74,433,531</u>	<u>(4,169,692)</u>	<u>-</u>	<u>70,263,839</u>
Expenses				
Program services:				
Advocacy	1,225,227	-	-	1,225,227
Public awareness and communications	2,134,248	-	-	2,134,248
Network operations	11,497,349	-	-	11,497,349
Total program services	<u>14,856,824</u>	<u>-</u>	<u>-</u>	<u>14,856,824</u>
Supporting services:				
General and administrative	753,794	-	-	753,794
Fundraising	1,999,182	-	-	1,999,182
Total supporting services	<u>2,752,976</u>	<u>-</u>	<u>-</u>	<u>2,752,976</u>
In kind services, see Note F	<u>56,432,373</u>	<u>-</u>	<u>-</u>	<u>56,432,373</u>
Total expenses	<u>74,042,173</u>	<u>-</u>	<u>-</u>	<u>74,042,173</u>
Change in net assets before investment income	391,358	(4,169,692)	-	(3,778,334)
Investment income, net	<u>301,045</u>	<u>1,897,907</u>	<u>-</u>	<u>2,198,952</u>
Change in net assets	692,403	(2,271,785)	-	(1,579,382)
Net assets, beginning of year	<u>8,735,923</u>	<u>15,970,618</u>	<u>25,010,080</u>	<u>49,716,621</u>
Net assets, end of year	<u>\$ 9,428,326</u>	<u>\$ 13,698,833</u>	<u>\$ 25,010,080</u>	<u>\$ 48,137,239</u>

Communities in Schools, Inc.

Statements of Functional Expenses

Years ended September 30, 2017 and 2016

For the Year Ended September 30, 2017

	Advocacy	Public Awareness & Communication	Network Operations	General & Administrative	Fundraising	Total
Salaries	\$ 423,965	\$ 795,786	\$ 2,815,123	\$ 1,169,930	\$ 883,387	\$ 6,088,191
Employee benefits	92,838	176,054	624,967	258,601	195,843	1,348,303
Network investment	14,200	-	5,333,372	-	19,800	5,367,372
Other contracted services	617,198	148,418	1,419,370	319,658	222,663	2,727,307
Travel, meals, & conferences	33,576	54,983	1,299,732	72,996	38,647	1,499,934
Rent & storage fees	41,608	121,850	331,796	173,282	109,113	777,649
Advertising	10,629	1,424,295	428	3,235	391	1,438,978
Hardware & software purchases	11,500	11,752	167,431	131,002	30,143	351,828
Internet services	1,244	75,737	219,310	65,694	5,308	367,293
Depreciation	-	125,222	2,854	131,630	-	259,706
Other	13,686	44,085	190,526	327,262	36,155	611,714
Indirect allocation	44,924	131,563	440,759	(748,809)	131,563	-
Total incurred expenses	1,305,368	3,109,745	12,845,668	1,904,481	1,673,013	20,838,275
Inkind goods & services	104,000	3,312,141	78,000	26,000	156,000	3,676,141
Total expenses	\$ 1,409,368	\$ 6,421,886	\$ 12,923,668	\$ 1,930,481	\$ 1,829,013	\$ 24,514,416

For the Year Ended September 30, 2016

	Advocacy	Public Awareness & Communication	Network Operations	General & Administrative	Fundraising	Total
Salaries	\$ 356,149	\$ 699,991	\$ 2,595,835	\$ 1,045,295	\$ 949,311	\$ 5,646,581
Employee benefits	71,947	148,898	554,538	218,649	202,227	1,196,259
Network investment	-	-	4,919,738	-	-	4,919,738
Other contracted services	629,382	204,743	862,520	272,294	305,645	2,274,584
Travel, meals, & conferences	32,379	49,805	750,567	68,848	88,137	989,736
Rent & storage fees	35,644	108,881	370,737	157,943	104,253	777,458
Advertising	-	399,467	33,825	3,454	-	436,746
Hardware & software purchases	4,728	4,950	144,898	142,578	17,376	314,530
Internet services	1,692	75,351	105,511	62,638	4,557	249,749
Depreciation	-	150,267	-	139,181	-	289,448
Other	7,018	30,415	90,957	345,430	41,151	514,971
Indirect allocation	86,288	261,480	1,068,223	(1,702,516)	286,525	-
Total incurred expenses	1,225,227	2,134,248	11,497,349	753,794	1,999,182	17,609,800
Inkind goods & services	-	56,422,373	-	10,000	-	56,432,373
Total expenses	\$ 1,225,227	\$ 58,556,621	\$ 11,497,349	\$ 763,794	\$ 1,999,182	\$ 74,042,173

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 3,283,834	\$ (1,579,382)
Adjustments to reconcile change in net assets to net cash (used by)/provided by operating activities:		
Change in fair value of investments	(3,192,219)	(1,605,515)
Depreciation and amortization	259,706	289,448
Donated securities	(1,003,989)	(451,060)
Present value discount	(14,246)	8,866
Changes in assets and liabilities:		
Pledges receivable	(1,745,186)	2,700,917
Government grants receivable	1,417	-
Other assets	(120,317)	(318,138)
Accounts payable and accrued liabilities	503,564	487,950
Deferred rent	(14,756)	4,448
Net cash used by operating activities	<u>(2,042,192)</u>	<u>(462,466)</u>
Cash flows from investing activities		
Purchase of investments	(24,599,763)	(9,197,684)
Sale of investments	11,430,504	25,775,693
Purchase of fixed assets	(14,920)	(122,515)
Net cash (used by)/provided by investing activities	<u>(13,184,179)</u>	<u>16,455,494</u>
Change in cash and cash equivalents	(15,226,371)	15,993,028
Cash and cash equivalents, beginning of year	<u>24,324,346</u>	<u>8,331,318</u>
Cash and cash equivalents, end of year	<u>\$ 9,097,975</u>	<u>\$ 24,324,346</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 8,969,039	\$ 24,195,598
Cash held for restricted purpose	128,936	128,748
	<u>\$ 9,097,975</u>	<u>\$ 24,324,346</u>

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2017 and 2016

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 three 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.

Network Operations – 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 – 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.

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 153 local CIS organizations at September 30, 2017.

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 Accounting Standards Codification. 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:

Unrestricted net assets – represents resources that have met all applicable restrictions and are considered to be available for unrestricted use.

Temporarily restricted net assets – represents resources subject to donor-imposed stipulations on the use of the assets that may be met by actions of CIS or by the passage of time.

Permanently restricted net assets – represents resources subject to donor-imposed stipulations that CIS maintain the principal in perpetuity. Generally, 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

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 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 moneys 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 unrestricted net assets 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.

CIS recognizes transfers between levels at either the actual date of the event or a change in circumstance that caused the transfer.

At the start of fiscal year 2016, CIS' endowment fund was invested in commingled private investment vehicles comprised of positions in money market funds and two commingled private investment vehicles: a Multi-Strategy Equity Fund and a Multi-Strategy Bond Fund. These investments 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 balance sheet date. During 2016, CIS' endowment was transferred to another investment firm and invested in equity, US fixed income, and alternative assets comprised of hedge funds, real estate & 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 balance sheet 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 vary by fund (monthly, quarterly, or semi-annually) and require up to 95 business day written notice prior to execution. As of September 30, 2017 and 2016, 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Pledges Receivable

Pledges receivable that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Pledges expected to be collected beyond one year are discounted to present value using the United States Treasury risk-adjusted rates according to their corresponding terms.

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 statement of activities. Accordingly, certain costs have been allocated among programs and supporting services based on actual time and expenses incurred.

Support and Revenues

Revenue and expenses are recognized in the period in which services or benefits are provided or received.

CIS receives grants and enters into contracts with the U.S. government, foundations and corporations that primarily provide for cost reimbursement to CIS. Revenue from these grants and contracts is classified as unrestricted and is recognized as reimbursable expenditures are incurred by CIS. Grants receivable represent amounts expended and not yet reimbursed under a Federal grant awarded to CIS.

CIS recognizes contributions received, including unconditional promises to give (pledges), as revenue in the period received at their estimated present value. Contributions received are reported as unrestricted support, temporarily restricted support or permanently restricted support based on donor imposed restrictions or lack thereof. Temporarily restricted net assets become unrestricted when the time restrictions expire or when the contributions are used for their restricted purpose, at which time they are reported in the statement of activities as satisfaction of program restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recognized until the conditions are met. Permanently restricted support represents resources subject to donor-imposed stipulations that CIS maintain the principal in perpetuity, and use of related income earned on related investments for either general or donor-specified purposes.

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, 2017.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through January 29, 2018, 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*.

Reclassifications

Certain prior year amounts have been reclassified to conform with 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:

	2017	2016
Receivable within one year	\$ 7,633,241	\$ 4,888,056
Receivable in one to three years	-	1,000,000
	7,633,241	5,888,056
Discount to present value	-	(14,246)
Pledges receivable, net	\$ 7,633,241	\$ 5,873,810

The multi-year pledge receivable as of September 30, 2016 was discounted using the rate of 0.72%.

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:

	2017	2016
Interest and dividends	\$ 853,039	\$ 657,016
Change in fair value, net	3,192,219	1,605,515
Investment fees	(89,019)	(63,579)
Investment income, net	\$ 3,956,239	\$ 2,198,952

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

Investments at September 30, 2017 are classified as the following in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds	\$ 3,298,088	\$ -	\$ -	\$ 3,298,088
Tax Free Daily Income Trust	19,672	-	-	19,672
U.S. Fixed Income	6,272,718	-	-	6,272,718
Equity	18,850,669	-	-	18,850,669
Equity Market Neutral Fund	703,229	-	-	703,229
Real Estate & Infrastructure	1,958,198	-	-	1,958,198
Hard Assets	1,011,059	-	-	1,011,059
Total investments	<u>\$ 32,963,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>32,113,633</u>
				Alternative investment funds valued using practical expedient
				4,068,103
				<u>Total fair value of investments</u>
				<u>\$ 36,181,736</u>

Investments at September 30, 2016 are classified as the following in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds	\$ 2,683,804	\$ -	\$ -	\$ 2,683,804
Tax Free Daily Income Trust	40,358	-	-	40,358
U.S. Fixed Income	3,088,902	-	-	3,088,902
Equity	9,580,993	-	-	9,580,993
Equity Market Neutral Fund	764,270	-	-	764,270
Real Estate & Infrastructure	537,842	-	-	537,842
Hard Assets	364,105	-	-	364,105
Total investments	<u>\$ 17,060,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>17,060,274</u>
				Alternative investment funds valued using practical expedient
				1,755,994
				<u>Total fair value of investments</u>
				<u>\$ 18,816,268</u>

There were no transfers between levels during the years ended September 30, 2017 and 2016.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

During 2017 and 2016, CIS held positions in several alternative investment funds. The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2017 are summarized as follows:

	Fair Value	Remaining Commitment	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 4,068,103	\$ -	Monthly, Quarterly, Semi-annually	Up to 95 days

The estimated fair value, remaining commitment, and redemption requirements in alternative investment funds at September 30, 2016 are summarized as follows:

	Fair Value	Remaining Commitment	Redemption Frequency	Redemption Notice Period
Hedge Funds	\$ 1,755,994	\$ -	Monthly, Quarterly, Semi-annually	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, 2017, 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)

Of CIS's holdings at September 30, 2017 and 2016, \$4,068,103 and \$1,755,994, 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:

<u>Fund valued with NAV</u>	<u>Investment Strategy</u>
Blue Mountain Credit Alternatives	Multi-strategy credit fund
Bridgewater Private Investors	Diversified fundamental global macro fund
Eton Park Overseas Fund, LTD.	Multi-strategy fund
Gruss Global Investors (Enhanced)	Global, event-driven fund
Hoplite Offshore Fund, LTD.	Broad-based long/short hedge fund
Lakewood Capital Offshore Fund	Broad-based long/short hedge fund
Manikay Offshore Fund, LTD.	Trading on short-term positions within a market-neutral equity framework
Third Point Offshore Fund, LTD.	Event-driven fund that capitalizes on market inefficiencies
Varde Credit Partners (Offshore)	Event-driven, global distressed credit fund
Winton Futures Fund Ltd. Class B	Portfolio of liquid futures, options, and forward contracts

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

	2017	2016
Furniture	\$ 238,720	\$ 238,720
Equipment	1,174,672	1,163,051
Leasehold improvements	104,845	101,545
	<u>1,518,237</u>	<u>1,503,316</u>
Accumulated depreciation and amortization	(1,168,980)	(909,273)
Furniture and equipment, net	<u>\$ 349,257</u>	<u>\$ 594,043</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 \$1,083,912 and \$612,268 as of September 30, 2017 and 2016, respectively. The amount owed to affiliates is recorded within accounts payable and accrued liabilities on the statement of financial position.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 15.0% and 4.4% of CIS' total support and revenues in 2017 and 2016, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 0.3% and 0.1% of total pledges receivable in 2017 and 2016, respectively. The contributions received were made to support the general operations of CIS and designated funds for a CIS affiliate.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note F – In Kind Contributions

Total donated services recorded for fiscal year 2017 and 2016 was \$3,676,141 and \$56,432,373, respectively. In-kind contributions were recorded at fair value as determined by the donors. In 2017, in-kind donations consisted of \$3,156,141 in donated media services made by the Causeway Agency and \$520,000 in donated strategic planning services made by Edna McConnell Clark Foundation. In 2016, in-kind donations consisted of \$56,422,373 in donated media services by the Causeway Agency and a \$10,000 donated educational workshop from IBM.

For the years ended September 30, 2017 and 2016, donated media placements were recorded as unrestricted contributions with a corresponding expense being recorded. The donated media services primarily benefited the public awareness and communications program. For the year ended September 30, 2017, the donated strategic planning services was recorded as an unrestricted contribution with the corresponding expense allocated by function. For the year ended September 30, 2016, the donated workshop was recorded as an unrestricted contribution with the corresponding expense as part of general and administrative function.

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, 2017 and 2016, 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 \$264,439 and \$204,490 to the Plan in 2017 and 2016, respectively. The Plan is exempt from federal income taxes under Section 403(b) of the IRC. CIS is the Plan administrator.

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 \$46,200 and \$39,000 to the Plan in 2017 and 2016, respectively. The related assets and liabilities for the plan are included in CIS' statement 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 statement of financial position. The deferred rent liability was \$775,247 and \$790,003 as of September 30, 2017 and 2016, 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 \$128,936 and \$128,748 as of September 30, 2017 and 2016, respectively.

Rent expense was \$776,951 and \$775,804 in fiscal years 2017 and 2016, respectively. Future minimum payments required under the above lease are as follows:

2018	\$	807,000
2019		827,000
2020		848,000
2021		869,000
2022		891,000
Thereafter		2,328,000
Total	\$	6,570,000

Note I – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for use in programs specified by donors. The net assets released from donor restrictions for the year ended September 30, 2017 and 2016 are attributable to expenses incurred related to these specific programs. Temporarily restricted net assets were released from restrictions for the following programs during 2017 and 2016:

	2017	2016
Public awareness and communications	\$ 198,015	\$ 676,841
Network operations	6,770,377	7,994,309
Advocacy	82,432	216,294
General & administrative	935,736	962,199
Fundraising	194,581	448,821
	\$ 8,181,141	\$ 10,298,464

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2017 and 2016:

	2017	2016
Public awareness and communications	\$ 187,293	\$ 272,229
Network operations	8,997,645	5,733,098
Advocacy	97,273	154,996
General & administrative	1,044,672	208,825
Fundraising	111,658	370,129
Endowment earnings	9,166,414	6,959,556
	\$ 19,604,955	\$ 13,698,833

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds

CIS's endowment funds consist of an individual donor fund as of September 30, 2017 and 2016 established for various purposes. 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

For donor-restricted endowment funds absent explicit donor stipulations to the contrary, CIS applies the policy of requiring the preservation of the fair value of the original gift as of the gift date. Accordingly, CIS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with their policy.

In the absence of donor stipulations or law to the contrary, losses on the investments in the endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

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.

CIS' 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. Any special appropriation or decision not to spend the amount indicated by the policy spending rate must be approved in advance by the Board of Directors.

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 years ended September 30:

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Endowment Net Assets
Beginning of year, 2016	\$ 6,317,617	\$25,010,080	\$31,327,697
Investment earnings, net	1,897,907	-	1,897,907
Distribution of earnings	(1,255,968)	-	(1,255,968)
End of year, 2016	6,959,556	25,010,080	31,969,636
Investment earnings, net	3,492,439	-	3,492,439
Distribution of earnings	(1,285,581)	-	(1,285,581)
End of year, 2017	<u>\$9,166,414</u>	<u>\$25,010,080</u>	<u>\$34,176,494</u>

Note K – Contingencies

During the year ending September 30, 2014, the U.S. Department of Justice Office of the Inspector General initiated an audit of CIS and has questioned certain costs from a federal grant dating back to 2011. As of the date these financial statements were available for issuance, the questioned costs were still pending upon additional support CIS had provided. Therefore, the matter is currently deemed speculative in nature and CIS is unable to quantify with certainty the potential amounts owed, if any.