

Communities In Schools, Inc.

Audited Financial Statements
and
Supplemental Information

*Years ended September 30, 2016 and 2015
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements
and
Supplemental Information

Years ended September 30, 2016 and 2015

Contents

Report of Independent Auditors	1 - 2
<i>Audited Financial Statements</i>	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets.....	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 18
<i>Other Financial Information</i>	
Statement of Functional Expenses For the Year Ended September 30, 2016 (with 2015 Summary).....	19

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, 2016 and 2015, and the related statements of activities and changes in net assets 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, 2016 and 2015, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Statement of Functional Expenses for the year ended September 30, 2016 (with 2015 summary) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Vienna, Virginia
January 25, 2017

Communities In Schools, Inc.
Statements of Financial Position

	September 30,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 24,195,598	\$ 8,202,635
Cash held for restricted purposes	128,748	128,683
Investments	18,816,268	33,337,702
Pledges receivable, net	5,873,810	8,583,593
Government grants receivable	153,982	153,982
Other assets	526,879	208,741
Furniture and equipment, net	594,043	760,976
Total assets	\$ 50,289,328	\$ 51,376,312
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,362,086	\$ 874,136
Deferred rent	790,003	785,555
Total liabilities	2,152,089	1,659,691
Net assets:		
Unrestricted	9,428,326	8,735,923
Temporarily restricted	13,698,833	15,970,618
Permanently restricted	25,010,080	25,010,080
Total net assets	48,137,239	49,716,621
Total liabilities and net assets	\$ 50,289,328	\$ 51,376,312

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

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
In kind services, see Note F	56,422,373	-	-	56,422,373
Network operations	11,497,349	-	-	11,497,349
Total program services	<u>71,279,197</u>	<u>-</u>	<u>-</u>	<u>71,279,197</u>
Supporting services:				
General and administrative	763,794	-	-	763,794
Fundraising	1,999,182	-	-	1,999,182
Total supporting services	<u>2,762,976</u>	<u>-</u>	<u>-</u>	<u>2,762,976</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	301,045	1,897,907	-	2,198,952
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>

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

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 6,146,246	\$ 12,968,460	\$ -	\$ 19,114,706
In kind contributions, see Note F	37,309,253	-	-	37,309,253
Grants-governmental agencies	200,420	-	-	200,420
Other revenue	92,831	-	-	92,831
Net assets released from restrictions:				
Satisfaction of program restrictions	9,787,645	(9,787,645)	-	-
Release of distribution of endowment earnings	1,120,509	(1,120,509)	-	-
Total support and revenue	54,656,904	2,060,306	-	56,717,210
Expenses				
Program services:				
Advocacy	1,338,538	-	-	1,338,538
Public awareness and communications	2,731,492	-	-	2,731,492
In kind services, see Note F	37,309,253	-	-	37,309,253
Network operations	14,572,271	-	-	14,572,271
Total program services	55,951,554	-	-	55,951,554
Supporting services:				
General and administrative	649,480	-	-	649,480
Fundraising	2,191,735	-	-	2,191,735
Total supporting services	2,841,215	-	-	2,841,215
Total expenses	58,792,769	-	-	58,792,769
Change in net assets before investment income	(4,135,865)	2,060,306	-	(2,075,559)
Investment income, net	(24,032)	(673,000)	-	(697,032)
Change in net assets	(4,159,897)	1,387,306	-	(2,772,591)
Net assets, beginning of year	12,895,820	14,583,312	25,010,080	52,489,212
Net assets, end of year	<u>\$ 8,735,923</u>	<u>\$ 15,970,618</u>	<u>\$ 25,010,080</u>	<u>\$ 49,716,621</u>

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

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (1,579,382)	\$ (2,772,591)
Adjustments to reconcile change in net assets to net cash (used by)/provided by operating activities:		
Change in fair value of investments	(1,605,515)	1,382,666
Depreciation and amortization	289,448	287,351
Donated securities	(451,060)	(170,272)
Present value discount	8,866	207
Changes in assets and liabilities:		
Pledges receivable	2,700,917	(6,858,973)
Government grants receivable	-	67,116
Other assets	(318,138)	766,812
Accounts payable and accrued liabilities	487,950	(528,801)
Deferred rent	4,448	334,796
Net cash used by operating activities	<u>(462,466)</u>	<u>(7,491,689)</u>
Cash flows from investing activities		
Purchase of investments	(9,197,684)	(492,266)
Sale of investments	25,775,693	967,125
Purchase of furniture and equipment	(122,515)	(19,901)
Net cash provided by investing activities	<u>16,455,494</u>	<u>454,958</u>
Change in cash and cash equivalents	15,993,028	(7,036,731)
Cash and cash equivalents, beginning of year	<u>8,331,318</u>	<u>15,368,049</u>
Cash and cash equivalents, end of year	<u>\$ 24,324,346</u>	<u>\$ 8,331,318</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 24,195,598	\$ 8,202,635
Cash held for restricted purpose	128,748	128,683
	<u>\$ 24,324,346</u>	<u>\$ 8,331,318</u>

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

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2016 and 2015

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’s separately incorporated local organizations’ activities are not included in CIS’s financial statements. There were 12 state and 162 local CIS organizations at September 30, 2016.

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 (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 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.

During 2015, CIS's 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 publically traded; their fair value is based on CIS's pro-rata share of the net asset value of the respective funds at the balance sheet date. During 2016, CIS's 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 publically traded; their fair value is based on CIS's 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.

CIS has elected to adopt Financial Accounting Standards Board Accounting Standard Update 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*, earlier than the required effective date for non-public entities. Therefore, certain investments that are 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, 2016 and 2015, 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, 2016.

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 25, 2017, 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. The multi-year pledges were discounted using rates between 0.53% and 0.72%. At September 30, pledges receivable are comprised as follows:

	2016	2015
Receivable within one year	\$ 4,888,056	\$ 8,122,306
Receivable in one to three years	1,000,000	466,666
	5,888,056	8,588,972
Discount to present value	(14,246)	(5,379)
Pledges receivable, net	\$ 5,873,810	\$ 8,583,593

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:

	2016	2015
Interest and dividends	\$ 657,016	\$ 766,000
Change in fair value, net	1,605,515	(1,382,666)
Investment fees	(63,579)	(80,366)
Investment income, net	\$ 2,198,952	\$ (697,032)

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

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
Hedge Funds	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>	17,060,274
	Alternative investment funds valued using practical expedient			1,755,994
	Total fair value of investments			<u>\$ 18,816,268</u>

Investments at September 30, 2015 are classified as the following in accordance with the fair value hierarchy:

	Level 1	Level 2	Level 3	Total Fair Value
Mutual funds	\$ 2,008,830	\$ -	\$ -	\$ 2,008,830
Tax Free Daily Income Trust	1,239	-	-	1,239
Total investments	<u>\$ 2,010,069</u>	<u>\$ -</u>	<u>\$ -</u>	2,2010,069
	Alternative investment funds valued using practical expedient			31,327,633
	Total fair value of investments			<u>\$ 33,337,702</u>

There were no transfers between levels during the years ended September 30, 2016 and 2015.

During 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, 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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

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

Investments in alternative investment funds that are not valued using the practical expedient are included in Level 2 or 3 of the fair value hierarchy. In determining the level, CIS considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restriction on the disposition of the investment. CIS also considers the nature of the portfolios of the underlying private investment companies and their ability to liquidate their underlying investments. If CIS does not know when it will have the ability to redeem the investment or it does not have the ability to redeem its investment in the near term, the investment is included in Level 3 of the fair value hierarchy. As of September 30, 2016, no adjustments were made to the valuations provided by the underlying private investment companies.

Of CIS's holdings at September 30, 2016, \$1,755,994 of hedge funds are not publically 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
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
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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

	2016	2015
Furniture	\$ 238,720	\$ 232,962
Equipment	1,163,051	1,046,294
Leasehold improvements	101,545	101,545
	<u>1,503,316</u>	<u>1,380,801</u>
Accumulated depreciation and amortization	(909,273)	(619,825)
Furniture and equipment, net	<u>\$ 594,043</u>	<u>\$ 760,976</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 \$612,268 and \$175,295 as of September 30, 2016 and 2015, 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 4.4% and 2.5% of CIS's total support and revenues in 2016 and 2015, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 0.1% and 1.1% of total pledges receivable in 2016 and 2015, respectively. The contributions received were made to support the general operations of CIS and designated funds for a CIS affiliate.

Note F – In Kind Contributions

Total donated services recorded for fiscal year 2016 and 2015 was \$56,432,373 and \$37,309,253, respectively. In-kind contributions were recorded at fair value as determined by the donors. 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. In 2015, in-kind donations consisted of \$37,309,253 in donated media services by The Causeway Agency.

For the years ended September 30, 2016 and 2015, 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, 2016, the donated workshop was recorded as an unrestricted contribution with the corresponding expense as part of general and administrative function.

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's 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, 2016 and 2015, 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 \$204,490 and \$188,774 to the Plan in 2016 and 2015, 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 \$39,000 and \$30,000 to the Plan in 2016 and 2015, respectively. The related assets and liabilities for the plan are included in CIS's 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 \$790,003 and \$785,555 as of September 30, 2016 and 2015, respectively.

CIS established an irrevocable standby letter of credit, a requirement of the lease agreement noted above. The letter of credit amount was \$128,748 and \$128,683 as of September 30, 2016 and 2015, respectively.

Rent expense was \$775,804 and \$770,176 in fiscal years 2016 and 2015, respectively. Future minimum payments required under the above lease are as follows:

2017	\$ 787,000
2018	807,000
2019	827,000
2020	848,000
2021	869,000
Thereafter	<u>3,219,000</u>
Total	<u>\$ 7,357,000</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

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, 2016 and 2015 are attributable to expenses incurred related to these specific programs. Temporarily restricted net assets were released from restrictions for the following programs during 2016 and 2015:

	2016	2015
Public awareness and communications	\$ 676,841	\$ 248,220
Network operations	7,994,309	9,168,673
Advocacy	216,294	105,524
General & administrative	962,199	63,719
Fundraising	448,821	201,509
	\$ 10,298,464	\$ 9,787,645

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2016 and 2015:

	2016	2015
Public awareness and communications	\$ 272,229	\$ 414,055
Network operations	5,733,098	8,464,315
Advocacy	154,996	186,219
General & administrative	208,825	251,297
Fundraising	370,129	337,115
Endowment earnings	6,959,556	6,317,617
	\$ 13,698,833	\$ 15,970,618

Note J – Endowment Funds

CIS's endowment funds consist of an individual donor fund as of September 30, 2016 and 2015 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

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 70% in equities and 30% in fixed income, 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 the Uniform Prudent Management of Institutional Funds Act (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.

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, 2015	\$ 8,111,126	\$25,010,080	\$33,121,206
Investment earnings, net	(673,000)	-	(673,000)
Distribution of earnings	(1,120,509)	-	(1,120,509)
End of year, 2015	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	<u>\$6,959,556</u>	<u>\$25,010,080</u>	<u>\$31,969,636</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note K – Contingencies

During the year ending September 30, 2014, the U.S. Department of Justice Office of the Inspector General (OIG) 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.

Other Financial and Supplemental Information

Communities In Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2016 (with 2015 Summary)

	Public Awareness &			General &		Total	2015 Total
	Advocacy	Communication	Network Operations	Administrative	Fundraising		
Salaries	\$ 356,149	\$ 699,991	\$ 2,595,835	\$ 1,045,295	\$ 949,311	\$ 5,646,581	\$ 5,009,888
Employee benefits	71,947	148,898	554,538	218,649	202,227	1,196,259	1,014,976
Network investment	-	-	4,919,738	-	-	4,919,738	8,301,221
Other contracted services	629,382	204,743	862,520	272,294	305,645	2,274,584	2,729,458
Travel, meals, & conferences	32,379	49,805	750,567	68,848	88,137	989,736	1,129,463
Rent & storage fees	35,644	108,881	370,737	157,943	104,253	777,458	772,630
Advertising	-	399,467	33,825	3,454	-	436,746	601,136
Hardware & software purchases	4,728	4,950	144,898	142,578	17,376	314,530	356,937
Internet services	1,692	75,351	105,511	62,638	4,557	249,749	325,561
Depreciation	-	150,267	-	139,181	-	289,448	287,351
Inkind media & advertising services	-	56,422,373	-	10,000	-	56,432,373	37,309,253
Other	7,018	30,415	90,957	345,430	41,151	514,971	954,895
Indirect allocation	86,288	261,480	1,068,223	(1,702,516)	286,525	-	-
Total	\$ 1,225,227	\$ 58,556,621	\$ 11,497,349	\$ 763,794	\$ 1,999,182	\$ 74,042,173	\$ 58,792,769