

Communities In Schools, Inc.

Audited Financial Statements
and
Supplemental Information

*Years ended September 30, 2015 and 2014
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements
and
Supplemental Information

Years ended September 30, 2015 and 2014

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, 2015 (with 2014 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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 (with 2014 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.

Falls Church, Virginia
January 11, 2016

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2015	2014
Assets		
Cash and cash equivalents	\$ 8,202,635	\$ 15,239,926
Cash held for restricted purposes	128,683	128,123
Investments	33,337,702	35,024,954
Pledges receivable, net	8,583,593	1,724,828
Government grants receivable	153,982	221,098
Other assets	208,741	975,553
Furniture and equipment, net	760,976	1,028,426
Total assets	<u>\$ 51,376,312</u>	<u>\$ 54,342,908</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 874,136	\$ 1,402,937
Deferred rent	785,555	450,759
Total liabilities	<u>1,659,691</u>	<u>1,853,696</u>
Net assets:		
Unrestricted	8,735,923	12,895,820
Temporarily restricted	15,970,618	14,583,312
Permanently restricted	25,010,080	25,010,080
Total net assets	<u>49,716,621</u>	<u>52,489,212</u>
Total liabilities and net assets	<u>\$ 51,376,312</u>	<u>\$ 54,342,908</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	<u>54,656,904</u>	<u>2,060,306</u>	<u>-</u>	<u>56,717,210</u>
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	<u>55,951,554</u>	<u>-</u>	<u>-</u>	<u>55,951,554</u>
Supporting services:				
General and administrative	649,480	-	-	649,480
Fundraising	2,191,735	-	-	2,191,735
Total supporting services	<u>2,841,215</u>	<u>-</u>	<u>-</u>	<u>2,841,215</u>
Total expenses	<u>58,792,769</u>	<u>-</u>	<u>-</u>	<u>58,792,769</u>
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	<u>12,895,820</u>	<u>14,583,312</u>	<u>25,010,080</u>	<u>52,489,212</u>
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.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 11,700,416	\$ 7,146,364	\$ -	\$ 18,846,780
In kind contributions, see Note F	14,095,929	-	-	14,095,929
Grants—governmental agencies	1,723,737	-	-	1,723,737
Other revenue	2,180,075	-	-	2,180,075
Net assets released from restrictions:				
Satisfaction of program restrictions	14,075,481	(14,075,481)	-	-
Release of distribution of endowment earnings	827,500	(827,500)	-	-
Total support and revenue	<u>44,603,138</u>	<u>(7,756,617)</u>	<u>-</u>	<u>36,846,521</u>
Expenses				
Program services:				
Advocacy	1,381,236	-	-	1,381,236
Public awareness and communications	5,522,125	-	-	5,522,125
In kind services, see Note F	14,095,929	-	-	14,095,929
Network operations	18,748,925	-	-	18,748,925
Total program services	<u>39,748,215</u>	<u>-</u>	<u>-</u>	<u>39,748,215</u>
Supporting services:				
General and administrative	637,514	-	-	637,514
Fundraising	2,963,625	-	-	2,963,625
Total supporting services	<u>3,601,139</u>	<u>-</u>	<u>-</u>	<u>3,601,139</u>
Total expenses	<u>43,349,354</u>	<u>-</u>	<u>-</u>	<u>43,349,354</u>
Change in net assets before investment income	1,253,784	(7,756,617)	-	(6,502,833)
Investment income, net	253,337	4,204,485	-	4,457,822
Change in net assets	1,507,121	(3,552,132)	-	(2,045,011)
Net assets, beginning of year	<u>11,388,699</u>	<u>18,135,444</u>	<u>25,010,080</u>	<u>54,534,223</u>
Net assets, end of year	<u>\$ 12,895,820</u>	<u>\$ 14,583,312</u>	<u>\$ 25,010,080</u>	<u>\$ 52,489,212</u>

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

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (2,772,591)	\$ (2,045,011)
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Change in fair value of investments	1,382,666	(3,828,514)
Loss on disposal of fixed assets	-	410,963
Depreciation and amortization	287,351	279,353
Donated securities	(170,272)	(422,912)
Present value discount	207	(10,305)
Changes in assets and liabilities:		
Pledges receivable	(6,858,973)	11,329,444
Government grants receivable	67,116	453,759
Other assets	766,812	902,811
Accounts payable and accrued liabilities	(528,801)	158,798
Deferred rent	334,796	80,735
Net cash (used in)/provided by operating activities	<u>(7,491,689)</u>	<u>7,309,121</u>
Cash flows from investing activities		
Purchase of investments	(492,266)	(1,029,355)
Sale of investments	967,125	1,284,730
Purchase of furniture and equipment	(19,901)	(717,606)
Net cash provided by/(used in) investing activities	<u>454,958</u>	<u>(462,231)</u>
Change in cash and cash equivalents	(7,036,731)	6,846,890
Cash and cash equivalents, beginning of year	<u>15,368,049</u>	<u>8,521,159</u>
Cash and cash equivalents, end of year	<u>\$ 8,331,318</u>	<u>\$ 15,368,049</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 8,202,635	\$ 15,239,926
Cash held for restricted purpose	128,683	\$ 128,123
	<u>\$ 8,331,318</u>	<u>\$ 15,368,049</u>

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

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2015 and 2014

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 158 local CIS organizations at September 30, 2015.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Basis of Presentation (continued)

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.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

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.

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

During 2015 and 2014, 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 publicly 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. The net asset values of these investments are based on the fair value of the underlying securities held by each respective fund. As permitted by GAAP, CIS uses the net asset value as a practical expedient to determine the fair value of all private investment vehicles.

These are open-end funds that offer subscription and redemption options to investors. Redemption and subscription provisions are monthly and require 5 business days written notice prior to execution. As of September 30, 2015 and 2014, there were no unfunded commitments related to these investments.

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. 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.

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. In 2014, CIS was relocated to a new office space by the landlord. The office lease was extended to an additional 10.5 year lease which expires on March 31, 2025.

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.

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. Government 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)

Support and Revenues (continued)

CIS recognizes contributions received, including unconditional promises to give (pledges), as revenue in the period received at their estimated fair value. Contributions received are reported as unrestricted support, temporarily restricted support or permanently restricted support based on donor stipulations. 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. Pledges 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.

Life Trust

During 1985, CIS was granted an interest in a trust benefiting a donor for the donor's lifetime. In December 2013, the trust was terminated and CIS received a final payout based upon the appraised equity value of stock held by the trust and shares of the stock allocated to CIS. Income from CIS's interest in the trust was \$4,458,077 in 2014. This income was recorded in corporate, foundation and individual contributions in the 2014 statement of activities.

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 for the year ended September 30, 2015.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through January 11, 2016, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date.

Endowment Funds

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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Reclassifications

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

Note B – Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. The multi-year pledges was discounted using rates between 0.37% and 0.61%. At September 30, pledges receivable are comprised as follows:

	2015	2014
Receivable within one year	\$ 8,122,306	\$ 1,730,000
Receivable in one to three years	466,666	-
	<u>8,588,972</u>	<u>1,730,000</u>
Discount to present value	(5,379)	(5,172)
Pledges receivable, net	<u>\$ 8,583,593</u>	<u>\$ 1,724,828</u>

Note C – Investments and Fair Value Measurements

Investments at September 30 are comprised of the following:

	2015	2014
Multi-Strategy Equity fund	\$ 23,096,670	\$ 24,991,307
Multi-Strategy Bond fund	8,230,963	8,129,839
Mutual funds	2,008,830	1,903,446
Other	1,239	362
Total investments	<u>\$ 33,337,702</u>	<u>\$ 35,024,954</u>

All mutual funds and other holdings are classified as Level 1 in accordance with the fair value hierarchy and are valued based on quoted market prices for identical assets in active markets.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

The Multi-Strategy funds are valued based on the unit net asset value of each fund. The funds' goals are to offer actively managed, multi-manager investment programs that will provide broad exposure to global equity and debt markets. The Equity fund seeks capital appreciation above the return of the U.S. equity market as measured by the S&P 500 Index net of fees and to provide competitive returns relative to the Russell U.S. Large Cap Market Oriented Equity Universe. The Bond fund seeks capital appreciation above the return of the broad U.S. bond market, as measured by the Barclay's Capital U.S. Aggregate Bond Index, net of fees and to provide competitive returns relative to the Russell U.S. Core Plus Fixed Income Universe. The funds' risk characteristics will vary from those of the index due to its diversified exposures to sectors outside of the index, including non-U.S. equity markets and to certain marketable alternative strategies for the Equity fund and below investment grade debt and international bonds for the Bond fund.

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

	2015	2014
Interest and dividends	\$ 766,000	\$ 714,252
Net change in fair value	(1,382,666)	3,828,514
Investment fees	(80,366)	(84,944)
Investment income, net	\$ (697,032)	\$ 4,457,822

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

	2015	2014
Furniture	\$ 232,962	232,962
Equipment	1,046,294	1,037,911
Leasehold improvements	101,545	101,545
	1,380,801	1,372,418
Accumulated depreciation and amortization	(619,825)	(343,992)
Furniture and equipment, net	\$ 760,976	\$ 1,028,426

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note D – Fixed Assets (Continued)

During 2015, CIS disposed of equipment totaling \$11,518. The disposal of equipment was for obsolete items that were fully depreciated at the time of disposal. During 2014, CIS disposed of furniture, leasehold improvements, and equipment totaling \$591,707. The disposal of furniture and leasehold improvements related to the office relocation disclosed in Note H, which totaled \$191,707. The remaining disposal of equipment in 2014 related to the discarding of a previously donated software system totaling \$400,000. In connection with these disposals, CIS recognized a loss on sale totaling \$410,963 during 2014.

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 \$175,295 and \$525,133 as of September 30, 2015 and 2014, respectively. The amount owed to affiliates is recorded within accounts payable and accrued liabilities on the statements of financial position.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 3% and 13% of CIS's total support and revenues in 2015 and 2014, respectively. Total outstanding pledges receivable from members of the CIS Board of Directors totaled approximately 1% of total pledges receivable in 2015. There were no outstanding pledges receivable from members of the CIS Board of Directors in 2014. The contributions received were made to support the general operations of CIS and designating funds for a CIS affiliate.

Note F – In Kind Contributions

Total donated equipment and services recorded for fiscal year 2015 and 2014 was \$37,309,253 and \$14,095,929, respectively. In-kind contributions were recorded at fair value as determined by the donors. In 2015, all in-kind donations consisted of donated media. In 2014, in-kind donations consisted of \$14,060,129 in donated media services and \$35,800 in donated software licenses.

For the years ended September 30, 2015 and 2014, 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, 2014, donated software licenses were recorded as unrestricted contributions with the corresponding expense as part of network operations.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note G – Retirement Plans

CIS sponsors a defined contribution pension plan (the Plan). Benefits of the Plan are provided through the purchase of fixed-dollar annuities and variable annuities. 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 of Director's discretion, CIS makes contributions to the Plan. During the years ending September 30, 2015 and 2014, 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 \$188,774 and \$209,649 to the Plan in 2015 and 2014, 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 \$30,000 and \$46,000 to the Plan in 2015 and 2014, respectively.

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.

In accordance with GAAP, CIS records 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 \$785,555 and \$450,759 as of September 30, 2015 and 2014, respectively.

CIS established an irrevocable standby letter of credit, a requirement of the lease agreement noted above. The letter of credit amount was \$128,683 and \$128,123 as of September 30, 2015 and 2014, respectively.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note H – Commitments (Continued)

Rent expense was \$770,176 and \$609,883 in fiscal years 2015 and 2014, respectively. Future minimum payments required under the above lease are as follows:

2016	\$ 768,000
2017	787,000
2018	807,000
2019	827,000
2020	848,000
Thereafter	<u>4,088,000</u>
Total	<u>\$ 8,125,000</u>

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, 2015 and 2014 are attributable to expenses incurred related to these specific programs. Temporarily restricted net assets were released from restrictions for the following programs during 2015 and 2014:

	2015	2014
Public awareness and communications	\$ 248,220	\$ 748,555
Network operations	9,168,673	12,681,410
Advocacy	105,524	168,333
General & administrative	63,719	62,333
Fundraising	201,509	414,850
	<u>\$ 9,787,645</u>	<u>\$ 14,075,481</u>

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2015 and 2014:

	2015	2014
Public awareness and communications	\$ 414,055	\$ 363,111
Network operations	8,464,315	5,820,075
Advocacy	186,219	85,000
General & administrative	251,297	34,000
Fundraising	337,115	170,000
Endowment earnings	6,317,617	8,111,126
	<u>\$ 15,970,618</u>	<u>\$ 14,583,312</u>

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, 2015 and 2014 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 of Directors 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.

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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

CIS’s policy spending rate for the Fund shall be the lesser of 4 percent of the balance of the endowment at the end of the prior year or the Fund’s earnings from the prior year. The amount available for appropriation during each fiscal year shall be calculated by applying the policy spending rate to the average of the previous three fiscal years’ beginning-period endowment values. Any special appropriation or decision not to spend the amount indicated by the spending formula 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, 2014	\$ 4,734,142	\$25,010,080	\$29,744,222
Investment earnings, net	4,204,484	-	4,204,484
Distribution of earnings	(827,500)	-	(8,27,500)
End of year, 2014	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	<u>\$6,317,617</u>	<u>\$25,010,080</u>	<u>\$31,327,697</u>

Endowment Fund Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds discussed above may fall below the level that the donor requires CIS to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets until investment losses are able to be replenished as recovered.

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.

Other Financial Information

Communities In Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2015 (with 2014 Summary)

	Public Awareness &					Total	2014 Total
	Advocacy	Communications	Network Operations	General & Administrative	Fundraising		
Salaries	\$ 334,215	\$ 782,776	\$ 1,967,322	\$ 954,544	\$ 971,031	\$ 5,009,888	\$ 5,221,237
Employee benefits	69,163	158,326	396,542	194,690	196,254	1,014,976	985,810
Network investment	32,500	-	8,268,721	-	-	8,301,221	11,670,005
Other contracted services	530,446	184,848	1,253,455	556,002	204,707	2,729,458	4,777,744
Travel, Meals, & Conferences	37,050	92,640	869,725	49,497	80,551	1,129,463	1,710,581
Rent and storage fees	31,805	135,435	303,792	159,828	141,770	772,630	621,988
Advertising	92,718	443,964	498	16,124	47,833	601,136	1,411,540
Hardware & software purchases	8,210	35,177	139,033	159,055	15,462	356,937	291,027
Internet services	494	72,039	105,671	135,549	11,809	325,561	115,517
Depreciation	-	150,267	-	137,084	-	287,351	279,352
Inkind goods and services	-	37,309,253	-	-	-	37,309,253	14,095,929
Loss on disposal of fixed assets	-	-	-	-	-	-	410,963
Other	95,437	228,051	202,512	381,290	47,605	954,894	1,757,661
Indirect allocation	106,500	447,969	1,065,001	(2,094,183)	474,713	-	-
Total	\$ 1,338,538	\$ 40,040,745	\$ 14,572,271	\$ 649,480	\$ 2,191,735	\$ 58,792,769	\$ 43,349,354