



**FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

CITIZEN SCHOOLS, INC.

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JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Citizen Schools, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Citizen Schools, Inc. (a Massachusetts corporation, not for profit) (the Agency) which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, changes in net assets, cash flows and functional expenses 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 from 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 Citizen Schools, Inc. as of June 30, 2013 and 2012, 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.

Alexander, Aronson, Finning & Co., P.C.

Boston, Massachusetts
September 24, 2013

CITIZEN SCHOOLS, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,565,130	\$ 9,340,115
Current portion of pledges receivable	3,492,535	3,060,501
Public sector receivable	4,796,866	1,773,107
Accounts receivable	28,482	191,196
Prepaid expenses and other	344,553	319,079
	<hr/>	<hr/>
Total current assets	15,227,566	14,683,998
RESTRICTED CASH AND CASH EQUIVALENTS	123,027	137,037
PLEDGES RECEIVABLE , net of current portion, discount and allowance for uncollectible accounts of \$40,062 and \$39,572 at June 30, 2013 and 2012, respectively	449,938	318,762
PROPERTY AND EQUIPMENT , net	<hr/> 1,291,229	<hr/> 1,291,970
	<hr/>	<hr/>
Total assets	<u>\$ 17,091,760</u>	<u>\$ 16,431,767</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	<hr/> \$ 943,894	<hr/> \$ 855,276
NET ASSETS:		
Unrestricted:		
Operating	9,293,222	8,722,539
Property and equipment	804,820	766,467
	<hr/>	<hr/>
Total unrestricted	10,098,042	9,489,006
Temporarily restricted	<hr/> 6,049,824	<hr/> 6,087,485
	<hr/>	<hr/>
Total net assets	16,147,866	15,576,491
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 17,091,760</u>	<u>\$ 16,431,767</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>			<u>2012</u>		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
OPERATING SUPPORT AND REVENUE:						
Grants and contributions - private	\$ 15,468,806	\$ 4,813,401	\$ 20,282,207	\$ 14,912,673	\$ 4,613,164	\$ 19,525,837
Public sector	9,890,169	-	9,890,169	7,661,470	200,000	7,861,470
Donated goods and services	260,024	161,040	421,064	2,151,705	39,538	2,191,243
Earned revenue - private	15,260	-	15,260	102,266	-	102,266
Net assets released from restrictions	5,012,102	(5,012,102)	-	3,676,334	(3,676,334)	-
				-		
Total operating support and revenue	<u>30,646,361</u>	<u>(37,661)</u>	<u>30,608,700</u>	<u>28,504,448</u>	<u>1,176,368</u>	<u>29,680,816</u>
OPERATING EXPENSES:						
Program services:						
State Services	4,566,189	-	4,566,189	4,474,420	-	4,474,420
National Services	2,140,517	-	2,140,517	2,143,436	-	2,143,436
Field Development	5,840,418	-	5,840,418	5,672,331	-	5,672,331
Campus Operations	12,708,572	-	12,708,572	11,113,910	-	11,113,910
Total program services	<u>25,255,696</u>	<u>-</u>	<u>25,255,696</u>	<u>23,404,097</u>	<u>-</u>	<u>23,404,097</u>
Support services:						
Development	2,395,246	-	2,395,246	2,332,268	-	2,332,268
General and administrative	2,386,383	-	2,386,383	2,196,531	-	2,196,531
Total support services	<u>4,781,629</u>	<u>-</u>	<u>4,781,629</u>	<u>4,528,799</u>	<u>-</u>	<u>4,528,799</u>
Total operating expenses	<u>30,037,325</u>	<u>-</u>	<u>30,037,325</u>	<u>27,932,896</u>	<u>-</u>	<u>27,932,896</u>
Changes in net assets	<u>\$ 609,036</u>	<u>\$ (37,661)</u>	<u>\$ 571,375</u>	<u>\$ 571,552</u>	<u>\$ 1,176,368</u>	<u>\$ 1,747,920</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	UNRESTRICTED				
	OPERATING	PROPERTY AND EQUIPMENT	TOTAL UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
NET ASSETS , June 30, 2011	\$ 8,194,662	\$ 722,792	\$ 8,917,454	\$ 4,911,117	\$ 13,828,571
Changes in net assets	527,877	43,675	571,552	1,176,368	1,747,920
NET ASSETS , June 30, 2012	8,722,539	766,467	9,489,006	6,087,485	15,576,491
Changes in net assets	570,683	38,353	609,036	(37,661)	571,375
NET ASSETS , June 30, 2013	\$ 9,293,222	\$ 804,820	\$ 10,098,042	\$ 6,049,824	\$ 16,147,866

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 571,375	\$ 1,747,920
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	523,358	478,710
Bad debts	197,886	92,798
Loss on disposal of property and equipment	5,474	322
Donated property and equipment	(161,040)	(39,538)
Change in pledges receivable discount	(3,210)	3,390
Changes in operating assets and liabilities:		
Pledges receivable	(589,835)	775,417
Public sector receivable	(3,152,435)	(42,290)
Accounts receivable	123,339	(56,249)
Prepaid expenses and other	(25,474)	56,765
Restricted cash and cash equivalents	14,010	(70,037)
Accounts payable and accrued expenses	88,618	201,482
	(2,407,934)	3,148,690
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(367,051)	(337,803)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,774,985)	2,810,887
CASH AND CASH EQUIVALENTS, beginning of year	9,340,115	6,529,228
CASH AND CASH EQUIVALENTS, end of year	\$ 6,565,130	\$ 9,340,115
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:		
Cost basis of property and equipment disposed of	\$ 320,196	\$ 453,083

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES				SUPPORT SERVICES			TOTAL
	STATE SERVICES	NATIONAL SERVICES	FIELD DEVELOPMENT	CAMPUS OPERATIONS	TOTAL PROGRAM SERVICES	DEVELOP- MENT	GENERAL AND ADMINIS- TRATIVE	
PERSONNEL AND RELATED:								
Salaries	\$ 2,851,795	\$ 1,203,646	\$ 3,987,740	\$ 8,100,879	\$ 16,144,060	\$ 1,678,577	\$ 1,448,480	\$ 19,271,117
Fringe benefits	238,090	52,500	382,066	1,027,066	1,699,722	122,026	132,199	1,953,947
Payroll taxes	253,902	97,322	359,637	782,887	1,493,748	144,558	129,709	1,768,015
Total personnel and related	<u>3,343,787</u>	<u>1,353,468</u>	<u>4,729,443</u>	<u>9,910,832</u>	<u>19,337,530</u>	<u>1,945,161</u>	<u>1,710,388</u>	<u>22,993,079</u>
OCCUPANCY:								
Rent	129,806	95,545	78,867	180,722	484,940	38,295	104,295	627,530
Utilities	85,518	74,765	27,997	27,403	215,683	23,762	71,136	310,581
Total occupancy	<u>215,324</u>	<u>170,310</u>	<u>106,864</u>	<u>208,125</u>	<u>700,623</u>	<u>62,057</u>	<u>175,431</u>	<u>938,111</u>
OTHER:								
Professional fees and services	286,859	191,912	283,006	310,464	1,072,241	94,173	128,787	1,295,201
Travel	173,959	89,756	211,536	295,532	770,783	87,486	73,210	931,479
Direct campus expenses	-	-	-	611,528	611,528	-	-	611,528
Depreciation	99,332	64,682	82,308	167,826	414,148	39,182	70,028	523,358
Meals and meetings	60,867	32,463	85,206	170,241	348,777	28,940	29,315	407,032
Equipment/software	97,055	69,258	90,443	69,861	326,617	24,718	49,505	400,840
Professional fees - evaluation	-	-	-	304,897	304,897	-	-	304,897
Office expenses	49,964	28,640	59,591	84,334	222,529	25,493	26,690	274,712
Transportation	-	-	-	262,566	262,566	-	-	262,566
In-kind professional services	60,618	39,993	32,087	71,510	204,208	14,838	40,978	260,024
Communications	47,186	25,268	44,698	80,904	198,056	11,810	22,158	232,024
Bad debts	18,124	6,637	34,780	101,870	161,411	24,598	11,877	197,886
Other expenses	64,644	42,882	8,331	3,721	119,578	21,589	30,196	171,363
Entrance and membership fees	25,019	16,084	49,021	10,861	100,985	7,953	8,398	117,336
Insurance	12,355	4,827	12,962	32,660	62,804	4,678	6,630	74,112
Promotional materials and advertising	11,096	4,337	10,142	10,840	36,415	2,570	2,792	41,777
Total other	<u>1,007,078</u>	<u>616,739</u>	<u>1,004,111</u>	<u>2,589,615</u>	<u>5,217,543</u>	<u>388,028</u>	<u>500,564</u>	<u>6,106,135</u>
Total expenses	<u>\$ 4,566,189</u>	<u>\$ 2,140,517</u>	<u>\$ 5,840,418</u>	<u>\$ 12,708,572</u>	<u>\$ 25,255,696</u>	<u>\$ 2,395,246</u>	<u>\$ 2,386,383</u>	<u>\$ 30,037,325</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	PROGRAM SERVICES				SUPPORT SERVICES			TOTAL
	STATE SERVICES	NATIONAL SERVICES	FIELD DEVELOPMENT	CAMPUS OPERATIONS	TOTAL PROGRAM SERVICES	DEVELOPMENT	GENERAL AND ADMINISTRATIVE	
PERSONNEL AND RELATED:								
Salaries	\$ 2,468,364	\$ 1,040,543	\$ 3,449,873	\$ 7,387,397	\$ 14,346,177	\$ 990,351	\$ 1,255,606	\$ 16,592,134
Fringe benefits	266,480	89,898	359,443	1,018,244	1,734,065	83,932	159,284	1,977,281
Payroll taxes	214,537	83,290	303,003	714,314	1,315,144	81,572	111,292	1,508,008
Total personnel and related	<u>2,949,381</u>	<u>1,213,731</u>	<u>4,112,319</u>	<u>9,119,955</u>	<u>17,395,386</u>	<u>1,155,855</u>	<u>1,526,182</u>	<u>20,077,423</u>
OCCUPANCY:								
Rent	149,298	123,803	56,271	88,653	418,025	39,377	123,382	580,784
Utilities	74,307	66,148	17,161	3,901	161,517	15,554	62,543	239,614
Total occupancy	<u>223,605</u>	<u>189,951</u>	<u>73,432</u>	<u>92,554</u>	<u>579,542</u>	<u>54,931</u>	<u>185,925</u>	<u>820,398</u>
OTHER:								
Professional fees and services	234,888	145,581	206,959	211,790	799,218	171,931	100,900	1,072,049
Travel	168,341	83,589	169,364	226,284	647,578	33,157	58,882	739,617
Direct campus expenses	-	-	-	681,052	681,052	-	-	681,052
Depreciation	101,834	71,798	69,242	132,103	374,977	29,928	73,805	478,710
Meals and meetings	37,229	21,392	37,388	49,766	145,775	57,391	12,538	215,704
Equipment/software	70,176	55,704	31,127	26,514	183,521	24,493	37,577	245,591
Professional fees - evaluation	-	-	305,289	-	305,289	-	-	305,289
Office expenses	66,512	35,736	69,258	93,728	265,234	15,933	30,400	311,567
Transportation	-	-	-	126,845	126,845	-	-	126,845
In-kind professional services	477,633	229,266	453,075	178,818	1,338,792	726,785	86,128	2,151,705
Communications	43,291	23,457	38,962	78,986	184,696	6,498	20,793	211,987
Bad debts	14,283	10,867	12,670	27,968	65,788	16,812	10,198	92,798
Other expenses	36,434	34,604	12,419	1,240	84,697	21,816	29,418	135,931
Entrance and membership fees	26,112	15,323	61,326	25,086	127,847	11,974	10,190	150,011
Insurance	12,623	8,343	8,912	23,426	53,304	3,502	10,044	66,850
Promotional materials and advertising	12,078	4,094	10,589	17,795	44,556	1,262	3,551	49,369
Total other	<u>1,301,434</u>	<u>739,754</u>	<u>1,486,580</u>	<u>1,901,401</u>	<u>5,429,169</u>	<u>1,121,482</u>	<u>484,424</u>	<u>7,035,075</u>
Total expenses	<u>\$ 4,474,420</u>	<u>\$ 2,143,436</u>	<u>\$ 5,672,331</u>	<u>\$ 11,113,910</u>	<u>\$ 23,404,097</u>	<u>\$ 2,332,268</u>	<u>\$ 2,196,531</u>	<u>\$ 27,932,896</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

Citizen Schools, Inc. (the Agency) is a Massachusetts nonprofit corporation founded in 1995 to educate youth, strengthen communities and bring new solutions to the challenge of young adult education. The Agency uses the out-of-school hours (80% of a child's waking hours) and a high quality apprenticeship learning model to change life trajectories for low-income, middle school children.

In fiscal year 2013, the Agency operated at thirty-two sites, enrolling approximately 4,800 low-income students in fifteen districts across eight states and engaged approximately 4,230 volunteers.

In fiscal year 2012, the Agency operated at thirty-one sites, enrolling approximately 4,000 low-income students in fifteen districts across seven states and engaged approximately 3,750 volunteers.

Students are enrolled for the entire school year and participate in an integrated program of skill-building, leadership, and teamwork. The Agency works with students intensively and consistently to build students' academic skills and expand their opportunities.

Specifically, the Agency:

- Provides students with the skills to navigate their school landscapes,
- Teaches twenty-first century skills through hands-on projects that connect current learning to future opportunities,
- Engages volunteers from all walks of life to teach apprenticeship courses,
- Builds bridges to civic and cultural institutions and teaches students to access them,
- Raises students' awareness and aspirations for college attainment through visits to college campuses,
- Instills and celebrates the values of courage, respect, motivation, and teamwork.

In fiscal year 2013, the Agency operated programs in the following states and cities:

- Massachusetts - six programs located in Boston and New Bedford
- California - seven programs located in Redwood City, East Palo Alto, Oakland, and Campbell
- Illinois - two programs located in Chicago
- New Jersey - three programs located in Newark
- Texas - two programs located in Houston
- North Carolina - three programs located in Charlotte and Durham
- New Mexico - three programs located in Albuquerque, Mescalero and Santa Fe
- New York - six programs located in Brooklyn, Bronx and Harlem

The Agency's programs consist of the following:

State Services - Services provided by the Agency's state offices to directly support campus operations. Services include campus staff and citizen teacher recruiting, local relationship and key stakeholder management, regional best practice sharing, regionally-based staff training, and direct management and professional development of campus directors.

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

OPERATIONS (Continued)

National Services - Services provided by the Agency's national office to support state offices and campus operations. Services include campus staff and citizen teacher national recruitment, national relationships and key stakeholder management, nationwide best practice sharing, nationally-based staff training, program research and evaluation, and curriculum, instruction and training support.

Field Development - The Agency is dedicated to mobilizing public and community support for high-quality after-school programs. The Agency's focus is in these areas: Twenty-First Century Skills, Public Policy Initiatives, and Resources for Expanded Learning Time and Out-of-School Learning. Specific activities include innovative Teaching Fellow program, a two-year leadership development program for aspiring young educators that includes earning a Master's of Education degree, Support for Science, Technology, Engineering and Math (STEM) programming and initiatives, new campus and new state cultivation, and other efforts by Agency staff to professionalize the field of after-school and expanded learning time study and to influence national and regional public policy.

Campus Operations - Campus Operations includes all costs incurred to operate the Agency's campuses, which includes front-line managers and staff (Campus Directors, Teaching Fellows, Teaching Associates) salary and benefits and all other expenses (e.g. supplies, transportation) related to program incurred at the campus level.

NONPROFIT STATUS

The Agency is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within Internal Revenue Code requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Agency prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Revenue Recognition

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs associated with purpose restrictions are incurred or time restrictions have lapsed.

With respect to gifts restricted for the purchase of long-lived assets and capital donations, it is the Agency's policy to release such gifts from restrictions on a straight-line basis over periods of time equal to the estimated useful lives of the assets purchased, thereby matching the revenue of the capital gifts to the depreciation expense of the capital assets. The unexpired portion of these capital gifts are reported as a component of temporarily restricted net assets (see page 13).

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Earned revenue - private consists primarily of contracts and reimbursements under cost sharing agreements and parent tuition and is recorded when earned.

Public sector revenue includes certain earned and granted revenues derived directly from governmental sources or pass-through entities. These revenues are recognized in accordance with the revenue recognition policies (see page 9).

The Agency has cost reimbursable contracts from governmental agencies. Reimbursements totaled approximately \$3,749,000 and \$3,843,000 for the years ended June 30, 2013 and 2012, respectively. Payments to the Agency are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of June 30, 2013 or 2012, or on its results of operations for the years then ended.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is calculated based on management's best estimate of the amount of uncollectible pledges receivable. The estimate of uncollectible pledges receivable are based on past collection experience together with a review of the current status of existing receivables. The allowance for doubtful accounts was \$28,700 and \$25,000 at June 30, 2013 and 2012, respectively.

Expense Allocation

Expenses related directly to a program or function are distributed to that program or function, while other expenses are allocated based upon management's estimate of the percentage attributable to each program or function.

Advertising

The Agency expenses advertising costs as they are incurred. Total advertising expenses were \$17,124 and \$16,778 for the years ended June 30, 2013 and 2012, respectively, and are included in promotional materials and advertising in the accompanying statements of functional expenses.

Estimates

The preparation of financial statements in accordance with U.S. 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 reported period. Actual results could differ from those estimates.

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, management considers any highly liquid investment with an initial maturity of three months or less to be a cash equivalent. Cash and cash equivalents consist of checking and money market accounts. Cash and cash equivalents do not include restricted cash (see Note 3).

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents in the accompanying statements of financial position consists of security deposits required by certain lease agreements (see Note 3). These security deposits are held in a savings account and a certificate of deposit, which has a maturity date of January 13, 2015.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the time of donation. Donated property and equipment totaled \$161,040 and \$39,538 for the years ended June 30, 2013 and 2012, respectively and is included in donated goods and services in the accompanying statements of activities. Renewals and betterments are capitalized as an addition to the related asset accounts, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over estimated useful lives of three to ten years.

Property and equipment consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$1,793,312	\$1,767,054
Furniture, fixtures and equipment	<u>3,045,720</u>	<u>2,864,083</u>
	4,839,032	4,631,137
Less - accumulated depreciation	<u>3,547,803</u>	<u>3,339,167</u>
	<u>\$1,291,229</u>	<u>\$1,291,970</u>

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

The Agency receives donated goods and services in support of various aspects of its programs, which are reflected as revenue and expense in the accompanying financial statements based upon the estimated value assigned to them by the donors. The value of these donated goods and services for the years ended June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Legal consulting	\$132,552	\$ 441,568
Rent and maintenance	78,768	206,512
License agreements	23,375	23,625
Video production	17,360	-
Miscellaneous	7,969	-
Consulting	-	1,425,000
Staff development	-	55,000
	<u>\$260,024</u>	<u>\$2,151,705</u>

The Agency also receives services of volunteers and donated classroom space in various aspects of its programs. The value of these services and this space is not reflected in the accompanying financial statements since the value of these donations is not readily ascertainable.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

Operating - represent resources available to carry on the operations of the Agency.

Property and Equipment - reflect net book value of the Agency's property and equipment, net of any related liabilities and temporarily restricted unexpired gifts for long-lived assets (see page 13).

Temporarily Restricted Net Assets

The Agency receives contributions and grants which are restricted by donors for specific purposes or for future periods. These contributions are recorded as temporarily restricted net assets until they are released from restriction in accordance with donor designations (see page 9).

Included in temporarily restricted net assets are pledges which are restricted to the time period in which they are payable to the Agency. These amounts are recorded at the present value of their estimated future cash flows (see Note 6).

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Time restricted	\$5,563,415	\$5,561,982
Unexpired gifts for long-lived assets (see page 9)	<u>486,409</u>	<u>525,503</u>
Total	<u>\$6,049,824</u>	<u>\$6,087,485</u>

Net assets released from restrictions consist of the following for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Expiration of time restrictions	\$4,811,968	\$3,491,430
Expiration of capital restrictions	<u>200,134</u>	<u>184,904</u>
Total	<u>\$5,012,102</u>	<u>\$3,676,334</u>

Fair Value Measurements

The Agency follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and expand disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The Agency values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Accounting for Uncertainty in Income Taxes

The Agency follows the *Accounting for Uncertainty in Income Taxes* standard which requires the Agency to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2013 and 2012, the Agency determined that there are no material unrecognized tax benefits to report.

Informational returns filed for the prior three years remain subject to examination by the Internal Revenue Service and various state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through September 24, 2013, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(Continued)

(2) NOTE PAYABLE TO A BANK

The Agency has available up to \$5,000,000 under a line of credit agreement with a bank. Borrowings under this agreement are due on demand and interest is payable monthly. This line of credit bears interest at the bank's prime rate (3.25% at June 30, 2013 and 2012), plus .50%. This agreement expires on January 31, 2014. This line of credit is unsecured and had no outstanding balance at June 30, 2013 and 2012. The line of credit is subject to specified covenants, all of which the Agency was in compliance with as of June 30, 2013 and 2012.

(3) LEASE AGREEMENTS

The Agency leases space for its headquarters and six program sites under operating leases. One of the lease agreements the landlord has agreed to waive all but \$1 of the monthly base rent that would otherwise be due under this lease so long as the tenant is a non-profit entity (see page 12). The program site leases expire at various times through July, 2022, while the headquarters lease expires November, 2022. Certain leases require the Agency to maintain certain insurance coverage and the headquarters lease requires the Agency to pay for its proportionate share of real estate taxes and operating expenses. The Agency is recognizing rent expense on a straight-line basis over the term of the lease in accordance with the *Accounting for Leases* standard under U.S. GAAP. Rent expense under the facility leases was approximately \$1,021,000 and \$959,000 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease payments under these agreements are as follows:

<u>Year Ending June 30,</u>	<u>Rent</u>	<u>Common Area Fees</u>
2014	\$1,076,485	\$245,640
2015	\$1,086,799	\$245,640
2016	\$ 967,948	\$208,078
2017	\$ 894,593	\$181,248
2018	\$ 879,439	\$181,248
Thereafter	\$2,936,632	\$800,512

The Agency has two sublease agreements for portions of the headquarters space. These subleases will terminate in November, 2015. Revenue under the subleases of approximately \$393,000 and \$378,000 for the years ended June 30, 2013 and 2012, respectively, has been netted against rent expense in the accompanying statements of functional expenses.

Future minimum lease payments under these sublease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Rent</u>	<u>Common Area Fees</u>
2014	\$316,556	\$88,412
2015	\$328,280	\$88,412
2016	\$137,833	\$36,838

Restricted cash and cash equivalents in the accompanying statements of financial position consist of security deposits required by the headquarters and program lease agreements. These deposits must be maintained until November, 2022 and June, 2018, respectively.

CITIZEN SCHOOLS, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(Continued)

(4) RETIREMENT PLAN

The Agency sponsors a defined contribution retirement plan under Internal Revenue Code Section 403(b) covering all eligible employees. Employees become eligible to participate after completing one-year of service and attaining the age of 21. The Agency matches employee contributions up to \$1,000 per year, based on tenure. For the years ended June 30, 2013 and 2012, the Agency contributed \$64,948 and \$54,834, respectively, which is included in fringe benefits in the accompanying statements of functional expenses.

(5) CONCENTRATIONS OF RISK

The Agency maintains its cash balances in a bank in Massachusetts, which is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, cash balances may exceed the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

Approximately 13% of total pledges and public support receivables were due from a governmental agency at June 30, 2013. There were no concentrations at June 30, 2012.

(6) PLEDGES RECEIVABLE

As of June 30, 2013 and 2012, the Agency has unconditional pledges for current and future operations (also see Note 1). These pledges are due as follows:

<u>Year Ended June 30:</u>	<u>2013</u>	<u>2012</u>
Due within one year	\$3,492,535	\$3,060,501
Due in two to four years	<u>490,000</u>	<u>358,334</u>
	3,982,535	3,418,835
Less - discount and allowance	<u>40,062</u>	<u>39,572</u>
	3,942,473	3,379,263
Less - current portion	<u>3,492,535</u>	<u>3,060,501</u>
	<u>\$ 449,938</u>	<u>\$ 318,762</u>

Pledges receivable due in greater than one year have been discounted to present value using various discount rates ranging from 0.15% to 1.41%.

The Agency had \$2,281,702 and \$2,236,118 of pledges receivable which were recorded as unrestricted net assets at June 30, 2013 and 2012, respectively. These amounts were released from restrictions during fiscal years 2013 and 2012 based on the donor's intent. All remaining pledges receivable are included within temporarily restricted net assets (see Note 1).

(7) CONDITIONAL GRANTS

As of June 30, 2013, the Agency had \$1,950,000 of conditional grants available through 2014. Since these grants are conditional upon the Agency meeting certain goals, they are not reflected in the accompanying financial statements until such conditions are substantially met. Assuming satisfactory performance against certain performance goals, the Agency expects to receive all of conditional grants during 2014.