



**FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

CITIZEN SCHOOLS, INC.

Contents
June 30, 2017 and 2016

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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), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Westborough, Massachusetts
September 20, 2017

CITIZEN SCHOOLS, INC.Statements of Financial Position
June 30, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash	\$ 2,080,911	\$ 1,914,457
Current portion of pledges receivable	2,659,724	3,652,505
Public sector receivable	1,107,130	2,190,987
Prepaid expenses and other	173,910	90,983
Total current assets	6,021,675	7,848,932
Restricted Cash and Cash Equivalents	109,050	109,041
Pledges Receivable, net of current portion, allowance for doubtful accounts and discount	54,135	299,274
Property and Equipment, net	942,338	1,373,139
Total assets	<u>\$ 7,127,198</u>	<u>\$ 9,630,386</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 929,213	\$ 1,112,552
Current portion of accrued rent	71,496	17,308
Total current liabilities	1,000,709	1,129,860
Accrued Rent, net of current portion	256,490	327,986
Total liabilities	<u>1,257,199</u>	<u>1,457,846</u>
Net Assets:		
Unrestricted:		
Operating	2,464,596	3,213,902
Property and equipment	449,321	671,837
Total unrestricted	2,913,917	3,885,739
Temporarily restricted	2,956,082	4,286,801
Total net assets	<u>5,869,999</u>	<u>8,172,540</u>
Total liabilities and net assets	<u>\$ 7,127,198</u>	<u>\$ 9,630,386</u>

The accompanying notes are an integral part of these statements.

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CITIZEN SCHOOLS, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Support and Revenue:						
Grants and contributions - private	\$ 8,896,384	\$ 2,164,449	\$ 11,060,833	\$ 8,727,526	\$ 1,688,952	\$ 10,416,478
Public sector	7,382,173	-	7,382,173	9,723,751	-	9,723,751
Donated goods and services	1,600,194	-	1,600,194	1,536,704	-	1,536,704
Interest income and other	332	-	332	180	-	180
Net assets released from restrictions	3,592,004	(3,592,004)	-	4,020,052	(4,020,052)	-
Total operating support and revenue	21,471,087	(1,427,555)	20,043,532	24,008,213	(2,331,100)	21,677,113
Operating Expenses:						
Program services:						
State Services	2,814,624	-	2,814,624	4,200,159	-	4,200,159
National Services	1,168,118	-	1,168,118	1,797,102	-	1,797,102
Field Development	5,456,769	-	5,456,769	6,402,367	-	6,402,367
Campus Operations	8,082,766	-	8,082,766	9,878,816	-	9,878,816
Total program services	17,522,277	-	17,522,277	22,278,444	-	22,278,444
Support services:						
Development	2,499,297	-	2,499,297	2,785,638	-	2,785,638
General and Administrative	2,421,335	-	2,421,335	2,601,434	-	2,601,434
Total support services	4,920,632	-	4,920,632	5,387,072	-	5,387,072
Total operating expenses	22,442,909	-	22,442,909	27,665,516	-	27,665,516
Changes in net assets from operations	(971,822)	(1,427,555)	(2,399,377)	(3,657,303)	(2,331,100)	(5,988,403)
Other Revenue:						
Donated equipment	-	96,836	96,836	-	824,640	824,640
Realized gain on sale of investment	-	-	-	4,302	-	4,302
Total other revenue	-	96,836	96,836	4,302	824,640	828,942
Changes in net assets	(971,822)	(1,330,719)	(2,302,541)	(3,653,001)	(1,506,460)	(5,159,461)
Net Assets:						
Beginning of year	3,885,739	4,286,801	8,172,540	7,538,740	5,793,261	13,332,001
End of year	\$ 2,913,917	\$ 2,956,082	\$ 5,869,999	\$ 3,885,739	\$ 4,286,801	\$ 8,172,540

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (2,302,541)	\$ (5,159,461)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	653,955	649,388
Bad debts	75,653	286,841
Realized gain on sale of investment	-	(4,302)
Change in pledges receivable discount	15,093	(2,865)
Donated equipment	(96,836)	(824,640)
Changes in operating assets and liabilities:		
Pledges receivable	1,147,174	3,169,810
Public sector receivable	1,083,857	(43,913)
Prepaid expenses and other	(82,927)	63,336
Restricted cash and cash equivalents	(9)	(8)
Accounts payable and accrued expenses	(183,339)	(276,516)
Accrued rent	(17,308)	218,485
	<u>292,772</u>	<u>(1,923,845)</u>
Net cash provided by (used in) operating activities		
Cash Flows from Investing Activities:		
Proceeds from sale of investment	-	229,840
Acquisition of property and equipment	(126,318)	(422,749)
	<u>(126,318)</u>	<u>(192,909)</u>
Net cash used in investing activities		
Net Change in Cash	166,454	(2,116,754)
Cash:		
Beginning of year	<u>1,914,457</u>	<u>4,031,211</u>
End of year	<u>\$ 2,080,911</u>	<u>\$ 1,914,457</u>

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2017

(With Comparative Totals for the Year Ended June 30, 2016)

	2017							2016	
	Program Services				Support Services			Total	Total
	State Services	National Services	Field Development	Campus Operations	Total Program Services	Development	General and Administrative		
Personnel and Related:									
Salaries	\$ 1,738,046	\$ 613,106	\$ 3,024,657	\$ 5,566,558	\$ 10,942,367	\$ 1,415,893	\$ 1,115,998	\$ 13,474,258	\$ 17,161,030
Fringe benefits	189,184	66,769	317,814	629,863	1,203,630	144,843	122,920	1,471,393	1,604,507
Payroll taxes	132,274	42,331	228,746	437,163	840,514	98,066	82,916	1,021,496	1,324,895
Total personnel and related	2,059,504	722,206	3,571,217	6,633,584	12,986,511	1,658,802	1,321,834	15,967,147	20,090,432
Occupancy:									
Rent	147,031	83,266	149,008	204,134	583,439	69,320	103,178	755,937	726,930
Utilities	60,390	39,335	50,050	56,563	206,338	27,426	43,905	277,669	297,195
Depreciation	8,944	2,815	13,725	29,384	54,868	5,044	5,485	65,397	67,560
Total occupancy	216,365	125,416	212,783	290,081	844,645	101,790	152,568	1,099,003	1,091,685
Other:									
In-kind services	7,176	-	764,801	47,085	819,062	255,450	525,682	1,600,194	1,536,704
Professional fees and services	210,699	154,177	214,248	215,781	794,905	119,633	158,689	1,073,227	1,226,406
Depreciation	80,498	25,339	123,537	264,458	493,832	45,392	49,334	588,558	581,828
Equipment/software	89,824	74,690	60,236	41,155	265,905	28,925	107,865	402,695	520,441
Meetings and trainings	13,740	4,561	23,860	42,908	85,069	186,214	7,190	278,473	407,594
Professional fees - evaluation	-	-	253,485	-	253,485	-	-	253,485	455,793
Travel	26,847	10,775	71,536	64,435	173,593	26,249	17,776	217,618	386,390
Transportation	-	-	-	162,858	162,858	-	-	162,858	177,499
Insurance	17,489	6,322	29,063	60,046	112,920	11,791	13,437	138,148	113,430
Other expenses	23,185	15,432	21,629	26,657	86,903	28,081	22,071	137,055	103,858
Direct campus expenses	-	-	-	132,574	132,574	-	-	132,574	228,365
Office expenses	13,772	7,208	19,770	34,854	75,604	12,310	11,348	99,262	153,860
Entrance and membership fees	23,736	7,436	35,079	13,090	79,341	7,837	6,726	93,904	107,282
Communications	16,228	12,615	11,506	21,876	62,225	2,488	17,084	81,797	113,704
Bad debts	3,192	825	37,459	13,615	55,091	13,330	7,232	75,653	286,841
Promotional materials and advertising	12,369	1,116	6,560	17,709	37,754	1,005	2,499	41,258	83,404
Total other	538,755	320,496	1,672,769	1,159,101	3,691,121	738,705	946,933	5,376,759	6,483,399
Total expenses	<u>\$ 2,814,624</u>	<u>\$ 1,168,118</u>	<u>\$ 5,456,769</u>	<u>\$ 8,082,766</u>	<u>\$ 17,522,277</u>	<u>\$ 2,499,297</u>	<u>\$ 2,421,335</u>	<u>\$ 22,442,909</u>	<u>\$ 27,665,516</u>

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services				Support Services			Total
	State Services	National Services	Field Development	Campus Operations	Total Program Services	Development	General and Administrative	
Personnel and Related:								
Salaries	\$ 2,684,227	\$ 987,634	\$ 3,713,838	\$ 6,720,100	\$ 14,105,799	\$ 1,505,991	\$ 1,549,240	\$ 17,161,030
Fringe benefits	217,991	26,897	336,203	822,062	1,403,153	102,861	98,493	1,604,507
Payroll taxes	207,104	72,060	283,552	531,742	1,094,458	113,168	117,269	1,324,895
Total personnel and related	<u>3,109,322</u>	<u>1,086,591</u>	<u>4,333,593</u>	<u>8,073,904</u>	<u>16,603,410</u>	<u>1,722,020</u>	<u>1,765,002</u>	<u>20,090,432</u>
Occupancy:								
Rent	141,386	85,225	158,935	190,183	575,729	66,432	84,769	726,930
Utilities	59,448	65,679	26,153	35,077	186,357	17,663	93,175	297,195
Depreciation	10,433	4,268	13,164	27,249	55,114	4,993	7,453	67,560
Total occupancy	<u>211,267</u>	<u>155,172</u>	<u>198,252</u>	<u>252,509</u>	<u>817,200</u>	<u>89,088</u>	<u>185,397</u>	<u>1,091,685</u>
Other:								
In-kind services	110,939	126,934	543,237	43,118	824,228	535,270	177,206	1,536,704
Professional fees and services	220,113	134,399	285,612	252,914	893,038	195,738	137,630	1,226,406
Depreciation	89,846	36,755	113,373	234,668	474,642	43,002	64,184	581,828
Equipment/software	134,734	96,436	81,644	64,947	377,761	36,212	106,468	520,441
Meetings and trainings	71,253	30,316	88,541	170,395	360,505	19,895	27,194	407,594
Professional fees - evaluation	-	-	455,793	-	455,793	-	-	455,793
Travel	80,252	57,635	112,608	52,767	303,262	45,754	37,374	386,390
Transportation	-	-	-	177,499	177,499	-	-	177,499
Insurance	17,596	4,997	22,399	50,950	95,942	7,530	9,958	113,430
Other expenses	17,323	11,700	18,677	20,865	68,565	20,981	14,312	103,858
Direct campus expenses	-	-	-	228,365	228,365	-	-	228,365
Office expenses	25,936	13,449	30,406	47,399	117,190	17,889	18,781	153,860
Entrance and membership fees	27,320	19,903	23,314	8,148	78,685	9,534	19,063	107,282
Communications	25,156	13,689	20,452	34,085	93,382	4,121	16,201	113,704
Bad debts	37,179	1,568	58,528	146,654	243,929	26,926	15,986	286,841
Promotional materials and advertising	21,923	7,558	15,938	19,629	65,048	11,678	6,678	83,404
Total other	<u>879,570</u>	<u>555,339</u>	<u>1,870,522</u>	<u>1,552,403</u>	<u>4,857,834</u>	<u>974,530</u>	<u>651,035</u>	<u>6,483,399</u>
Total expenses	<u>\$ 4,200,159</u>	<u>\$ 1,797,102</u>	<u>\$ 6,402,367</u>	<u>\$ 9,878,816</u>	<u>\$ 22,278,444</u>	<u>\$ 2,785,638</u>	<u>\$ 2,601,434</u>	<u>\$ 27,665,516</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

Operations

Citizen Schools, Inc. (the Agency) is a Massachusetts nonprofit corporation founded in 1995 to educate the youth, strengthen communities and bring new solutions to the challenge of young adult education. Currently, the Agency seeks to close opportunity and achievement gaps by bringing project-based, citizen-powered learning experiences to public school classrooms in low-income communities through a combination of school-based Expanded Learning Time and after-school programming in four states, a national Science, Technology, Engineering and Math (STEM) mentoring network, and field-building and policy initiatives. Beginning in fiscal year 2018, the Agency will expand its programming to include a pilot program to conduct its programmatic offerings during the traditional school day.

In fiscal year 2017, the Agency operated at thirty sites, enrolling approximately 4,500 low-income students in eleven districts across six states and engaged approximately 1,600 citizen teacher volunteers.

In fiscal year 2016, the Agency operated at thirty-one sites, enrolling approximately 4,700 low-income students in eleven districts across seven states and engaged approximately 1,600 citizen teacher 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, and
- Instills and celebrates the values of courage, respect, motivation, and teamwork.

In fiscal year 2017, the Agency operated programs in the following states and cities:

- Massachusetts - seven programs located in Boston, Chelsea, and Salem
- California - four programs located in East Palo Alto, Oakland, and San Jose
- Illinois - five programs located in Chicago
- New Jersey - one program located in Newark
- Texas - three programs located in Houston
- North Carolina - five programs located in Charlotte and Durham
- 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, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS (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. National Services also include US2020 STEM mentorship services.

Field Development - The Agency is dedicated to mobilizing public and community support for high-quality hands-on project-based learning and apprenticeship style programs. The Agency's focus is in these areas: twenty-first century skills, public policy initiatives, and resources for apprenticeship style learning. Specific activities include innovative Teaching Fellow program, a two-year leadership development program for aspiring young educators that can include earning a Master's of Education degree, Support for STEM programming and initiatives, including the US2020 STEM mentorship 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 (IRC). The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue Recognition

Unrestricted grants and contributions - private are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions - private 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 10).

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Public sector revenue includes certain earned and granted revenues derived directly from governmental sources or pass-through entities. These revenues are recognized as earned.

The Agency has cost reimbursable contracts from governmental agencies. Reimbursements totaled approximately \$2,315,000 and \$4,106,000 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, or on its results of operations for the years then ended.

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.

All other revenue is recognized when earned.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is calculated based on management's best estimate of the amount of uncollectible pledges receivable (see Note 8). The estimate of uncollectible pledges receivable is based on past collection experience together with a review of the current status of existing receivables. The allowance for doubtful accounts was \$18,478 and \$18,515 at June 30, 2017 and 2016, 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 records that accurately reflect the work performed and are supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Advertising

The Agency expenses advertising costs as they are incurred. Total advertising expenses were \$17,866 and \$47,812 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (see Note 11). 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.

Donated Goods and Services

The Agency receives donated goods and services (see Note 11) 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.

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 temporarily restricted unexpired gifts for long-lived assets (see below).

Temporarily Restricted Net Assets

The Agency receives contributions and grants that 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 8).

Included in temporarily restricted net assets are pledges that 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 8).

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

	<u>2017</u>	<u>2016</u>
Time restricted	\$ 2,359,881	\$ 3,466,697
Unexpired gifts for long-lived assets (see page 8)	493,017	701,302
Purpose restricted	<u>103,184</u>	<u>118,802</u>
Total	<u>\$ 2,956,082</u>	<u>\$ 4,286,801</u>

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

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

	<u>2017</u>	<u>2016</u>
Expiration of time restrictions	\$ 3,185,982	\$ 3,501,658
Expiration of capital restrictions	305,121	227,181
Expiration of purpose restrictions	<u>100,901</u>	<u>291,213</u>
Total	<u>\$ 3,592,004</u>	<u>\$ 4,020,052</u>

Fair Value Measurements

The Agency follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Agency uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Agency. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An 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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents in the accompanying statements of financial position consist of security deposits required by certain lease agreements (see Note 4). These security deposits are held in a savings account and a certificate of deposit (CD). The CD had a maturity date of July 5, 2017, and was extended under similar terms through October 9, 2018. Restricted cash and cash equivalents are valued using Level 1 inputs.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

All Other Assets and Liabilities

The carrying values of all other assets and liabilities do not differ materially from their estimated fair values and are considered Level 1 in the fair value hierarchy.

Accounting for Uncertainty in Income Taxes

The Agency accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2017 and 2016. The Agency's informational returns are subject to examination by Federal and state jurisdictions.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of the Agency's programs and operations are reported as operating support and revenue and operating expenses in the accompanying statements of activities and changes in net assets. Peripheral or incidental transactions are reported as other revenue. Other revenue consisted of donated equipment and realized gain on the sale of investment for the years ended June 30, 2017 and 2016.

Subsequent Events

Subsequent events have been evaluated through September 20, 2017, which is the date the financial statements were available to be issued. There were two events that met the criteria for recognition or disclosure in the financial statements (see page 11 and Note 4).

3. NOTE PAYABLE

In December 2016, the Agency entered into a line of credit agreement, which allows for borrowings of 80% of the outstanding receivable balance, up to \$1,000,000 through December 2017. The line of credit bears interest at a fixed rate of 6.00% and is secured by substantially all assets of the Agency. The line of credit is subject to specified covenants, specifically relating to its changes in net assets when there is an outstanding balance. The line of credit had no outstanding balance at June 30, 2017, and thus, the Agency is not subject to these covenants.

The Agency had a line of credit agreement with a bank which allowed for borrowings up to \$1,500,000 through January 31, 2017, at which time the agreement was terminated. The line of credit bore interest at the bank's prime lending rate (3.50% at June 30, 2016), plus .50%. The line of credit was secured by all of the Agency's property and equipment, public sector accounts receivable, and pledges receivable. The line of credit had no outstanding balance at June 30, 2016. The line of credit was subject to specified covenants with which the Agency was in compliance as of June 30, 2016.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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4. LEASE AGREEMENTS

The Agency leases space for its headquarters and its program sites under multiple operating leases. For 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 nonprofit entity (see Note 11). The program site leases expire at various times through July 2022, while the headquarters lease expires in November 2022. Certain leases require the Agency to maintain 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 terms of the leases in accordance with ASC Topic, *Leases*. Accrued rent as of June 30, 2017, was \$327,986, of which \$71,496 is expected to be utilized during fiscal year 2018 and, thus, has been reflected as a current liability in the accompanying 2017 statement of financial position. Accrued rent as of June 30, 2016, was \$345,294, of which \$17,308 was utilized during fiscal year 2017 and, thus, has been reflected as a current liability in the accompanying 2016 statement of financial position. Gross rent expense under the facility leases was approximately \$890,000 and \$998,000 for the years ended June 30, 2017 and 2016, respectively.

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

<u>Year Ending June 30,</u>	<u>Rent</u>	<u>Common Area Fees</u>
2018	\$ 886,886	\$ 181,248
2019	\$ 674,215	\$ 181,248
2020	\$ 690,121	\$ 181,248
2021	\$ 699,297	\$ 181,248
2022	\$ 673,204	\$ 181,248
Thereafter	\$ 280,498	\$ 75,520

The Agency had three sublease agreements for portions of the headquarters' space and a program site. Two of the subleases terminated in November 2015 and June 2016, respectively. Revenue under the subleases of approximately \$134,000 and \$271,000 for the years ended June 30, 2017 and 2016, respectively, has been netted against rent expense in the accompanying statements of functional expenses. Effective September 2017, the Agency entered into a lease agreement to sublease one of its program sites through May 2021.

The remaining lease payments on these sublease agreements for rent and common area fees are as follows:

<u>Year Ending June 30,</u>	<u>Rent</u>	<u>Common Area Fees</u>
2018	\$ 128,900	\$ 24,000
2019	\$ 62,633	\$ 10,000

Restricted cash and cash equivalents in the accompanying statements of financial position consist of security deposits (see Note 2) 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
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5. RETIREMENT PLAN

The Agency sponsors a defined contribution retirement plan under IRC 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 3% per year, based on tenure. For the years ended June 30, 2017 and 2016, the Agency contributed \$168,862 and \$155,278, respectively, which are included in fringe benefits in the accompanying statements of functional expenses.

6. 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 34% and 30% of net pledges and public sector accounts receivables were due from three and two organizations as of June 30, 2017 and 2016, respectively. Approximately 11% of the Agency's operating support and revenue was from one organization during fiscal year 2016. There were no concentrations of the Agency's operating support and revenue for the year ended June 30, 2017.

7. INVESTMENT

The Agency held a non-controlling equity interest in a limited partnership. During fiscal year 2016, the partnership liquidated its assets. The Agency's allocated portion of the partnership's assets totaled \$264,003, of which \$229,840 was received as of June 30, 2016. The remaining balance owed to the Agency at June 30, 2017 and 2016, totaled \$20,498 and \$34,163, respectively, and is included in public sector receivable in the accompanying statements of financial position. As a result of the partnership's liquidation, the Agency recognized a gain of \$4,302 during fiscal year 2016.

8. PLEDGES RECEIVABLE

As of June 30, 2017 and 2016, the Agency has unconditional pledges for current and future operations (see Note 2). As of June 30, 2017 and 2016, these pledges are due as follows:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 2,659,724	\$ 3,652,505
Due in two to four years	<u>105,000</u>	<u>335,083</u>
	2,764,724	3,987,588
Less - discount and allowance	<u>50,865</u>	<u>35,809</u>
	2,713,859	3,951,779
Less - current portion	<u>2,659,724</u>	<u>3,652,505</u>
	<u>\$ 54,135</u>	<u>\$ 299,274</u>

Pledges receivable due in greater than one year have been discounted to present value using various discount rates ranging from 0.45% to 1.24%.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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8. PLEDGES RECEIVABLE (Continued)

The Agency had \$1,522,139 and \$1,607,392 of pledges receivable which were recorded as unrestricted net assets at June 30, 2017 and 2016, respectively. These amounts were released from restrictions during fiscal years 2017 and 2016 based on the donor's intent. All remaining pledges receivable are included within temporarily restricted net assets (see Note 2).

9. CONDITIONAL GRANTS

During fiscal years 2017 and 2016, the Agency received grants that were conditional based on various criteria, as defined in the agreements. As of June 30, 2017, the Agency had one conditional grant with remaining installments of \$320,000. Remaining installments on this grant are conditional upon the Agency reaching specific milestones, as defined in the grant agreement. This amount has not been recorded in the accompanying financial statements as of June 30, 2017, as the conditions have not yet been met.

In addition, the Agency has been informed by the Corporation for National and Community Service, which administers the AmeriCorps program that supports the Agency's teaching fellowship program and its direct service work, that their current grant has been extended through June 30, 2020. The total award is up to \$4,749,084 (or \$1,583,028 annually), and is contingent upon the Agency incurring adequate expenses to draw down the funds under this grant.

10. PROPERTY AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Furniture, fixtures and equipment	\$ 3,370,167	\$ 3,328,461
Leasehold improvements	<u>1,199,308</u>	<u>1,199,308</u>
	4,569,475	4,527,769
Less - accumulated depreciation	<u>3,627,137</u>	<u>3,154,630</u>
	<u>\$ 942,338</u>	<u>\$ 1,373,139</u>

11. DONATED GOODS AND SERVICES

Donated Goods and Services

The value of donated goods and services are as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Program awareness	\$ 1,000,000	\$ 1,000,000
Legal consulting	521,426	457,936
Rent and maintenance	<u>78,768</u>	<u>78,768</u>
	<u>\$ 1,600,194</u>	<u>\$ 1,536,704</u>

Donated Equipment

During fiscal years 2017 and 2016, the Agency received donated equipment with a fair value of \$96,836 and \$824,640, respectively, which is reflected as donated equipment in the accompanying statements of activities and changes in net assets.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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12. CONTINUING OPERATIONS

In fiscal years 2017 and 2016, the Agency had changes in net assets from operations of \$(2,399,377) and \$(5,988,403), respectively. Depreciation expense represents \$653,955 and \$649,388 of the changes in net assets from operations for the years ended June 30, 2017 and 2016, respectively.

During fiscal year 2017, the Agency took major strides to reduce operating costs, both at the programmatic level and in the indirect infrastructure. The Agency did this through a restructure of its headquarters and regional staff and a diversification of programming offerings to include lighter cost service models. In addition, the Agency developed and implemented a five-year strategy, with a goal to diversify impactful services and stabilize the Agency financially. These efforts resulted in an increase in the Agency's cash of approximately 9% and a decline in the deficit in changes in net assets from operations by approximately 60%.

During fiscal year 2018, the Agency intends to continue to reduce operating costs by focusing the extended learning day program efforts to several key districts (reducing the number of states in which it operates from six to four) and by implementing a new program (see page 7), whereby the Agency will integrate the hands-on project based apprenticeship programming into the traditional school day. This new model is designed to create impact at scale and will ultimately reduce the organizational operating expenses built up under the current extended learning day model. These changes are expected to reduce operating expenses by approximately 17% in fiscal year 2018.

13. RECLASSIFICATIONS

Certain amounts in the fiscal year 2016 financial statements have been reclassified to conform to the fiscal year 2017 presentation.