



**FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

CITIZEN SCHOOLS, INC.

Contents
June 30, 2015 and 2014

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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, 2015 and 2014, 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, 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.

Alexander, Brown, Fenning & Co., P.C.
Boston, Massachusetts
September 10, 2015

CITIZEN SCHOOLS, INC.Statements of Financial Position
June 30, 2015 and 2014

Assets	2015	2014
Current Assets:		
Cash	\$ 4,031,211	\$ 4,838,862
Current portion of pledges receivable	5,592,225	7,260,248
Public sector receivable	2,112,911	2,165,170
Prepaid expenses and other	154,319	462,239
Total current assets	11,890,666	14,726,519
Restricted Cash and Cash Equivalents	109,033	109,025
Investment	259,701	250,005
Pledges Receivable, net of current portion, allowance for doubtful accounts and discount	1,813,340	1,631,581
Property and Equipment, net	775,138	1,049,006
Total assets	<u>\$ 14,847,878</u>	<u>\$ 17,766,136</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,515,877	\$ 1,232,555
Net Assets:		
Unrestricted:		
Operating	6,867,445	8,527,411
Property and equipment	671,295	739,880
Total unrestricted	7,538,740	9,267,291
Temporarily restricted	5,793,261	7,266,290
Total net assets	13,332,001	16,533,581
Total liabilities and net assets	<u>\$ 14,847,878</u>	<u>\$ 17,766,136</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Statements of Activities

For the Years Ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Support and Revenue:						
Grants and contributions - private	\$ 10,703,241	\$ 5,069,825	\$ 15,773,066	\$ 14,400,779	\$ 6,577,837	\$ 20,978,616
Public sector	10,514,940	-	10,514,940	9,692,408	-	9,692,408
Donated goods and services	2,074,552	-	2,074,552	1,911,259	-	1,911,259
Investment income and other	10,021	-	10,021	21,648	-	21,648
Net assets released from restrictions	6,542,854	(6,542,854)	-	5,361,371	(5,361,371)	-
Total operating support and revenue	29,845,608	(1,473,029)	28,372,579	31,387,465	1,216,466	32,603,931
Operating Expenses:						
Program services:						
State Services	4,730,267	-	4,730,267	4,670,670	-	4,670,670
National Services	2,413,826	-	2,413,826	2,408,406	-	2,408,406
Field Development	7,265,453	-	7,265,453	7,006,957	-	7,006,957
Campus Operations	11,120,518	-	11,120,518	12,241,154	-	12,241,154
Total program services	25,530,064	-	25,530,064	26,327,187	-	26,327,187
Support services:						
Development	3,010,232	-	3,010,232	3,000,005	-	3,000,005
General and administrative	3,033,863	-	3,033,863	2,891,024	-	2,891,024
Total support services	6,044,095	-	6,044,095	5,891,029	-	5,891,029
Total operating expenses	31,574,159	-	31,574,159	32,218,216	-	32,218,216
Changes in net assets	\$ (1,728,551)	\$ (1,473,029)	\$ (3,201,580)	\$ (830,751)	\$ 1,216,466	\$ 385,715

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, 2015 and 2014

	<u>Operating</u>	<u>Unrestricted Property and Equipment</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets, June 30, 2013	\$ 9,293,222	\$ 804,820	\$ 10,098,042	\$ 6,049,824	\$ 16,147,866
Changes in net assets	<u>(765,811)</u>	<u>(64,940)</u>	<u>(830,751)</u>	<u>1,216,466</u>	<u>385,715</u>
Net Assets, June 30, 2014	8,527,411	739,880	9,267,291	7,266,290	16,533,581
Changes in net assets	<u>(1,659,966)</u>	<u>(68,585)</u>	<u>(1,728,551)</u>	<u>(1,473,029)</u>	<u>(3,201,580)</u>
Net Assets, June 30, 2015	<u>\$ 6,867,445</u>	<u>\$ 671,295</u>	<u>\$ 7,538,740</u>	<u>\$ 5,793,261</u>	<u>\$ 13,332,001</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (3,201,580)	\$ 385,715
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	609,445	583,279
Bad debts	69,155	79,316
Unrealized gain on investment	(9,696)	-
Change in pledges receivable discount	9,240	(443)
Loss on disposal of property and equipment	3,688	17,372
Capital grant	-	(40,564)
Donated investment	-	(250,005)
Changes in operating assets and liabilities:		
Pledges receivable	1,408,539	(4,978,913)
Public sector receivable	51,589	2,589,696
Prepaid expenses and other	307,920	(96,520)
Restricted cash and cash equivalents	(8)	14,002
Accounts payable and accrued expenses	283,322	288,661
	<u> </u>	<u> </u>
Net cash used in operating activities	(468,386)	(1,408,404)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(339,265)	(358,428)
Cash Flows from Financing Activities:		
Capital grant	-	40,564
	<u> </u>	<u> </u>
Net Change in Cash	(807,651)	(1,726,268)
Cash:		
Beginning of year	4,838,862	6,565,130
	<u> </u>	<u> </u>
End of year	<u>\$ 4,031,211</u>	<u>\$ 4,838,862</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2015

	Program Services				Total Program Services	Support Services		Total
	State Services	National Services	Field Development	Campus Operations		Development	General and Admins- trative	
Personnel and Related:								
Salaries	\$ 2,827,470	\$ 1,171,795	\$ 4,220,927	\$ 7,414,720	\$ 15,634,912	\$ 1,590,295	\$ 1,641,903	\$ 18,867,110
Fringe benefits	271,085	76,312	431,233	992,662	1,771,292	124,187	162,024	2,057,503
Payroll taxes	222,670	87,263	322,859	602,907	1,235,699	116,398	128,316	1,480,413
Total personnel and related	<u>3,321,225</u>	<u>1,335,370</u>	<u>4,975,019</u>	<u>9,010,289</u>	<u>18,641,903</u>	<u>1,830,880</u>	<u>1,932,243</u>	<u>22,405,026</u>
Occupancy:								
Rent	144,275	124,348	121,253	159,795	549,671	57,456	144,266	751,393
Utilities	76,003	74,218	44,522	42,000	236,743	21,009	79,484	337,236
Total occupancy	<u>220,278</u>	<u>198,566</u>	<u>165,775</u>	<u>201,795</u>	<u>786,414</u>	<u>78,465</u>	<u>223,750</u>	<u>1,088,629</u>
Other:								
In-kind services	328,139	346,945	514,592	48,069	1,237,745	519,463	317,344	2,074,552
Professional fees and services	270,242	172,273	517,489	391,960	1,351,964	261,141	183,817	1,796,922
Equipment/software	148,165	113,021	82,416	105,538	449,140	36,853	129,115	615,108
Depreciation	99,629	47,554	125,435	225,315	497,933	49,159	62,353	609,445
Travel	97,699	59,635	160,974	127,950	446,258	65,657	52,169	564,084
Meetings and trainings	85,544	49,521	123,035	143,223	401,323	72,970	30,516	504,809
Professional fees - evaluation	-	-	425,694	-	425,694	-	-	425,694
Direct campus expenses	-	-	-	422,669	422,669	-	-	422,669
Office expenses	31,648	17,919	48,104	67,560	165,231	26,250	22,835	214,316
Communications	36,162	17,281	41,920	82,178	177,541	8,912	22,990	209,443
Transportation	-	-	-	202,258	202,258	-	-	202,258
Other expenses	31,067	26,982	15,786	12,508	86,343	17,120	28,385	131,848
Insurance	16,845	6,231	21,041	49,027	93,144	5,959	10,457	109,560
Entrance and membership fees	17,029	9,250	25,320	8,579	60,178	9,898	7,416	77,492
Bad debts	9,486	6,371	13,609	12,109	41,575	21,344	6,236	69,155
Promotional materials and advertising	17,109	6,907	9,244	9,491	42,751	6,161	4,237	53,149
Total other	<u>1,188,764</u>	<u>879,890</u>	<u>2,124,659</u>	<u>1,908,434</u>	<u>6,101,747</u>	<u>1,100,887</u>	<u>877,870</u>	<u>8,080,504</u>
Total expenses	<u>\$ 4,730,267</u>	<u>\$ 2,413,826</u>	<u>\$ 7,265,453</u>	<u>\$ 11,120,518</u>	<u>\$ 25,530,064</u>	<u>\$ 3,010,232</u>	<u>\$ 3,033,863</u>	<u>\$ 31,574,159</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2014

	Program Services				Total Program Services	Support Services		Total
	State Services	National Services	Field Development	Campus Operations		Development	General and Adminis- trative	
Personnel and Related:								
Salaries	\$ 2,817,633	\$ 1,212,347	\$ 3,972,170	\$ 8,160,500	\$ 16,162,650	\$ 1,475,879	\$ 1,646,818	\$ 19,285,347
Fringe benefits	276,459	86,799	413,436	1,125,963	1,902,657	110,428	187,277	2,200,362
Payroll taxes	232,493	95,365	323,575	694,354	1,345,787	114,007	133,818	1,593,612
Total personnel and related	<u>3,326,585</u>	<u>1,394,511</u>	<u>4,709,181</u>	<u>9,980,817</u>	<u>19,411,094</u>	<u>1,700,314</u>	<u>1,967,913</u>	<u>23,079,321</u>
Occupancy:								
Rent	140,699	122,890	95,622	172,672	531,883	58,051	149,672	739,606
Utilities	72,017	73,829	30,820	37,337	214,003	28,640	82,856	325,499
Total occupancy	<u>212,716</u>	<u>196,719</u>	<u>126,442</u>	<u>210,009</u>	<u>745,886</u>	<u>86,691</u>	<u>232,528</u>	<u>1,065,105</u>
Other:								
In-kind services	248,562	235,965	507,021	59,221	1,050,769	739,890	120,600	1,911,259
Professional fees and services	284,132	178,244	367,411	439,180	1,268,967	212,280	173,846	1,655,093
Equipment/software	110,805	90,166	59,344	65,288	325,603	25,518	88,741	439,862
Depreciation	100,720	72,470	93,453	181,762	448,405	45,284	89,590	583,279
Travel	165,241	102,156	205,827	212,980	686,204	81,864	77,741	845,809
Meetings and trainings	43,084	23,772	56,528	97,300	220,684	17,881	21,203	259,768
Professional fees - evaluation	-	-	698,960	-	698,960	-	-	698,960
Direct campus expenses	-	-	-	493,312	493,312	-	-	493,312
Office expenses	34,713	22,359	43,387	67,520	167,979	27,305	23,694	218,978
Communications	35,211	16,810	39,435	85,836	177,292	9,709	22,552	209,553
Transportation	-	-	-	252,310	252,310	-	-	252,310
Other expenses	60,046	45,358	20,659	20,748	146,811	21,168	43,614	211,593
Insurance	10,093	3,515	14,792	38,211	66,611	4,331	6,734	77,676
Entrance and membership fees	19,544	15,824	42,499	6,985	84,852	12,677	11,602	109,131
Bad debts	11,326	6,146	16,237	26,630	60,339	11,210	7,767	79,316
Promotional materials and advertising	7,892	4,391	5,781	3,045	21,109	3,883	2,899	27,891
Total other	<u>1,131,369</u>	<u>817,176</u>	<u>2,171,334</u>	<u>2,050,328</u>	<u>6,170,207</u>	<u>1,213,000</u>	<u>690,583</u>	<u>8,073,790</u>
Total expenses	<u>\$ 4,670,670</u>	<u>\$ 2,408,406</u>	<u>\$ 7,006,957</u>	<u>\$ 12,241,154</u>	<u>\$ 26,327,187</u>	<u>\$ 3,000,005</u>	<u>\$ 2,891,024</u>	<u>\$ 32,218,216</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2015 and 2014

1. OPERATIONS AND NONPROFIT STATUS

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 2015, the Agency operated at twenty-nine sites, enrolling approximately 4,900 low-income students in eleven districts across seven states and engaged approximately 2,400 citizen teacher volunteers.

In fiscal year 2014, the Agency operated at thirty-two sites, enrolling approximately 4,900 low-income students in thirteen districts across seven states and engaged approximately 2,500 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 2015, the Agency operated programs in the following states and cities:

- Massachusetts - six programs located in Boston and Chelsea
- California - five programs located in Redwood City, East Palo Alto, Oakland, and San Jose
- Illinois - four programs located in Chicago
- New Jersey - two programs located in Newark
- Texas - three programs located in Houston
- North Carolina - four programs located in Charlotte and Durham
- New York - five 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, 2015 and 2014

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.

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, support for Science, Technology, Engineering and Math (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 programs 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 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 11).

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2015 and 2014

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 \$4,687,000 and \$4,082,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 \$24,001 and \$20,000 at June 30, 2015 and 2014, 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 \$28,158 and \$16,547 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

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. There was no donated property for the years ended June 30, 2015 or 2014. 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 any related liabilities and 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 pages 9 and 10).

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>2015</u>	<u>2014</u>
Time restricted	\$ 5,332,105	\$ 6,800,914
Purpose restricted	357,313	156,250
Unexpired gifts for long-lived assets (see page 9)	<u>103,843</u>	<u>309,126</u>
Total	<u>\$ 5,793,261</u>	<u>\$ 7,266,290</u>

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2015 and 2014

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>2015</u>	<u>2014</u>
Expiration of time restrictions	\$ 6,184,334	\$ 4,954,774
Expiration of capital restrictions	205,283	217,847
Expiration of purpose restrictions	<u>153,237</u>	<u>188,750</u>
Total	<u>\$ 6,542,854</u>	<u>\$ 5,361,371</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 an initial maturity date of January 13, 2015, and was extended under similar terms through March 31, 2016. Restricted cash and cash equivalents are valued using Level 1 inputs.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Investment

Investment consists of the Agency's holding of an equity investment in a limited partnership (the Partnership) and is valued using Level 3 inputs (see Note 7). The Agency's investment in the Partnership is held for long-term purposes. The Agency has elected to apply ASC Topic, *Financial Instruments*, when valuing its investment in the Partnership, thus, records its investment at fair value. The valuation of the investment is estimated by the Agency's management using data obtained from third parties, knowledge of the Partnership's industry and other factors. This data includes a valuation report of the Partnership completed by a third party valuation advisor. Due to the inherent uncertainty of valuations, estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the difference could be material. Realized gains or losses are reported upon sale or exchange. Therefore, the value presented herein for this investment is not necessarily indicative of the amount that the Agency could realize in a current transaction. Under ASC Topic, *Financial Instruments*, investment income includes interest and dividends from this investment, which is recorded when earned or declared, and realized gains and losses on investment transactions which are recorded as incurred. Unrealized gains and losses are recorded based on changes in fair value during the period. The investment is not insured and is subject to ongoing market fluctuations.

All Other Assets and Liabilities

The carrying values of all other assets and liabilities does 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, 2015 and 2014. The Agency's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through September 10, 2015, 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.

3. NOTE PAYABLE

The Agency has available up to \$5,000,000 under a line of credit agreement with a bank, with an extended maturity date of January 31, 2016. Borrowings under this agreement are due on demand and interest is payable monthly. This line of credit bears interest at the bank's prime lending rate (3.25% at June 30, 2015 and 2014), plus .50%. This line of credit is unsecured and had no outstanding balance at June 30, 2015 and 2014. The line of credit is subject to specified covenants, with which the Agency was in compliance as of June 30, 2015 and 2014.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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4. LEASE AGREEMENTS

The Agency leases space for its headquarters and six 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, 2015 and 2014, was \$126,809 and \$102,025, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position. Gross rent expense under the facility leases was approximately \$1,170,000 and \$1,145,000 for the years ended June 30, 2015 and 2014, 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>
2016	\$ 1,035,648	\$ 208,078
2017	\$ 934,962	\$ 181,248
2018	\$ 879,439	\$ 181,248
2019	\$ 647,312	\$ 181,248
2020	\$ 662,416	\$ 181,248
Thereafter	\$ 1,626,905	\$ 438,016

The Agency has two sublease agreements for portions of the headquarters space. One of the subleases will terminate in November 2015. Revenue under the subleases of approximately \$419,000 and \$405,000 for the years ended June 30, 2015 and 2014, respectively, has been netted against rent expense in the accompanying statements of functional expenses. The remaining lease payments on these sublease agreements for rent and common area fees are \$137,833 and \$36,838, respectively, due in fiscal year 2016.

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.

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, 2015 and 2014, the Agency contributed \$215,720 and \$237,844, respectively, which is 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.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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6. CONCENTRATIONS OF RISK (Continued)

Approximately 27% and 24% of net pledges, accounts receivable and public sector receivables were due from two donors as of June 30, 2015 and 2014, respectively.

7. INVESTMENT

The investment consists of an equity investment in the Partnership that was donated to the Agency in fiscal year 2014 by a member of the Board of Directors, who is a Co-Founder and owner of the Partnership. The investment represents a non-controlling interest in the respective Partnership and the Agency's ability to liquidate this position may be limited. The Agency recognized \$20,504 of revenue for the year ended June 30, 2014, pertaining to dividends declared by the Partnership. There was no dividend revenue for the year ended June 30, 2015. The Agency recognized approximately \$9,700 of unrealized gains for the year ended June 30, 2015, based on the current valuation of the Partnership of \$259,701, which is recorded in investment income and other in the accompanying 2015 statement of activity. No unrealized gains or losses were recorded during fiscal year 2014.

A reconciliation of the Partnership's investment activity, valued using level 3 inputs, is as follows for the years ended June 30, 2015 and 2014:

Balance, June 30, 2013	\$ -
Donated interest in the Partnership	<u>250,005</u>
Balance, June 30, 2014	250,005
Unrealized gain	<u>9,696</u>
Balance, June 30, 2015	<u>\$ 259,701</u>

8. PLEDGES RECEIVABLE

As of June 30, 2015 and 2014, the Agency has unconditional pledges for current and future operations (also see Note 2). As of June 30, 2015 and 2014, these pledges are due as follows:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 5,592,225	\$ 7,260,248
Due in two to four years	<u>1,857,500</u>	<u>1,662,500</u>
	7,449,725	8,922,748
Less - discount and allowance	<u>44,160</u>	<u>30,919</u>
	7,405,565	8,891,829
Less - current portion	<u>5,592,225</u>	<u>7,260,248</u>
	<u>\$ 1,813,340</u>	<u>\$ 1,631,581</u>

Pledges receivable due in greater than one year have been discounted to present value using various discount rates ranging from 0.11% to .28%.

The Agency had \$2,522,892 and \$2,881,415 of pledges receivable which were recorded as unrestricted net assets at June 30, 2015 and 2014, respectively. These amounts were released from restrictions during fiscal years 2015 and 2014 based on the donor's intent. All remaining pledges receivable are included within temporarily restricted net assets (see Note 2).

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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9. CONDITIONAL GRANTS

As of June 30, 2014, the Agency had \$423,351 of conditional grants available through fiscal year 2015. Since these grants were conditional upon the Agency meeting certain performance goals, they were not reflected in the accompanying financial statements until such conditions were substantially met. During fiscal year 2015, the Agency met the conditions and earned \$90,000, which is included in grants and contributions - private in the accompanying statement of activities for the year then ended. Also, during fiscal year 2015 it was determined that the milestones as detailed in one of the grant agreements would not be met and the remaining balance of \$333,351 will not be recognized as revenue. There are no conditional grants as of June 30, 2015.

10. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Furniture, fixtures and equipment	\$ 2,305,963	\$ 2,109,862
Leasehold improvements	<u>1,175,924</u>	<u>1,793,312</u>
	3,481,887	3,903,174
Less - accumulated depreciation	<u>2,706,749</u>	<u>2,854,168</u>
	<u>\$ 775,138</u>	<u>\$ 1,049,006</u>

11. DONATED GOODS AND SERVICES

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

	<u>2015</u>	<u>2014</u>
Strategic consulting	\$ 1,625,000	\$ 1,650,000
Legal consulting	205,784	179,934
Printing services	165,000	2,557
Rent and maintenance	<u>78,768</u>	<u>78,768</u>
	<u>\$ 2,074,552</u>	<u>\$ 1,911,259</u>

12. RELATED PARTY TRANSACTION

During fiscal year 2015, the former Chief Executive Officer was a member of the Agency's Board of Directors and was contracted to provide transitional consulting services to the Agency. He received payments for these services totaling \$282,620 during fiscal year 2015.

13. RECLASSIFICATION

Certain amounts in the fiscal year 2014 financial statements have been reclassified to conform with the fiscal year 2015 presentation.