



**FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

CITIZEN SCHOOLS, INC.

Contents
June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

AAFCPAs, Inc.

Westborough, Massachusetts
December 2, 2020

CITIZEN SCHOOLS, INC.Statements of Financial Position
June 30, 2020 and 2019

Assets	2020	2019
Current Assets:		
Cash	\$ 1,333,355	\$ 237,691
Current portion of pledges receivable	1,487,790	1,744,755
Public sector receivable	295,933	974,986
Prepaid expenses and other	51,309	29,605
Total current assets	3,168,387	2,987,037
Restricted Cash	30,210	29,999
Pledges Receivable, net of current portion, allowance for doubtful accounts and discount	806,215	1,202,916
Property and Equipment, net	48,411	102,134
Total assets	<u>\$ 4,053,223</u>	<u>\$ 4,322,086</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of note payable	\$ 10,472	\$ -
Conditional advance	314,551	-
Accounts payable and accrued expenses	516,915	1,143,457
Total current liabilities	841,938	1,143,457
Long-Term Liabilities:		
Note payable, net of current portion	11,856	-
Total liabilities	<u>853,794</u>	<u>1,143,457</u>
Net Assets:		
Without donor restrictions:		
Operating	897,935	269,498
Property and equipment	26,083	102,134
Total without donor restrictions	924,018	371,632
With donor restrictions	2,275,411	2,806,997
Total net assets	<u>3,199,429</u>	<u>3,178,629</u>
Total liabilities and net assets	<u>\$ 4,053,223</u>	<u>\$ 4,322,086</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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenue:						
Grants and contributions - private	\$ 3,803,514	\$ 1,019,196	\$ 4,822,710	\$ 5,922,702	\$ 600,000	\$ 6,522,702
Public sector	3,874,460	-	3,874,460	3,794,921	-	3,794,921
Donated goods and services	291,816	-	291,816	2,028,106	-	2,028,106
Net assets released from donor restrictions	<u>1,550,782</u>	<u>(1,550,782)</u>	<u>-</u>	<u>2,048,764</u>	<u>(2,048,764)</u>	<u>-</u>
Total operating support and revenue	<u>9,520,572</u>	<u>(531,586)</u>	<u>8,988,986</u>	<u>13,794,493</u>	<u>(1,448,764)</u>	<u>12,345,729</u>
Operating Expenses:						
Program services:						
Extended Learning Time	4,198,911	-	4,198,911	5,371,834	-	5,371,834
Catalyst	925,493	-	925,493	1,059,917	-	1,059,917
Makers and Mentors	<u>1,831,618</u>	<u>-</u>	<u>1,831,618</u>	<u>4,039,927</u>	<u>-</u>	<u>4,039,927</u>
Total program services	<u>6,956,022</u>	<u>-</u>	<u>6,956,022</u>	<u>10,471,678</u>	<u>-</u>	<u>10,471,678</u>
Support services:						
Development	797,056	-	797,056	1,438,377	-	1,438,377
General and Administrative	<u>1,215,108</u>	<u>-</u>	<u>1,215,108</u>	<u>1,688,407</u>	<u>-</u>	<u>1,688,407</u>
Total support services	<u>2,012,164</u>	<u>-</u>	<u>2,012,164</u>	<u>3,126,784</u>	<u>-</u>	<u>3,126,784</u>
Total operating expenses	<u>8,968,186</u>	<u>-</u>	<u>8,968,186</u>	<u>13,598,462</u>	<u>-</u>	<u>13,598,462</u>
Changes in net assets	552,386	(531,586)	20,800	196,031	(1,448,764)	(1,252,733)
Net Assets:						
Beginning of year	<u>371,632</u>	<u>2,806,997</u>	<u>3,178,629</u>	<u>175,601</u>	<u>4,255,761</u>	<u>4,431,362</u>
End of year	<u>\$ 924,018</u>	<u>\$ 2,275,411</u>	<u>\$ 3,199,429</u>	<u>\$ 371,632</u>	<u>\$ 2,806,997</u>	<u>\$ 3,178,629</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 20,800	\$ (1,252,733)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	85,139	346,325
Bad debt recoveries	-	(21,066)
Change in pledges receivable discount	(24,218)	(142,424)
Changes in operating assets and liabilities:		
Pledges receivable	677,884	1,115,368
Public sector receivable	679,053	(440,788)
Prepaid expenses and other	(21,704)	(18,118)
Conditional advance	314,551	-
Accounts payable and accrued expenses	(626,542)	49,386
Accrued rent	-	(248,633)
	<u>1,104,963</u>	<u>(612,683)</u>
Net cash provided by (used in) operating activities	1,104,963	(612,683)
Cash Flows from Financing Activities:		
Payments on note payable	(9,088)	-
	<u>1,095,875</u>	<u>(612,683)</u>
Net Change in Cash and Restricted Cash	1,095,875	(612,683)
Cash and Restricted Cash:		
Beginning of year	<u>267,690</u>	<u>880,373</u>
End of year	<u><u>\$ 1,363,565</u></u>	<u><u>\$ 267,690</u></u>
Reconciliation of Cash and Restricted Cash Reported Within the Statements of Financial Position:		
Cash	\$ 1,333,355	\$ 237,691
Restricted cash	<u>30,210</u>	<u>29,999</u>
Total cash and restricted cash	<u><u>\$ 1,363,565</u></u>	<u><u>\$ 267,690</u></u>
Supplemental Disclosure of Non-Cash Transactions:		
Acquisition of property and equipment financed through note payable	<u><u>\$ 31,416</u></u>	<u><u>\$ -</u></u>

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2020

(With Summarized Comparative Totals for the Year Ended June 30, 2019)

	2020						2019	
	Program Services			Support Services			Total	Total
Extended Learning Time	Catalyst	Makers and Mentors	Total Program Services	Development	General and Administrative	Total		
Personnel and Related:								
Salaries	\$ 3,039,141	\$ 575,293	\$ 1,123,624	\$ 4,738,058	\$ 494,859	\$ 605,306	\$ 5,838,223	\$ 7,101,623
Fringe benefits	398,355	75,406	147,279	621,040	64,864	79,340	765,244	1,005,118
Payroll taxes	233,370	44,176	86,281	363,827	37,999	46,480	448,306	522,340
Total personnel and related	<u>3,670,866</u>	<u>694,875</u>	<u>1,357,184</u>	<u>5,722,925</u>	<u>597,722</u>	<u>731,126</u>	<u>7,051,773</u>	<u>8,629,081</u>
Other:								
Professional fees and services	137,049	63,878	257,307	458,234	103,647	181,973	743,854	1,133,255
In-kind goods and services	-	41,285	58,715	100,000	-	191,816	291,816	1,949,338
Occupancy	76,066	14,399	28,123	118,588	12,386	15,150	146,124	663,573
Equipment and software	52,141	9,864	24,180	86,185	20,000	10,379	116,564	284,697
Other	47,329	8,959	17,498	73,786	7,706	9,426	90,918	51,270
Promotional materials and advertising	1,361	50,000	2,286	53,647	22,708	12,247	88,602	22,914
Depreciation	44,320	8,390	16,386	69,096	7,217	8,826	85,139	346,325
Insurance	38,454	7,279	14,217	59,950	6,261	7,659	73,870	42,678
Transportation	66,686	-	-	66,686	-	-	66,686	140,788
Travel	3,440	2,826	20,981	27,247	3,263	22,702	53,212	97,094
Direct campus expenses	19,162	17,218	1,384	37,764	2,647	1,092	41,503	87,720
Office	11,917	2,174	20,162	34,253	2,975	2,269	39,497	31,267
Communications	20,116	3,808	7,437	31,361	3,276	4,007	38,644	40,698
Meetings and trainings	8,254	474	5,758	14,486	6,564	16,436	37,486	58,344
Entrance and membership fees	1,750	64	-	1,814	684	-	2,498	19,420
Total other	<u>528,045</u>	<u>230,618</u>	<u>474,434</u>	<u>1,233,097</u>	<u>199,334</u>	<u>483,982</u>	<u>1,916,413</u>	<u>4,969,381</u>
Total expenses	<u>\$ 4,198,911</u>	<u>\$ 925,493</u>	<u>\$ 1,831,618</u>	<u>\$ 6,956,022</u>	<u>\$ 797,056</u>	<u>\$ 1,215,108</u>	<u>\$ 8,968,186</u>	<u>\$ 13,598,462</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services			Support Services			Total
	Extended Learning Time	Catalyst	Makers and Mentors	Total Program Services	Development	General and Administrative	
Personnel and Related:							
Salaries	\$ 3,414,530	\$ 480,579	\$ 1,741,042	\$ 5,636,151	\$ 919,473	\$ 545,999	\$ 7,101,623
Fringe benefits	433,505	108,767	208,190	750,462	99,177	155,479	1,005,118
Payroll taxes	254,083	35,101	127,603	416,787	65,848	39,705	522,340
Total personnel and related	<u>4,102,118</u>	<u>624,447</u>	<u>2,076,835</u>	<u>6,803,400</u>	<u>1,084,498</u>	<u>741,183</u>	<u>8,629,081</u>
Other:							
Professional fees and services	350,484	164,034	254,076	768,594	105,773	258,888	1,133,255
In-kind goods and services	87,750	87,750	1,404,000	1,579,500	87,750	282,088	1,949,338
Occupancy	216,179	68,299	85,470	369,948	64,948	228,677	663,573
Equipment and software	95,717	45,063	55,061	195,841	21,672	67,184	284,697
Other	14,816	8,576	8,512	31,904	8,491	10,875	51,270
Promotional materials and advertising	6,507	2,299	9,252	18,058	3,401	1,455	22,914
Depreciation	147,132	34,572	62,614	244,318	27,699	74,308	346,325
Insurance	18,401	3,741	9,879	32,021	6,163	4,494	42,678
Transportation	140,788	-	-	140,788	-	-	140,788
Travel	28,157	9,036	39,774	76,967	15,116	5,011	97,094
Direct campus expenses	87,720	-	-	87,720	-	-	87,720
Office	11,738	4,275	6,283	22,296	2,885	6,086	31,267
Communications	17,843	6,344	8,567	32,754	1,284	6,660	40,698
Meetings and trainings	32,418	1,095	17,165	50,678	6,568	1,098	58,344
Entrance and membership fees	14,066	386	2,439	16,891	2,129	400	19,420
Total other	<u>1,269,716</u>	<u>435,470</u>	<u>1,963,092</u>	<u>3,668,278</u>	<u>353,879</u>	<u>947,224</u>	<u>4,969,381</u>
Total expenses	<u>\$ 5,371,834</u>	<u>\$ 1,059,917</u>	<u>\$ 4,039,927</u>	<u>\$ 10,471,678</u>	<u>\$ 1,438,377</u>	<u>\$ 1,688,407</u>	<u>\$ 13,598,462</u>

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2020 and 2019

1. OPERATIONS AND NONPROFIT STATUS

Operations

Citizen Schools, Inc. (the Agency) is a Massachusetts nonprofit corporation founded in 1995 to help all students thrive through hands-on learning and career mentors. The Agency's vision is for all students to have experiences and career mentors that ignite curiosity, build confidence, and help them develop into the next generation of leaders. The Agency accomplishes this through a combination of three program models: Expanded Learning Time, Catalyst and Makers + Mentors Network (formerly US2020).

In fiscal year 2020, the Agency operated extended learning time (ELT) programs at twelve sites, enrolling approximately 2,496 students from schools in underserved communities across three states, and engaged approximately 320 "Citizen Teacher" volunteers. The Agency operated Catalyst, a Professional Development program to build teacher capacity, in twenty-five classrooms, supporting nearly 1,200 students and engaging an additional 50 volunteers. Catalyst's implementation was interrupted during the pandemic, which would have engaged double the number of teachers and class sections. The Agency also supported a network of regional coalitions, delivered through the Makers + Mentors Network, creating STEM-based hands-on learning for students in twenty-one cities, ultimately impacting over 200,000 students and over 20,000 volunteers.

In fiscal year 2019, the Agency operated ELT programs at sixteen sites, enrolling approximately 3,432 students from schools in underserved communities across three states, and engaged approximately 650 "Citizen Teacher" volunteers. The Agency also operated a pilot of Catalyst, in support of twenty-five classrooms, supporting nearly 1,200 students and engaging an additional 83 volunteers. The Agency also supported a network of regional coalitions creating STEM-based hands-on learning for students in twenty-one cities, ultimately impacting over 150,000 students and over 20,000 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 deeper student learning and engagement through hands-on "Apprenticeships" and Catalyst "Projects"
- Teaches collaborative problem solving and Social Emotional Learning
- Provides Professional Development for teachers to build their capacity for experiential learning
- Encourages students to develop solutions to real world challenges in their community
- Engages a diverse range of volunteer mentors, who model career pathways
- Raises students' awareness and aspirations for colleges and post-secondary education
- Develops an interest in STEM career pathways
- Creates networks for students, while building Social Emotional Skills
- Advances maker-centered learning and STEM mentorship
- Builds capacity for Community Based Organizations
- Instills and celebrates the values of confidence, curiosity, DEI (diversity, equity, inclusion), teamwork, and perseverance

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2020 and 2019

1. OPERATIONS AND NONPROFIT STATUS (Continued)

Operations (Continued)

In fiscal year 2020, the Agency operated programs in the following states and cities:

- Massachusetts - three afterschool programs located in Somerville; six Catalyst programs in Boston
- California - seven afterschool programs located in East Palo Alto, Oakland, and San Jose; two Catalyst programs in Oakland and Alum Rock
- New York - two afterschool programs located in New York City; seven Catalyst programs in New York City
- North Carolina - three Catalyst programs in Charlotte and Durham

The Agency's programs consist of the following:

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

State Services are 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. It also includes management of the Teaching Fellow program, a two-year leadership development program for aspiring young educators that can include earning a Master's of Education degree.

Catalyst Program - Catalyst Program includes all staff salary and benefits and all other expenses to develop and implement professional development and training to build experiential learning capacity for teachers, while recruiting, training and matching career mentors. It also includes program design, partner and school engagement, volunteer recruitment, teacher training, and stakeholder engagement.

Makers and Mentors Network (Field Development) - Makers and Mentors Network partners with communities and organizations to uplift STEM mentoring and maker-centered learning as essential tools to build a stronger, more diverse workforce. Recognizing that unlike talent, opportunity and access are not equally distributed, M+MN focuses on underserved and underrepresented students, including girls, students of color and youth from low-income communities. Makers + Mentors Network advances its mission through three primary models: a National Community of Practice, Make For All, and Maker Fellows.

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.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2020 and 2019

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).

Adoption of New Accounting Standards

Revenue Recognition - Revenue from Contracts with Customers

During fiscal year 2020, the Agency adopted FASB's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with respect to its revenue recognition policies. The core principle of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard did not have a significant impact on the Agency's financial statements as the Agency's primary source of revenue is contribution income, which is not subject to this accounting standard.

Revenue Recognition - Contributions

On July 1, 2019, the Agency adopted FASB's ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange transactions (reciprocal). In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Agency adopted ASU No. 2018-08 using a modified retrospective method effective July 1, 2019.

Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of July 1, 2019. As a result, the fiscal year 2019 financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of July 1, 2019. There were no significant changes within the financial statements as a result of adopting ASU No. 2018-08.

Restricted Cash

On July 1, 2019, the Agency adopted FASB's ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU amends the presentation of restricted cash within the statements of cash flows. The new guidance requires that restricted cash and cash equivalents be added to cash and cash equivalents for purposes of the statements of cash flows. This ASU has been applied retrospectively to all periods presented.

The adoption of ASU No. 2016-18 resulted in the following changes to the Agency's cash flow classification for the year ended June 30, 2019:

<u>Statement of Cash Flows</u>	<u>2019 As Previously Reported</u>	<u>Effect of Adoption</u>	<u>2019 As Adjusted</u>
Operating activities	<u>\$ (503,624)</u>	<u>\$ (109,059)</u>	<u>\$ (612,683)</u>

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition

The Agency's primary sources of revenue are from various Federal, state and local agencies. Amounts received under contracts with various Federal, state and local agencies, and grant and contributions have been recorded in accordance with ASC Subtopic 958-605. These contracts are considered non-reciprocal transactions because the general public receives the benefit as a result of the assets transferred. These conditional contributions are recognized as services are provided or as costs are incurred.

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, the Agency must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Agency should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as refundable advance liabilities until such conditions are met (see Note 9).

Contracts with Federal, state and local agencies are recorded as revenue as services are provided and costs are incurred. Contracts consist of government and state unit-rate and cost reimbursable contract revenue. The unit-rate contract revenue is recognized based on hours of service. Cost reimbursable contract revenue is recognized to the extent of expenditures incurred.

Grants and contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when unconditionally received or pledged. The Agency reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants and contributions received and satisfied in the same period are included in net assets without donor restrictions.

The Agency has cost reimbursable contracts from governmental agencies. Reimbursements totaled approximately \$1,137,000 and \$1,196,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, or on its results of operations for the years then ended.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

The Agency 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.

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.

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. There was no allowance deemed necessary as of June 30, 2020.

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.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are personnel and related, which are allocated on the basis of estimates of time and effort; occupancy, which is allocated on a square footage basis; and office expenses, which are allocated based on usage studies conducted annually.

Advertising

The Agency expenses advertising costs as they are incurred. Total advertising expenses were \$88,602 and \$21,590 for the years ended June 30, 2020 and 2019, respectively, and are included in professional fees and services in the accompanying statements of functional expenses.

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. 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.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its net assets without donor restrictions 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 related debt.

Net Assets With Donor Restrictions

The Agency receives contributions and grants that are restricted by donors for specific purposes or for future periods. These contributions are recorded as net assets with donor restrictions until they are released from restriction in accordance with donor designations (see page 10).

Included in net assets with donor restrictions 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).

Net assets with donor restrictions are time restricted at June 30, 2020 and 2019.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Expiration of time restrictions	\$ 1,550,782	\$ 1,747,602
Satisfaction of purpose restrictions	-	301,162
Total	<u>\$ 1,550,782</u>	<u>\$ 2,048,764</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.

CITIZEN SCHOOLS, INC.

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

Fair Value Measurements (Continued)

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

Restricted cash in the accompanying statements of financial position consists of a security deposit required for use of the corporate credit card. This security deposit is held in a savings account that is valued using Level 1 inputs.

All Other Assets and Liabilities

The carrying values of all other qualifying 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, 2020 and 2019. The Agency's informational returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through December 2, 2020, which is the date the financial statements were available to be issued. See Note 13 for an event that met the criteria for recognition or disclosure in the financial statements.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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3. LIQUIDITY

The Agency's financial assets available within one year from the statements of financial position date for general operating expenses are as follows at June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,333,355	\$ 237,691
Pledges receivable	1,487,790	1,744,755
Public sector receivable	<u>295,933</u>	<u>974,986</u>
Total financial assets	<u>\$ 3,117,078</u>	<u>\$ 2,957,432</u>

The Agency is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Agency must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Agency's liquidity management, the Agency has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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 2023. Certain leases require the Agency to maintain insurance coverage and the headquarters lease required the Agency to pay for its proportionate share of real estate taxes and operating expenses. The Agency was recognizing rent expense on a straight-line basis over the terms of the headquarters lease in accordance with ASC Topic, *Leases*. A new headquarters lease was signed in February 2020, with an expiration date in February 2022. Monthly payments under the lease are subject to fluctuation based on use of conference rooms on the premises. Gross rent expense under the facility leases was approximately \$116,000 and \$343,000 for the years ended June 30, 2020 and 2019, respectively.

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

<u>Year Ending June 30,</u>	<u>Rent</u>
2021	\$ 96,935
2022	\$ 39,794
2023	\$ 1

The Agency had two sublease agreements for a portion of the headquarters' space and a program site. Revenue under the subleases of approximately \$22,000 and \$152,000 for the years ended June 30, 2020 and 2019, respectively, has been netted against rent expense in the accompanying statements of functional expenses. These leases were terminated during fiscal year 2020.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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5. NOTE PAYABLE

In July 2019, the Agency entered into a loan agreement for \$31,416 with a lender to finance software. The note bears interest at a rate of 5.73% per annum and is payable in thirty-six equal installments. The note matures on July 13, 2022. Future minimum principal payments on the note are as follows:

2021	\$ 10,472
2022	\$ 11,088
2023	\$ 768

6. 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, 2020 and 2019, the Agency contributed \$64,749 and \$91,321, respectively, which are included in fringe benefits in the accompanying statements of functional expenses.

7. 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.

Approximately 64% and 51% of net pledges and public sector accounts receivables were due from three and two organizations as of June 30, 2020 and 2019, respectively. There were no concentrations of the Agency's operating support and revenue for the year ended June 30, 2019.

8. PLEDGES RECEIVABLE

As of June 30, 2020 and 2019, the Agency has unconditional pledges for current and future operations (see Note 2). As of June 30, 2020 and 2019, these pledges are due as follows:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 1,487,790	\$ 1,744,755
Due in two to four years	825,000	1,275,000
	<u>2,312,790</u>	<u>3,019,755</u>
Less - discount	18,785	43,003
Less - allowance	-	29,081
	<u>2,294,005</u>	<u>2,947,671</u>
Less - current portion	<u>1,487,790</u>	<u>1,744,755</u>
	<u>\$ 806,215</u>	<u>\$ 1,202,916</u>

Pledges receivable due in greater than one year have been discounted to present value using various discount rates ranging from 0.45% to 2.33%.

The Agency had \$292,526 and \$469,757 of pledges receivable which were recorded as net assets without donor restrictions at June 30, 2020 and 2019, respectively. These amounts were released from restrictions during fiscal years 2020 and 2019 based on the donors' intent. All remaining pledges receivable are included within net assets with donor restrictions (see Note 2).

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
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9. CONDITIONAL ADVANCE

The Agency applied for and was awarded a loan of \$1,229,161 from the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. Additionally, the Agency received a \$10,000 Economic Injury Disaster Loan (EIDL) advance. The funds will be used to pay certain payroll costs, including benefits, as well as rent and utilities during a covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred for a period of ten months from the end of the covered period, when the note, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. As part of the loan forgiveness process, the Agency will be required to repay the \$10,000 EIDL advance. The forgiveness calculations are subject to review and approval by the lending bank and the Small Business Association (SBA). In the opinion of management, the results of such reviews, will not have a material effect on the financial position of the Agency as of June 30, 2020, and on the changes in its net assets for the year then ended.

The Agency believes there is not more than a remote chance this loan will not be forgiven and, therefore, is accounting for it as a conditional grant under ASC Subtopic 958-605. It is determined that this grant is conditional upon certain performance requirements and the incurrence of eligible expenses. Amounts received are recognized as revenue when the Agency has incurred expenditures in compliance with the loan application and CARES Act requirements. As of June 30, 2020, the Agency recognized \$914,610 of grant revenue. The remaining balance of \$314,551 and the \$10,000 EIDL advance are shown as a conditional advance in the accompanying June 30, 2020 statement of financial position. The Agency has not accrued interest as of June 30, 2020, since it expects the interest to be forgiven.

10. PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	\$ 2,825,908	\$ 2,794,492
Leasehold improvements	<u>22,469</u>	<u>22,469</u>
	2,848,377	2,816,961
Less - accumulated depreciation	<u>2,799,966</u>	<u>2,714,827</u>
	<u>\$ 48,411</u>	<u>\$ 102,134</u>

11. DONATED GOODS AND SERVICES

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

	<u>2020</u>	<u>2019</u>
Legal consulting	\$ 113,060	\$ 194,338
Rent and maintenance	78,756	78,768
Program consulting	58,715	1,755,000
Computers	<u>41,285</u>	<u>-</u>
	<u>\$ 291,816</u>	<u>\$ 2,028,106</u>

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Notes to Financial Statements
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12. COMMITMENTS

As of June 30, 2020, the Agency has received contract and conditional commitments with a government agency and private donor through fiscal year 2022. These commitments are considered conditional under ASC Topic 958, as the Agency must incur qualified costs and provide specific services to meet performance requirements prior to recognizing revenue. Total contracts committed but not recognized as of June 30, 2020, summarized by agency, are as follows:

Private Foundation	\$ 150,000
Department of Defense STEM	<u>68,735</u>
Total	<u>\$ 218,735</u>

13. SUBSEQUENT EVENT

On July 8, 2020, the Agency received an EIDL from the Small Business Association in the amount of \$150,000. Principal and interest payments will be due in monthly installments of \$641 beginning twelve months after the issuance date. The loan bears interest at a rate of 2.75% per annum and the loan will mature thirty years from the issuance date.

14. CONTINGENCY

During fiscal year 2020, COVID-19 was recognized as a global pandemic. Federal, state and local governments in the United States have imposed restrictions on travel and business operations. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the impact it will have on the Agency's operations and financial position. The financial impact to the Agency, if any, cannot be reasonably estimated at this time.

15. RECLASSIFICATION

Certain amounts in the fiscal year 2019 financial statements have been reclassified to conform with the fiscal year 2020 presentation.