COMMUNITIES IN SCHOOLS
OF THE NATION'S CAPITAL, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

June 30, 2019

HAN GROUP
Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Communities in Schools of the Nation's Capital, Inc.

We have audited the accompanying financial statements of Communities in Schools of the Nation's Capital, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2019, and the related statement of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditors' 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 auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities in Schools of the Nation's Capital, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the Organization has adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities* (Topic 958)*: Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to that matter.

HAN GROUP LLC

HAN GROUP LLC
Washington, DC
February 14, 2020

Assets		
Cash	$	10,313
Grants and contracts receivable		211,144
Prepaid expenses and deposits		7,038
Property and equipment, net		6,380
Total assets	$	234,875
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	55,321
Accrued vacation		24,969
Line of credit		44,000
Capital lease obligation		6,160
Deferred rent		866
Deferred revenue		29,167
Total liabilities		160,483
Net Assets		
Without donor restrictions		18,613
With donor restrictions		55,779
Total net assets		74,392
Total liabilities and net assets	$	234,875

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Foundation and corporate contributions	$ 291,466	$ 453,333	$ 744,799
Government grants and contracts	580,403	373,250	953,653
Other contributions	228,244	19,612	247,856
Net assets released from restrictions:			
Satisfaction of purpose restrictions	953,601	(953,601)	-
Total revenue and support	2,053,714	(107,406)	1,946,308
Expenses			
Program services	1,696,808	-	1,696,808
Supporting services:			
Management and general	333,119	-	333,119
Fundraising	87,798	-	87,798
Total supporting services	420,917	-	420,917
Total expenses	2,117,725	-	2,117,725
Change in Net Assets	(64,011)	(107,406)	(171,417)
Net Assets, beginning of year	82,624	163,185	245,809
Net Assets, end of year	$ 18,613	$ 55,779	$ 74,392

See accompanying notes.

COMMUNITIES IN SCHOOLS OF THE NATION'S CAPITAL, INC.
Statement of Functional Expenses
Year Ended June 30, 2019

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and related expenses	$ 1,364,003	$ 257,670	$ 81,931	$ 339,601	$ 1,703,604
Consultants and contractors	146,124	13,496	36	13,532	159,656
Office expenses	92,386	8,786	2,805	11,591	103,977
Occupancy	52,375	7,124	2,274	9,398	61,773
Travel and meals	28,280	6,401	-	6,401	34,681
Accounting fees	-	14,019	-	14,019	14,019
Insurance	5,768	4,926	383	5,309	11,077
Bank fees	-	10,648	-	10,648	10,648
Conferences and meetings	2,265	5,488	-	5,488	7,753
Equipment, maintenance and rental	3,041	874	202	1,076	4,117
Depreciation	2,517	524	167	691	3,208
Dues and subscriptions	49	2,860	-	2,860	2,909
Other expenses	-	303	-	303	303
Total expenses	$ 1,696,808	$ 333,119	$ 87,798	$ 420,917	$ 2,117,725

See accompanying notes.

Cash Flows from Operating Activities	
Change in net assets	$ (171,417)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation	3,208
Changes in operating assets and liabilities:	
Grants and contracts receivable	15,803
Prepaid expenses and deposits	15,436
Accounts payable and accrued expenses	38,678
Accrued vacation	8,152
Deferred revenue	29,167
Deferred rent	(4,991)
Net cash used in operating activities	(65,964)
Cash Flows from Financing Activities	
Borrowings from line of credit	44,000
Payments on capital lease obligation	(3,080)
Net cash provided by financing activities	40,920
Net Decrease in Cash	(25,044)
Cash, beginning of year	35,357
Cash, end of year	$ 10,313

Supplemental Disclosure of Cash Flow Information	
Interest paid	$ 2,015

See accompanying notes.

1. Nature of Operations

Communities in Schools of the Nation's Capital, Inc. (the Organization) is a nonprofit organization under section 501(c)(3) of the Internal Revenue Code, and was incorporated in March 2004 in the District of Columbia. The Organization was established to engage in educational and charitable activities, including coordinating and delivering community resources such as social, educational, and human services to at-risk youth and their families in the Washington, D.C. metropolitan area through the supportive environment of the DC Public Schools and/or non-traditional educational sites. As such, the Organization matched available community resources with schools to help young people successfully learn, stay in school, and prepare for life. The Organization funds its program and supporting services primarily through grants, contributions and contracts from governments, foundations, corporates and individuals.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Grants and Contracts Receivable

Grants and contracts receivable represent amounts due from the Organization's various grants and contracts revenue sources. There was no allowance for doubtful accounts recorded at June 30, 2019 as the entire balance was deemed by management to be fully collectible. If an amount becomes uncollectible, it is expensed when that determination is made.

Property and Equipment

Property and equipment in excess of $5,000 is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the related assets ranging from three to six years. Expenditures for minor and routine repairs and maintenance are expensed as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expense.

2. Summary of Significant Accounting Policies (continued)

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's operations.

- *Net Assets With Donor Restrictions* represent funds subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization does not have any donor-imposed restrictions which are perpetual in nature at June 30, 2019.

Revenue Recognition

Cost reimbursable government and non-government grants or contract revenue is recognized based upon direct costs incurred plus allowable indirect costs. Revenue earned but not received from the granting or contracting agency is included in grants and contracts receivable in the accompanying statement of financial position. Conversely, revenue received in advance of incurring allowable costs is reported as deferred revenue in the accompanying statement of financial position.

Unconditional grants and contributions are recognized as revenue when received or promised and are reported as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Revenue from all other sources is recognized when earned.

Donated Goods and Services

Donated goods and services are recorded at their fair values in the period received. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization received no donated service during the year ended June 30, 2019.

A substantial number of volunteers have donated significant amounts of time to the Organization and its programs and activities. However, these donated services are not reflected in the accompanying financial statements since they do not meet the criteria for recognition.

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of activities. The statement of functional expenses present expenses by function and natural classification. The Organization incurs expense that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on either financial or nonfinancial data, such as labor distribution or estimates of time and effort incurred by personnel. The expenses that are allocated include salaries and related expenses, occupancy, depreciation, insurance, equipment maintenance and rental and office expenses.

Change in Accounting Principles

Effective July 1, 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for financial statements issued for fiscal years beginning after December 15, 2017.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Organization's net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

2. Summary of Significant Accounting Policies (continued)

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of ASU 2014-09 requires the recognition of revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration for what an organization expects it will receive in association with this exchange. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2020.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of these Accounting Standards Updates on the Organization's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Concentrations

During the year ended June 30, 2019, 70% of grants and contracts receivable were due from three entities. The Organization received 51% of its revenue from five entities during the year ended June 30, 2019.

4. Property and Equipment

The Organization held the following property and equipment at June 30, 2019:

Computer and software	$ 28,583
Equipment under capital lease	13,860
Total property and equipment	42,443
Less: accumulated depreciation	(36,063)
Property and equipment, net	$ 6,380

5. Commitments and Contingencies

Line of Credit

The Organization has a revolving line of credit agreement for up to $45,000 with a financial institution. The line of credit is collateralized by the Organization's assets. Borrowings on the line accrue interest variably at an annual rate of 5.5%. At June 30, 2019, the Organization had $44,000 of related debt outstanding.

Capital Lease

During the year ended June 30, 2018, the Organization entered into a capital lease for office equipment. The capital lease assets are included in property and equipment at a total cost of $13,860. The accumulated amortization for the capital lease assets was $7,480 at June 30, 2019.

The future minimum lease payments required under this capital lease are as follows:

For the years ending June 30:	
2020	$ 3,471
2021	3,471
2022	1,157
Total future minimum lease payments	8,099
Less: amount representing interest	(1,939)
Capital lease obligation	6,160
Less: current portion of capital lease obligation	(2,640)
Capital lease obligation, noncurrent	$ 3,520

5. Commitments and Contingencies (continued)

Operating Lease

The Organization entered into a one-year lease agreement for its office space which expired in January 2011. Upon the expiration, the lease converted to a month-to-month term with a two-month termination notification period. In June 2019, the Organization entered into a new two-year lease agreement for its existing office space commencing in June 2019 and expiring in June 2021. The lease calls for annual rent increases of 2.5%. The lease also provides for rent abatement for the first three months of the lease. Rent expense for the year ended June 30, 2019 was $46,332. At June 30, 2019, the future minimum lease payments are as follows:

For the year ending June 30:		
2020	$	51,556
2021		52,845
Total future minimum lease payments	$	104,401

Government Grants and Contract

Funds that the Organization receives from government agencies are subject to audit under the provisions of the grant and contract agreements. The ultimate determination of amounts received under the grant and contract agreements are based upon the allowance of costs reported to and accepted by the oversight agency. Until such grants are closed out, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability exists.

6. Net Assets With Donor Restrictions

Net assets were restricted at June 30, 2019:

Subject to passage of time:	$	27,500
Subject to expenditures for specific purposes:		
Cardozo		9,628
Moten		8,917
Johnson		3,878
Hart		3,196
Field trips and project supplies		2,660
Total net assets with donor restrictions	$	55,779

6. Net Assets With Donor Restrictions (continued)

During the year ended June 30, 2019, releases from net assets with donor restrictions were for the following:

Subject to the passage of time:	$ 75,000
Subject to expenditures for specific purposes:	
Multiple Schools	359,961
CS Model	167,000
US-ED	120,000
Ward 8 elementary schools	80,000
Woodson	60,000
Cardozo	29,283
Moten	19,191
Johnson	18,436
Ahold USA	12,707
Kramer	7,500
Hart	4,026
Stuart Hobson	497
Total net assets with donor restrictions	$ 953,601

7. Related Party Transactions

The Organization received contributions from board members and from organizations related to the board members. The total of such contributions was $156,245 for the year ended June 30, 2019, which is included in contributions in the accompanying statement of activities.

In November 2018, the Organization borrowed $34,000 from one of its board members as a short-term loan. This was re-paid in full in December 2018.

8. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required for the years ended June 30, 2019, as the Organization had no taxable net unrelated business income.

8. Income Taxes (continued)

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic 740-10, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

The Organization performed an evaluation of uncertain tax positions for the years ended June 30, 2019 and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. The statute of limitations generally remains open for three tax years with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns.

9. Liquidity and Availability of Resources

The following schedule reflects the Organization's financial assets as of June 30, 2019 available for use in the next year, reduced by amounts not available for general use because of contractual obligations or donor-imposed restrictions within one year of this date:

Cash	$	10,313
Grants and contributions receivable in less than one year		211,144
Financial assets available to meet cash needs for general expenditures within one year	$	221,457

The Organization's policy is to structure its financial assets to become available as general expenditures, liabilities and other obligations become due, operating within a prudent range of financial soundness and stability while maintaining and monitoring reserves to provide reasonable assurance that long-term program goals with donor restrictions will continue to be met.

10. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 14, 2020, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements.