



**FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

CITIZEN SCHOOLS, INC.

Contents
June 30, 2022 and 2021

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Citizen Schools, Inc. (a Massachusetts nonprofit corporation) (the Agency), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Citizen Schools, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Agency's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

AAFCPA, Inc.

Westborough, Massachusetts
December 14, 2022

CITIZEN SCHOOLS, INC.Statements of Financial Position
June 30, 2022 and 2021

Assets	2022	2021
Current Assets:		
Cash	\$ 8,575,881	\$ 1,857,452
Pledges receivable	305,195	1,981,984
Public sector receivable, net	2,293,364	1,240,209
Prepaid expenses and other	43,223	72,057
Total current assets	11,217,663	5,151,702
Restricted Cash	30,210	30,210
Property and Equipment, net	15,269	39,408
Total assets	<u>\$ 11,263,142</u>	<u>\$ 5,221,320</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of notes payable	\$ 3,376	\$ 11,088
Accounts payable and accrued expenses	680,949	285,907
Total current liabilities	684,325	296,995
Long-Term Liabilities:		
Notes payable, net of current portion	155,095	150,768
Total liabilities	<u>839,420</u>	<u>447,763</u>
Net Assets:		
Without donor restrictions:		
Operating	10,355,758	3,087,552
Property and equipment	15,269	27,552
Total without donor restrictions	10,371,027	3,115,104
With donor restrictions	52,695	1,658,453
Total net assets	<u>10,423,722</u>	<u>4,773,557</u>
Total liabilities and net assets	<u>\$ 11,263,142</u>	<u>\$ 5,221,320</u>

CITIZEN SCHOOLS, INC.

 Statements of Activities and Changes in Net Assets
 For the Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Support and Revenue:						
Grants and contributions - private	\$ 10,825,912	\$ 52,695	\$ 10,878,607	\$ 3,115,879	\$ 893,453	\$ 4,009,332
Public sector	3,019,266	-	3,019,266	3,038,234	-	3,038,234
Donated goods and services	399,229	-	399,229	802,387	-	802,387
Net assets released from donor restrictions	1,658,453	(1,658,453)	-	1,510,411	(1,510,411)	-
Total operating support and revenue	<u>15,902,860</u>	<u>(1,605,758)</u>	<u>14,297,102</u>	<u>8,466,911</u>	<u>(616,958)</u>	<u>7,849,953</u>
Operating Expenses:						
Program services:						
Expanded Learning Time	2,944,744	-	2,944,744	1,693,745	-	1,693,745
Catalyst	1,547,557	-	1,547,557	1,286,218	-	1,286,218
Makers + Mentors	1,427,646	-	1,427,646	1,355,472	-	1,355,472
Total program services	<u>5,919,947</u>	<u>-</u>	<u>5,919,947</u>	<u>4,335,435</u>	<u>-</u>	<u>4,335,435</u>
Support services:						
Development	1,290,687	-	1,290,687	634,123	-	634,123
General and administrative	1,436,303	-	1,436,303	1,586,864	-	1,586,864
Total support services	<u>2,726,990</u>	<u>-</u>	<u>2,726,990</u>	<u>2,220,987</u>	<u>-</u>	<u>2,220,987</u>
Total operating expenses	<u>8,646,937</u>	<u>-</u>	<u>8,646,937</u>	<u>6,556,422</u>	<u>-</u>	<u>6,556,422</u>
Changes in net assets from operations	7,255,923	(1,605,758)	5,650,165	1,910,489	(616,958)	1,293,531
Net Income from Discontinued Operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>280,597</u>	<u>-</u>	<u>280,597</u>
Change in net assets	7,255,923	(1,605,758)	5,650,165	2,191,086	(616,958)	1,574,128
Net Assets:						
Beginning of year	<u>3,115,104</u>	<u>1,658,453</u>	<u>4,773,557</u>	<u>924,018</u>	<u>2,275,411</u>	<u>3,199,429</u>
End of year	<u>\$ 10,371,027</u>	<u>\$ 52,695</u>	<u>\$ 10,423,722</u>	<u>\$ 3,115,104</u>	<u>\$ 1,658,453</u>	<u>\$ 4,773,557</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 5,650,165	\$ 1,574,128
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	24,139	36,912
Bad debt expense	-	15,000
Change in pledges receivable discount	-	(18,785)
Changes in operating assets and liabilities:		
Pledges receivable	1,676,789	330,806
Public sector receivable	(1,053,155)	(959,276)
Prepaid expenses and other	28,834	(20,748)
Accounts payable and accrued expenses	395,042	(231,008)
Conditional advance	-	(314,551)
Net cash provided by operating activities	<u>6,721,814</u>	<u>412,478</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	-	(27,909)
Cash Flows from Financing Activities:		
Proceeds from debt issuance	-	150,000
Payments on note payable	(3,385)	(10,472)
Net cash provided by (used in) financing activities	<u>(3,385)</u>	<u>139,528</u>
Net Change in Cash and Restricted Cash	6,718,429	524,097
Cash and Restricted Cash:		
Beginning of year	<u>1,887,662</u>	<u>1,363,565</u>
End of year	<u>\$ 8,606,091</u>	<u>\$ 1,887,662</u>
Reconciliation of Cash and Restricted Cash Reported Within the Statements of Financial Position:		
Cash	\$ 8,575,881	\$ 1,857,452
Restricted cash	<u>30,210</u>	<u>30,210</u>
Total cash and restricted cash	<u>\$ 8,606,091</u>	<u>\$ 1,887,662</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 1,536</u>	<u>\$ 1,007</u>

CITIZEN SCHOOLS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2022

(With Summarized Comparative Totals for the Year Ended June 30, 2021)

	2022						2021	
	Program Services			Support Services			Total	Total
	Expanded Learning Time	Catalyst	Makers + Mentors	Total Program Services	Development	General and Administrative		
Personnel and Related:								
Salaries	\$ 576,571	\$ 896,687	\$ 875,032	\$ 2,348,290	\$ 841,160	\$ 813,697	\$ 4,003,147	\$ 3,625,174
Fringe benefits	48,658	107,811	75,445	231,914	82,234	80,785	394,933	517,904
Payroll taxes	34,843	70,584	59,990	165,417	65,619	67,017	298,053	401,468
Total personnel and related	660,072	1,075,082	1,010,467	2,745,621	989,013	961,499	4,696,133	4,544,546
Other:								
Professional fees and services	1,935,096	231,134	213,234	2,379,464	82,242	213,872	2,675,578	683,401
In-kind goods and services	32,642	99,418	84,497	216,557	92,425	90,247	399,229	802,387
Grant expense	200,000	-	-	200,000	-	-	200,000	-
Equipment and software	15,484	49,364	38,978	103,826	42,930	40,726	187,482	181,409
Occupancy	9,170	27,927	23,736	60,833	25,963	25,351	112,147	69,235
Promotional materials and advertising	53,133	9,542	9,721	72,396	10,072	8,662	91,130	29,603
Travel	6,427	21,734	18,451	46,612	20,770	23,134	90,516	10,252
Insurance	3,727	11,351	9,647	24,725	10,552	11,233	46,510	53,406
Other	1,190	70	159	1,419	50	36,747	38,216	57,814
Office	6,397	6,847	5,982	19,226	7,360	9,906	36,492	25,980
Depreciation	1,974	6,011	5,109	13,094	5,588	5,457	24,139	36,912
Communications	7,986	3,002	2,701	13,689	2,790	2,725	19,204	4,188
Meetings and trainings	3,027	2,000	4,155	9,182	-	6,030	15,212	13,157
Direct campus expenses	8,161	3,288	140	11,589	-	-	11,589	38,269
Entrance and membership fees	258	787	669	1,714	932	714	3,360	5,863
Total other	2,284,672	472,475	417,179	3,174,326	301,674	474,804	3,950,804	2,011,876
Total expenses	\$ 2,944,744	\$ 1,547,557	\$ 1,427,646	\$ 5,919,947	\$ 1,290,687	\$ 1,436,303	\$ 8,646,937	\$ 6,556,422

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

 Statement of Functional Expenses
 For the Year Ended June 30, 2021

	Program Services			Support Services			Total
	Expanded Learning Time	Catalyst	Makers + Mentors	Total Program Services	Development	General and Administrative	
Personnel and Related:							
Salaries	\$ 878,599	\$ 790,533	\$ 901,998	\$ 2,571,130	\$ 439,185	\$ 614,859	\$ 3,625,174
Fringe benefits	248,936	81,244	68,388	398,568	29,428	89,908	517,904
Payroll taxes	185,352	76,558	64,470	326,380	32,235	42,853	401,468
Total personnel and related	<u>1,312,887</u>	<u>948,335</u>	<u>1,034,856</u>	<u>3,296,078</u>	<u>500,848</u>	<u>747,620</u>	<u>4,544,546</u>
Other:							
Professional fees and services	33,087	124,248	194,602	351,937	39,116	292,348	683,401
In-kind goods and services	156,547	111,696	54,451	322,694	27,227	452,466	802,387
Equipment and software	84,255	39,505	29,681	153,441	26,727	1,241	181,409
Occupancy	31,705	12,922	11,506	56,133	5,591	7,511	69,235
Promotional materials and advertising	4,165	-	367	4,532	20,392	4,679	29,603
Travel	1,400	-	2,978	4,378	866	5,008	10,252
Insurance	24,567	10,147	8,545	43,259	4,272	5,875	53,406
Other	3,370	-	913	4,283	357	53,174	57,814
Office	4,047	1,669	7,379	13,095	3,487	9,398	25,980
Depreciation	18,184	7,511	6,325	32,020	3,162	1,730	36,912
Communications	302	-	477	779	-	3,409	4,188
Meetings and trainings	5,242	2,785	2,345	10,372	1,173	1,612	13,157
Direct campus expenses	11,888	26,381	-	38,269	-	-	38,269
Entrance and membership fees	2,099	1,019	1,047	4,165	905	793	5,863
Total other	<u>380,858</u>	<u>337,883</u>	<u>320,616</u>	<u>1,039,357</u>	<u>133,275</u>	<u>839,244</u>	<u>2,011,876</u>
Total expenses	<u>\$ 1,693,745</u>	<u>\$ 1,286,218</u>	<u>\$ 1,355,472</u>	<u>\$ 4,335,435</u>	<u>\$ 634,123</u>	<u>\$ 1,586,864</u>	<u>\$ 6,556,422</u>

The accompanying notes are an integral part of these statements.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2022 and 2021

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 2022, the Agency operated Expanded Learning Time (ELT) programs at two sites, enrolling approximately 150 students from schools in underserved communities across Massachusetts, and engaged "Citizen Teacher" volunteers. The Agency also supported a network of regional coalitions creating STEM-based hands-on learning for students in twenty-six cities, ultimately impacting approximately 200,000 students and approximately 20,000 volunteers. Student enrollment numbers in fiscal year 2022 were impacted by the sunsetting of the ELT program, the COVID-19 pandemic and school enrollment in general.

In fiscal year 2022, the Agency operated ELT programs in Massachusetts with two programs located in Somerville (Boston area).

The Agency's programs consist of the following:

ELT (Expanded Learning Time) - ELT expenditures include all costs incurred to operate the Agency's ELT campuses, which includes salaries/wages, stipends, benefits and fringe costs for front-line managers and staff (Campus Directors, Teaching Fellows, Teaching Associates) and all other expenses (e.g., supplies, transportation) related to the program incurred at the campus level.

ELT programs are run with the support of regional offices and personnel. This support includes recruitment, onboarding and ongoing support for campus staff and citizen teacher volunteers, 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 of Education degree.

Catalyst Program - Catalyst Program includes all staff salary and benefits and all other expenses to develop and implement school-day programs, program design, partner and school engagement, volunteer recruitment, teacher training, and stakeholder engagement.

Makers + Mentors Network/MMN - The Agency is dedicated to mobilizing public and community support for high-quality hands-on project-based learning and maker-centered learning. Makers + Mentors Network leads this work by organizing Support for STEM programming and initiatives, new site cultivation, and the development of an AmeriCorps service experience called the Maker Fellowship, designed to engage under-resourced communities in STEM learning in partnership with local community colleges, colleges and universities. Costs include staff salaries and benefits and direct expenses related to convening and mobilizing a national coalition of local organizations.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2022 and 2021

1. OPERATIONS AND NONPROFIT STATUS (Continued)

Operations (Continued)

ELT in California - Discontinued Operations - During fiscal year 2021, the Agency made the decision to discontinue operating the Expanded Learning Time program in California effective July 1, 2021. As a result, the operations for this segment of the Expanded Learning Time program are presented as net income from discontinued operations in the accompanying statement of activities and changes in net assets for the year ended June 30, 2021 (see Note 13). This program was operated by an independent nonprofit beginning in fiscal year 2022. The Agency provided \$2,054,900 of support to this nonprofit in fiscal year 2022. Two of the Agency's Board members are also Board members of this nonprofit.

Support Services - Services provided by the Agency's national office to support ELT, Catalyst and MMN. Services include staff and citizen teacher recruitment, talent and human resource support, relationships and key stakeholder management, nationwide best practice sharing, program research and evaluation, and curriculum development, the Agency's Diversity, Equity and Inclusion work, communication, and other functions to support our work in and with communities.

Nonprofit Status

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Accounting Principle Adoption

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 is intended to increase the transparency of contributed nonfinancial assets (donated goods and services) for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU do not change the recognition and measurement requirements of donated goods and services. During fiscal year 2022, the Agency adopted ASU 2020-07. The adoption of this ASU did not impact the Agency's net asset classes, changes in net assets, or cash flows for the year ended June 30, 2022. This ASU has been applied retrospectively to all periods presented.

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, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Agency's primary sources of revenue are from various Federal, state and local agencies. Amounts received under contracts with these agencies, and grants and contributions have been recorded in accordance with ASC Subtopic 958-605, *Revenue Recognition*. These contracts are considered non-reciprocal transactions because the general public receives the benefit as a result of the assets transferred.

In accordance with ASC Subtopic 958-605, 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. This standard 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 public sector support 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 \$885,000 and \$915,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, or on its results of operations for the years then ended.

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 12) 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.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

An allowance for doubtful accounts is calculated based on management's best estimate of the amount of uncollectible pledges and public sector receivables. The estimate of uncollectible receivables is based on past collection experience together with a review of the current status of existing receivables. There was an allowance of \$15,000 as of June 30, 2022 and 2021, on the public sector receivable.

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 \$91,130 and \$29,603 for the years ended June 30, 2022 and 2021, respectively.

Grant Expense

The Agency expenses grants when they are awarded. Total grant expenses were \$200,000 for the year ended June 30, 2022, and is expected to be paid in fiscal year 2023.

Property and Equipment and Depreciation

Purchased property and equipment with a cost of \$5,000 or more 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.

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.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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.

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 restricted for the following at June 30:

	<u>2022</u>	<u>2021</u>
Time	\$ 52,695	\$ 1,408,453
Purpose	<u>-</u>	<u>250,000</u>
	<u>\$ 52,695</u>	<u>\$ 1,658,453</u>

Net assets were released from donor restrictions as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Passage of time	\$ 1,408,453	\$ 1,510,411
Satisfaction of purpose	<u>250,000</u>	<u>-</u>
	<u>\$ 1,658,453</u>	<u>\$ 1,510,411</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.

CITIZEN SCHOOLS, INC.

Notes to Financial Statements
June 30, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of services are reported as operating support and revenue and expenses in the accompanying statements of activities and changes in net assets. Non-operating revenue includes net income from discontinued operations (see Note 13).

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 accompanying financial statements at June 30, 2022 and 2021. The Agency's informational returns are subject to examination by Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through December 14, 2022, 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.

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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>2022</u>	<u>2021</u>
Cash	\$ 8,575,881	\$ 1,857,452
Pledges receivable	305,195	1,981,984
Public sector receivable	<u>2,293,364</u>	<u>1,240,209</u>
	11,174,440	5,079,645
Less - net assets subject to purpose restrictions	<u>-</u>	<u>250,000</u>
Total financial assets	<u>\$ 11,174,440</u>	<u>\$ 4,829,645</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 program site lease agreements, the landlord had 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 12) through the end of the lease agreement, June 30, 2022. The program site leases expired at June 30, 2022, and were not renewed. The Agency's headquarters lease requires monthly payments, which are subject to fluctuation based on use of conference rooms on the premises. The headquarter site lease expires in January 2023 and base rent for fiscal year 2023 is \$5,941. Gross rent expense, net of utilities, under the facility leases was approximately \$99,000 and \$69,000 for the years ended June 30, 2022 and 2021, respectively.

5. NOTES PAYABLE

In July 2019, the Agency entered into a loan agreement for \$31,416 with a lender to finance software. The note bore interest at a rate of 5.73% per annum and was payable in thirty-six equal installments. This note was secured by the software asset. The note was paid off as of June 30, 2022. The balance of this agreement at June 30, 2021, was \$11,856.

In July 2020, the Agency applied for, and was awarded, an Economic Injury Disaster Loan (EIDL) of \$150,000 from the Small Business Administration (SBA) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The loan bears interest at 2.75% and requires monthly payments of principal and interest of \$641 beginning in July 2022 through June 2050 (maturity). The loan is secured by all business assets. The balance of this note, including accrued interest at June 30, 2022 and 2021, was \$158,471 and \$150,000, respectively. There was no interest accrued on the EIDL note payable as of June 30, 2021, as it would be immaterial to the overall financial statements.

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5. NOTES PAYABLE (Continued)

Future minimum principal payments on the note over the next five years is as follows:

2023	\$ 3,376
2024	\$ 3,470
2025	\$ 3,567
2026	\$ 3,666
2027	\$ 3,769

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 twenty-one. The Agency matches employee contributions up to 3% per year, based on tenure. For the years ended June 30, 2022 and 2021, the Agency contributed \$36,372 and \$60,997, 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 38% and 65% of net pledges and public sector accounts receivable were due from one and three organizations as of June 30, 2022 and 2021, respectively.

In fiscal year 2022, the Agency received a gift from philanthropist Mackenzie Scott as part of her campaign to invest in nonprofit organizations. The Agency received a one-time gift of \$8,000,000 which is fully unrestricted in its use, in terms of time and purpose. This accounted for approximately 50% of operating support and revenue for the year ended June 30, 2022, and as a one-time gift, is not forecasted to renew.

8. PLEDGES RECEIVABLE

As of June 30, 2022 and 2021, the Agency has unconditional pledges for current operations. As of June 30, 2022 and 2021, these pledges are due within one year.

The Agency had \$252,500 and \$370,963 of pledges receivable, which were recorded as net assets without donor restrictions at June 30, 2022 and 2021, respectively. These amounts were released from restrictions during fiscal years 2022 and 2021 based on the donors' intent. All remaining pledges receivable are included within net assets with donor restrictions (see Note 2).

9. CONDITIONAL GRANTS

On July 20, 2021, the Agency applied for, and was awarded, a second loan of \$1,001,011 from the Paycheck Protection Program (PPP) established by the CARES Act through a bank. The funds were used to pay certain payroll costs, including benefits, as well as rent and utilities during a covered period as defined in the CARES Act. Effective May 16, 2022, the Agency received a full forgiveness for this loan from the SBA.

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9. **CONDITIONAL GRANTS** (Continued)

The Agency accounted for the loan as a conditional grant under ASC Subtopic 958-605. It was determined that this grant is conditional upon certain performance requirements and the incurrence of eligible expenses. Amounts received were recognized as revenue when the Agency had incurred expenditures in compliance with the loan application and CARES Act requirements. As of June 30, 2021, the Agency recognized \$1,315,562, which represents all of the second PPP loan and the remaining balance of a first PPP loan, which was forgiven in May 2021.

As of June 30, 2022, the Agency has received a conditional commitment from a private foundation through fiscal year 2023. This commitment is considered conditional under ASC Topic 958, as the Agency must provide specific services to meet performance requirements prior to recognizing revenue. Total contracts committed but not recognized as of June 30, 2022, is from a private foundation is \$37,695.

10. **THE EMPLOYEE RETENTION TAX CREDIT**

The Employee Retention Tax Credit (ERTC) was first established by the CARES Act and was extended and expanded by the Consolidated Appropriations Act (CAA) and American Rescue Plan (ARP). ERTC provides a refundable tax credit against certain employment taxes equal to 50% of the first \$10,000 in qualified wages paid to each employee between March 12, 2020, and December 31, 2020 (2020 ERTC), and 70% of the first \$10,000, per quarter, in qualified wages paid to each employee between January 1, 2021 and September 30, 2021 (2021 ERTC). To be eligible, the Agency must meet certain conditions as described in applicable laws and regulations.

The Agency has determined that it qualifies for the 2021 ERTC, and therefore, is accounting for it as conditional grants under ASC Subtopic 958-605. These grants are conditional upon certain performance requirements and the incurrence of eligible expenses. In the opinion of management, these conditions were met in fiscal years 2022 and 2021 for the applicable quarters. The Agency recognized revenue related to the credits totaling \$300,970 and \$680,257 in fiscal years 2022 and 2021, respectively, which is included in public sector revenue in the accompanying statements of activities and changes in net assets. At June 30, 2022 and 2021, the Agency is owed \$981,227 and \$680,257, respectively, which is included in public sector receivable in the accompanying statements of financial position.

The Agency filed amended Federal employment tax returns in order to claim the ERTC. Eligibility for the credit and the credit calculations are subject to review and approval by the Federal government. In the opinion of management, the results of such reviews and audit will not have a material effect on the financial position of the Agency as of June 30, 2022 or 2021, and on the changes in its net assets for the years then ended.

11. **PROPERTY AND EQUIPMENT**

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

	<u>2022</u>	<u>2021</u>
Furniture, fixtures and equipment	\$ 1,613,236	\$ 2,876,286
Less - accumulated depreciation	<u>1,597,967</u>	<u>2,836,878</u>
	<u>\$ 15,269</u>	<u>\$ 39,408</u>

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12. DONATED GOODS AND SERVICES

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

	<u>2022</u>	<u>2021</u>
Rent and maintenance	\$ 190,613	\$ 183,029
Legal consulting	162,606	194,321
Computers	27,290	47,037
Program consulting	<u>18,720</u>	<u>378,000</u>
	<u>\$ 399,229</u>	<u>\$ 802,387</u>

The Agency's policy related to donated goods and services is to utilize the assets given to carry out the mission of the Agency. If an asset is provided that does not allow the Agency to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

The Agency received donated rent and maintenance for program sites. One program site is provided at the \$1 cost to the Agency but based on current market rates for rental facilities the Agency would have paid \$190,613 and \$154,779 for the years ended June 30, 2022 and 2021, respectively. The other sites were provided at no cost to the Agency but based on current market rates for rental facilities the Agency would have paid \$28,250 for the year ended June 30, 2021.

The Agency was provided legal services from various law firms at no cost for consultations in the ordinary course of business. Based on current market rates for legal services, the Agency would have paid \$162,606 and \$194,321 for the years ended June 30, 2022 and 2021, respectively.

The Agency received donated computers with an estimated fair market value of \$27,290 and \$47,037 as of June 30, 2022 and 2021, respectively. The computers were provided to support the Agency's equipment and software expenses.

The Agency was provided program consulting services from various consultants at no cost for various program related services. Based on current market rates for the consulting services, the Agency would have paid \$18,720 and \$378,000 for the years ended June 30, 2022 and 2021, respectively.

All gifts-in-kind received by the Agency for the years ended June 30, 2022 and 2021, were considered without donor restrictions and able to be used by the Agency as determined by the Board of Directors and management.

13. DISCONTINUED OPERATIONS

The revenue and expenses related to the discontinued operations (see Note 1) for the year ended June 30, 2021, is as follows:

Operating support and revenue	\$ 1,745,920
Operating expenses	<u>1,465,323</u>
Income from discontinued operations	<u>\$ 280,597</u>

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14. CONTINGENCIES

The Agency is engaged in legal cases that have arisen in the normal course of its operations. The Agency believes that the outcome of these cases will not have a material adverse effect on the financial position of the Agency.