

COMMUNITIES IN SCHOOLS OF TENNESSEE

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2020

COMMUNITIES IN SCHOOLS OF TENNESSEE
Financial Statements
JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Communities In Schools of Tennessee

We have audited the accompanying statement of financial position of Communities in Schools of Tennessee as of June 30, 2020, and the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 of 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 Communities in Schools of Tennessee as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

October 29, 2020

COMMUNITIES IN SCHOOLS OF TENNESSEE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets

Cash and cash equivalents	\$ 3,828,434
Grants receivable	96,875
Accounts receivable	108,637
Prepays	10,210
Total current assets	<u>\$ 4,044,156</u>

Noncurrent Assets

Furniture	5,125
Less: accumulated depreciation	<u>(2,178)</u>
Total equipment	2,947
Total assets	<u>\$ 4,047,103</u>

LIABILITIES AND NET ASSETS

Current Liabilities

PPP loan	\$ 159,549
Accounts payable	3,413
Accrued liabilities	69,638
Total current liabilities	<u>232,600</u>

PPP loan

	199,436
Total liabilities	<u>432,036</u>

Net Assets

Without donor restrictions	491,548
With donor restrictions	3,123,519
Total net assets	<u>3,615,067</u>

Total liabilities and net assets	<u>\$ 4,047,103</u>
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The accompanying notes are an integral part of these financial statements

**COMMUNITIES IN SCHOOLS OF TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue			
Public support:			
Direct appropriation grant	\$ 1,500,000	\$ 3,000,000	\$ 4,500,000
Other grant income	806,181	123,519	929,700
Contributions	251,627	-	251,627
Total public support	<u>2,557,808</u>	<u>3,123,519</u>	<u>5,681,327</u>
Other revenue:		-	
Program service fees	847,117	-	847,117
Interest income	46,886	-	46,886
Total other revenue	<u>894,003</u>	<u>-</u>	<u>894,003</u>
Net assets released from restrictions	76,031	(76,031)	-
Total public support and other revenue	<u>3,527,842</u>	<u>3,047,488</u>	<u>6,575,330</u>
Expenses			
Program services	2,837,111	-	2,837,111
Supporting services:			
Management and general	478,986	-	478,986
Fundraising	67,287	-	67,287
Total supporting services	<u>546,273</u>	<u>-</u>	<u>546,273</u>
Total expenses	<u>3,383,384</u>	<u>-</u>	<u>3,383,384</u>
Change in net assets	144,458	3,047,488	3,191,946
Net assets at beginning of year	347,090	76,031	423,121
Net assets at end of year	<u>\$ 491,548</u>	<u>\$ 3,123,519</u>	<u>\$ 3,615,067</u>

The accompanying notes are an integral part of these financial statements

**COMMUNITIES IN SCHOOLS OF TENNESSEE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

Cash Flows From Operating Activities

Change in net assets	\$ 3,191,946
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	513
Changes in operating assets and liabilities:	
Grants receivable	(39,325)
Accounts receivable	(62,387)
Prepays	(3,708)
Accounts payable	1,504
Accrued liabilities	41,263
Net cash provided by operating activities	<u>3,129,806</u>

Cash Flows From Financing Activities

Proceeds from issuance of PPP loan	<u>358,985</u>
Net cash provided by financing activities	<u>358,985</u>
Net change in cash and cash equivalents	3,488,791
Cash and cash equivalents at beginning of year	339,643
Cash and cash equivalents at end of year	<u><u>\$ 3,828,434</u></u>

The accompanying notes are an integral part of these financial statements

**COMMUNITIES IN SCHOOLS OF TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 2,101,478	\$ 152,690	\$ 47,178	\$ 2,301,346
Employee benefits	317,331	18,760	7,500	343,591
Payroll taxes	165,745	11,048	3,742	180,535
Total compensation	<u>2,584,554</u>	<u>182,498</u>	<u>58,420</u>	<u>2,825,472</u>
School program materials	101,236	-	-	101,236
Other materials	2,330	-	658	2,988
Professional fees & consulting	7,415	57,238	5,971	70,624
Outside contract services	6,778	165,128	-	171,906
Training	12,321	-	-	12,321
Travel and meetings	45,065	6,658	150	51,873
Telephone and telecommunications	24,855	4,920	-	29,775
Equipment and maintenance	29,661	1,118	-	30,779
Office rent	19,165	19,165	-	38,330
Software and license fees	341	-	-	341
Printing and postage	365	3,060	5	3,430
Supplies	2,443	5,222	-	7,665
Payroll processing	-	5,223	-	5,223
Insurance	-	19,106	-	19,106
Depreciation	-	513	-	513
Miscellaneous	582	9,137	2,083	11,802
Total expenses by function	<u>\$ 2,837,111</u>	<u>\$ 478,986</u>	<u>\$ 67,287</u>	<u>\$ 3,383,384</u>
Current year's percentages	83.85%	14.16%	1.99%	100.00%

The accompanying notes are an integral part of these financial statements

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Communities in Schools of Tennessee (the “Organization”), is a nonprofit organization headquartered in Nashville, Tennessee. The Organization’s purpose is to surround students with a community of support, empowering them to stay in school and achieve in life. The Organization fulfills its mission by collaborating with school districts and schools to place site coordinators in schools to assess students’ needs and provide resources tailored to each student. The Organization partners with local businesses, social service agencies, health-care providers and volunteers to provide food, supplies, counseling, academic assistance or a positive role model. The Organization earns income from schools for its services and is supported primarily through grants and individual contributions.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor’s instructions.

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of Presentation-continued

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as net assets without donor restrictions. When a restriction expires in a period after the contributions are received, 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.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents. At June 30, 2020, the Organization had no cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Grants Receivable

The Organization considers grants receivable to be fully collectible at year-end. Accordingly, no allowance for doubtful accounts has been recorded.

Accounts Receivable

Accounts receivable are primarily non-interest-bearing amounts due from schools as annual fees for partnering with the Organization. The Organization considers accounts receivable are collectible in full. Accordingly, no allowance for doubtful accounts has been recorded.

Income Taxes

The Organization is a nonprofit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purpose (unless that income is otherwise excluded by the IRC). Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The Organization is not classified as a private foundation.

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Expense Recognition and Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.
- Facility rent, and other expenses that cannot be directly identified are also allocated on the basis of activity reports prepared by key personnel.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the website is updated with requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization has \$910,427 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$801,790 and accounts receivable of \$108,637. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

The Organization has a goal to maintain financial assets, which consist of cash on hand to meet 90 days of normal operating expenses. The Organization also has a policy to structure its financial assets to be available as its general expenditures, liabilities, and any other obligations come due.

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 – CONCENTRATION OF RISK

Amounts held in a financial institution are in excess of the Federal Deposit Insurance Corporation limit. The organization deposits its cash with a high-quality financial institution, and management believes the organization is not exposed to significant credit risk on those amounts.

NOTE 4– DIRECT APPROPRIATION GRANT

In July 2019, the Organization received \$4,500,000 from the State of Tennessee related to a 3-year pilot program to expand the Organization’s program into 23 high schools in 15 of the most economically distressed, rural counties in the state. The funds are restricted solely for this purpose. As of June 30, 2020, \$1,500,000 of funds has been released from restriction. The grant funds also earned \$40,500 of interest during 2020.

NOTE 5 – PPP LOAN

On April 27, 2020, the Organization was granted a loan from Pinnacle Bank in the aggregate amount of \$358,985, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (“CARES”), which was enacted March 27, 2020. The loan may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group health care benefits, rent, and utilities. The Company intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% with a deferral of payments for the first six months.

Maturities of loan are as follows:

2021	\$ 159,549
2022	<u>199,436</u>
	<u>\$ 358,985</u>

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2020, net assets with donor restrictions are available for the following purpose or period:

Purpose restriction

Rural expansion program \$3,064,387

Specific schools in Nashville, TN 59,132

Time restriction

School sites in Nashville, TN 50,000

\$3,123,519

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

School sites in Nashville, TN \$ 76,031

NOTE 7 – LEASE COMMITMENT

The Organization leases office facilities under an operating lease. Lease expires August 31, 2021. Rent expense for year ended June 30, 2020 totaled \$38,330.

Future minimum rental payments under noncancellable operating lease are as follows:

Rents

2021 \$ 43,250

2022 7,232

\$ 50,482

NOTE 8 – RETIREMENT PLAN

During fiscal year ended June 30, 2016, the Organization adopted a 401(k) plan whereby practically all employees may elect to contribute a portion of their salaries up to the Internal Revenue Code maximum annual limit. To be an eligible employee to participate in the plan, the employee must reach age 21. In addition, an employee is not required to complete a service requirement to participate in the plan. The plan provides for the Organization to make discretionary contributions to the plan. The Organization made a matching contribution to employees' salary reduction contribution up to a limit of 2% of annual compensation for the year ended June 30, 2020. Contributions amounted to \$14,552 for year ended June 30, 2020.

COMMUNITIES IN SCHOOLS OF TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 – RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the Organization’s results of future operations, financial position, and liquidity in fiscal year 2021.

NOTE 10 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through October 29, 2020, the issuance of the Organization’s financial statements.