

**COMMUNITIES IN SCHOOLS OF
SOUTH CENTRAL TEXAS, INC.**

Audited Financial Statements

August 31, 2016

AKIN, DOHERTY, KLEIN & FEUGE, P.C.
Certified Public Accountants

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Communities In Schools of South Central Texas, Inc.
New Braunfels, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Communities In Schools of South Central Texas Inc., which comprise the statement of financial position as of August 31, 2016, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 auditor's judgment, including the assessment of the risk 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.

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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 South Central Texas, Inc. as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

The financial statements of the Communities In Schools of South Central Texas, Inc. as of August 31, 2015, were audited by other auditors whose report dated December 25, 2015, expressed an unmodified opinion on those statements. As discussed in Note F, the Organization has restated these financial statements as presented on a comparative basis and included herein. It was determined that the endowment fund as previously reported at August 31, 2015 was overstated by approximately \$73,000, resulting in net assets being overstated by the same amount. Accordingly, net assets at August 31, 2015, and the statement of activities for the year ended August 31, 2015, have been restated to reflect these changes.

As part of our audit of the financial statements as of August 31, 2016, we also audited the adjustments described above and discussed in Note F that were applied to restate the financial statements as of August 31, 2015. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any other procedures to the financial statements as of August 31, 2015; accordingly, we do not express an opinion or any other form of assurance on the financial statements as of and for year ended August 31, 2015.


Akin, Doherty, Klein & Feuge, P.C.
San Antonio, Texas
December 23, 2016

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Statements of Financial Position
August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u> (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,131	\$ 66,318
Accounts receivable	85,034	51,848
Inventory	46,378	37,587
Prepaid expenses	9,119	13,577
Total current assets	<u>198,662</u>	<u>169,330</u>
Non-current assets:		
Property and equipment, net	693,103	704,633
Certificate of deposit	66,198	66,000
Total non-current assets	<u>759,301</u>	<u>770,633</u>
Total Assets	<u><u>\$ 957,963</u></u>	<u><u>\$ 939,963</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 7,613	\$ 25,664
Accrued retirement contribution	11,605	12,490
Line of credit	32,100	66,000
Long-term debt, current portion	12,795	162,263
Total current liabilities	<u>64,113</u>	<u>266,417</u>
Long-term debt, less current portion	499,956	512,751
Total liabilities	<u>564,069</u>	<u>779,168</u>
Net assets:		
Unrestricted	305,409	111,482
Temporarily restricted	88,485	49,313
Total net assets	<u>393,894</u>	<u>160,795</u>
Total Liabilities and Net Assets	<u><u>\$ 957,963</u></u>	<u><u>\$ 939,963</u></u>

See notes to audited financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Statement of Activities
Year Ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues			
Grants and Foundation Revenues:			
TEA funds	\$ 648,579	\$ -	\$ 648,579
DSHS adolescent health grant	105,757	-	105,757
YMHFA grant	77,493	-	77,493
Other grants and foundations	221,874	177,500	399,374
Service delivery agreements	884,500	-	884,500
Donations	225,170	45,211	270,381
Special events, net of expenses	258,841	-	258,841
Thrift store, net of expenses	71,615	-	71,615
	<u>2,493,829</u>	<u>222,711</u>	<u>2,716,540</u>
Other Revenues:			
In-kind contributions	594,010	-	594,010
Interest	431	-	431
Miscellaneous income	1,776	-	1,776
	<u>596,217</u>	<u>-</u>	<u>596,217</u>
Total support and revenues	3,090,046	222,711	3,312,757
Expenses			
Program services	2,599,939	-	2,599,939
Supporting services	459,216	-	459,216
Fundraising	20,503	-	20,503
	<u>3,079,658</u>	<u>-</u>	<u>3,079,658</u>
Change in Net Assets	10,388	222,711	233,099
Net assets released from restrictions	183,539	(183,539)	-
Net assets at beginning of year	111,482	49,313	160,795
	<u>111,482</u>	<u>49,313</u>	<u>160,795</u>
Net Assets at Year End	<u>\$ 305,409</u>	<u>\$ 88,485</u>	<u>\$ 393,894</u>

See notes to audited financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Statement of Activities
Year Ended August 31, 2015

	Unrestricted (Restated)	Temporarily Restricted (Restated)	Permanently Restricted (Restated)	Total (Restated)
Support and Revenues				
Grants and foundation revenues:				
TEA funds	\$ 618,882	\$ -	\$ -	\$ 618,882
DSHS adolescent health grant	41,623	-	-	41,623
YMHFA grant	-	-	-	-
Other grants and foundations	195,488	54,678	-	250,166
Service delivery agreements	853,910	-	-	853,910
Donations	247,636	20,973	3,877	272,486
Special events, net of expenses	224,910	-	-	224,910
Thrift store, net of expenses	16,954	-	-	16,954
	<u>2,199,403</u>	<u>75,651</u>	<u>3,877</u>	<u>2,278,931</u>
Other Revenues:				
In-kind contributions	518,902	-	-	518,902
Interest	284	-	-	284
Realized gain on investments	-	-	83	83
Miscellaneous income	2,497	-	-	2,497
	<u>519,683</u>	<u>-</u>	<u>83</u>	<u>519,846</u>
Total support and revenues	2,721,086	75,651	3,960	2,800,697
Expenses				
Program services	2,424,979	-	-	2,424,979
Supporting services	455,016	-	-	455,016
Fundraising	21,261	-	-	21,261
	<u>2,901,256</u>	<u>-</u>	<u>-</u>	<u>2,901,256</u>
Change in Net Assets	(180,170)	75,651	3,960	(100,559)
Net assets released from restrictions	155,729	(155,729)	-	-
Net assets at beginning of year	135,923	129,391	69,427	334,741
Transfer of endowment	-	-	(73,387)	(73,387)
	<u>135,923</u>	<u>129,391</u>	<u>(73,387)</u>	<u>334,741</u>
Net Assets at Year End	<u>\$ 111,482</u>	<u>\$ 49,313</u>	<u>\$ -</u>	<u>\$ 160,795</u>

See notes to audited financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Statement of Functional Expenses
Year Ended August 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>2016 Total</u>
Salaries, taxes and employee benefits	\$ 1,641,059	\$ 226,353	\$ 18,863	\$ 1,886,275
403b employer contribution	-	11,605	-	11,605
Insurance	16,653	2,271	-	18,924
DSHS adolescent health grant	83,202	-	-	83,202
Mentoring program	58,400	-	-	58,400
Occupancy	4,375	4,921	1,640	10,936
Professional services	-	17,070	-	17,070
Program expenses	99,621	11,069	-	110,690
Project success program	120,761	-	-	120,761
College bootcamp	36,570	-	-	36,570
Supplies, equipment, and technology	4,452	13,358	-	17,810
Travel and training	11,509	3,836	-	15,345
YMHFA grant expenses	76,963	-	-	76,963
Depreciation	3,264	17,833	-	21,097
	<u>2,156,829</u>	<u>308,316</u>	<u>20,503</u>	<u>2,485,648</u>
Total direct expenses				
In-kind contributions	<u>443,110</u>	<u>150,900</u>	<u>-</u>	<u>594,010</u>
Total expenses	<u>\$ 2,599,939</u>	<u>\$ 459,216</u>	<u>\$ 20,503</u>	<u>\$ 3,079,658</u>

See notes to audited financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Statement of Functional Expenses
Year Ended August 31, 2015

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fundraising</u>	<u>2015 Total</u>
Salaries, taxes and employee benefits	\$ 1,626,620	\$ 224,361	\$ 18,697	\$ 1,869,678
403b employer contribution	-	12,490	-	12,490
Insurance	14,723	2,008	-	16,731
DSHS adolescent health grant	63,757	-	-	63,757
Mentoring program	56,916	-	-	56,916
Occupancy	6,839	7,693	2,564	17,096
Professional services	-	14,036	-	14,036
Program expenses	60,304	6,701	-	67,005
Project success program	136,075	-	-	136,075
College bootcamp	65,336	-	-	65,336
Supplies, equipment, and technology	5,999	17,997	-	23,996
Travel and training	17,030	4,257	-	21,287
YMHFA grant expenses	-	-	-	-
Depreciation	3,378	14,573	-	17,951
	<u>2,056,977</u>	<u>304,116</u>	<u>21,261</u>	<u>2,382,354</u>
Total direct expenses				
In-kind contributions	<u>368,002</u>	<u>150,900</u>	<u>-</u>	<u>518,902</u>
Total expenses	<u>\$ 2,424,979</u>	<u>\$ 455,016</u>	<u>\$ 21,261</u>	<u>\$ 2,901,256</u>

See notes to audited financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>2015</u> (Restated)
Operating Activities		
Change in net assets	\$ 233,099	\$ (100,559)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	21,097	17,951
Realized (gain) on investments	-	(83)
Change in operating assets and liabilities:		
Accounts receivable	(33,186)	47,690
Inventory	(8,791)	(5,200)
Prepaid expenses	4,458	3,750
Accounts payable and accrued expense	<u>(18,936)</u>	<u>29,759</u>
Net cash provided (used) by operating activities	197,741	(6,692)
Investing Activities		
Purchase of property and equipment	(9,567)	(700,255)
Purchase of investments	<u>(198)</u>	<u>(69,877)</u>
Net cash used by investing activities	<u>(9,765)</u>	<u>(770,132)</u>
Financing Activities		
Principal payments on line of credit and long-term debt	(196,163)	(2,986)
Proceeds from line of credit and long term borrowings	<u>-</u>	<u>744,000</u>
Net cash provided (used) by financing activities	<u>(196,163)</u>	<u>741,014</u>
Change in cash and cash equivalents	(8,187)	(35,810)
Cash and cash equivalents at beginning of year	<u>66,318</u>	<u>102,128</u>
Cash and Cash Equivalents at End of Year	<u>\$ 58,131</u>	<u>\$ 66,318</u>
Supplemental Disclosures		
Cash paid for interest	\$ 23,569	\$ 5,987
Cash paid for income taxes	-	-

See notes to audited financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Notes to Audited Financial Statements
August 31, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Communities In Schools of South Central Texas, Inc. (CISSCTX or Organization) was organized as a nonprofit corporation on December 15, 1992 for the purpose of coordinating and delivering human services to at-risk youth and their families in South Central Texas. This is accomplished through the supportive environment of the public schools. CISSCTX endeavors to enable the participants to have access to a broad range of needed social and educational services.

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

Unrestricted Net Assets: Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed restrictions, that are more restrictive than CISSCTX's mission and purpose, that will be met by actions of CISSCTX and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grants received with restrictions, and whose restrictions are met in the same fiscal year, are reported as unrestricted in the statement of activities.

Permanently Restricted Net Assets: Net assets subject to donor-imposed restrictions that require they be maintained permanently by CISSCTX. Generally, the donors of these assets permit CISSCTX to use all or part of the income earned on any related investments for general or specific purposes.

Principles Determining Scope of Reporting Entity: The accompanying financial statements have been prepared as of August 31, the fiscal year end of CISSCTX. For contract periods which differ from the fiscal year of CISSCTX, the financial statements include those portions of each grant accrued (earned) during CISSCTX's fiscal year.

Contributions: Gifts of cash and other assets are reported as restricted support if they are not a part of the regular mission of the Organization and if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, such assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Contributions received with donor restrictions whose restrictions are met in the same reporting period are generally reported as unrestricted support in the same reporting year.

Service Delivery Agreements: School districts in Comal and Guadalupe Counties enter in agreements for CISSCTX to facilitate the academic and personal success of students who may be experiencing the effects of at-risk environments by providing the full range of the Organization's services.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand and deposits held by financial institutions with maturities of three months or less.

Accounts Receivable: Represents the amounts due for program services that are paid by federal, state, and local grants on a reimbursement basis; that is when qualifying expenses are incurred by the Organization, both a receivable and revenue are recorded. These services were provided primarily in July and August, and reimbursed in September and October. Accounts receivable are reported as outstanding principal, net of an allowance for doubtful accounts if deemed necessary. The allowance is generally determined based on an account-by-account review and historic trends. Accounts are charged off when collection efforts have failed and the account is deemed uncollectible. An allowance was not required at August 31, 2016 and 2015. Interest is not charged on the receivables.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Notes to Audited Financial Statements
August 31, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory: Inventory consists primarily of donated goods to the Thrift Store and is estimated based on market value.

Property and Equipment: Property and equipment is valued at historical cost or estimated fair value at the date of donation. Expenditures for betterments that materially extend the useful life of an asset are capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets, which is generally three years for equipment and thirty-nine years for buildings.

Investments: Investments are reported at fair market value determined by quoted market prices. Gains and losses (realized and unrealized) are reported as investment income in the accompanying statements of activities.

Employee Benefit Plan: The Organization has a 403(b) plan that is eligible to all employees to participate after 90 days of employment. Employees may contribute a percentage of their annual compensation up to the limit allowed by the IRS. The Organization's Board of Directors will determine annually any employer contribution to the Plan. The Organization contributions to the Plan totaled approximately \$12,000 in 2016 and 2015.

Income Taxes: CISSCTX is a tax-exempt organization under Internal Revenue Service Code Section 501(c)(3). Therefore, no provision for income taxes has been provided in these financial statements. In addition, the Organization is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. Donors of money and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Organization is not subject to Texas margin tax. Management is not aware of any tax positions that would have a significant impact on its financial position. Its federal tax returns for the last four years remain subject to examination.

Functional Allocation of Expenses: The costs of providing the services and other activities of the Organization have been summarized on a functional basis as a supplemental schedule to the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Special Events: Costs associated with special events are netted against the related revenue, and totaled approximately \$109,000 in 2016 and \$55,000 in 2015.

Donated Services, Material, and Facilities: The Organization may receive services, supplies, and equipment without payment or compensation. When the value of such services meets recognition criteria, it is reflected in the accompanying financial statements as revenues and expenditures in a like amount. In-kind contributions are measured and recorded at fair value on the date of donation. Equipment and other non-cash donations are recorded as contributions at cost or estimated fair value determined at the date of the donation. The fair market value of in-kind contributions for the year ended August 31, 2016 totaled \$594,010, consisting of \$150,900 for monthly facility rent and \$443,110 for professional services, clothing, food, office supplies, and school supplies. The fair market value of in-kind contributions for the year ended August 31, 2015 totaled \$518,902, consisting of \$150,900 for monthly facility rent and \$368,002 for donated school supplies. Donated contributions and services are reported as in-kind contributions on the statement of activities.

Thrift Store: The Organization owns a thrift store. Costs associated with the thrift store are netted against the related revenue, and totaled approximately \$102,000 in 2016 and \$79,000 in 2015.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Notes to Audited Financial Statements
August 31, 2016 and 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Subsequent Events: Subsequent events have been evaluated by management through the date of the independent auditor's report. Material subsequent events, if any, are disclosed in a separate footnote to these financial statements.

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. Generally, leases with terms in excess of 12 months will be recognized on the balance sheet as an asset (right to use leased asset) and a liability (lease liability). The impact to operations is expected to be minimal. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In August 2016, the FASB issued a new accounting pronouncement regarding reporting and disclosure requirements for not-for-profit organizations, effective for periods beginning after December 15, 2017, with early application permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Use of Estimates: The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Concentrations of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and investments. The Organization places its cash and investments (including restricted assets) with financial institutions, and limits the amount of credit exposure, although it may from time to time have cash balances or investments in excess of that insured by the FDIC. The Organization periodically assesses the financial condition of the institutions and believes the risk of loss is minimal.

Commitments and Contingencies: The Organization participates in state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. Management does not believe there are any significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants.

Reclassifications: Certain prior year amounts have been reclassified for comparative purposes to the current year. These reclassifications were not significant and did not affect the previously reported change in net assets.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Notes to Audited Financial Statements
August 31, 2016 and 2015

NOTE B – GOVERNMENT ASSISTANCE AND GRANTS

CISSCTX receives government assistance for certain programs it administers. A description of the programs administered during the year ended August 31, 2016 is as follows:

<u>Program Description</u>	<u>Federal Funds Received</u>	<u>State Funds Received</u>	<u>Total</u>
Texas Education Agency	\$ 130,533	\$ 518,046	\$ 648,579
Texas Department of State Health Services	-	105,757	\$ 105,757
Department of Health and Human Services	<u>77,493</u>	<u>-</u>	<u>\$ 77,493</u>
	<u>\$ 208,026</u> ⁽¹⁾	<u>\$ 623,803</u> ⁽²⁾	<u>\$ 831,829</u>

⁽¹⁾ *The Organization expended less than \$750,000 in federal funding during the fiscal year ended August 31, 2016. Accordingly, a Federal Single Audit is not required for these expenditures.*

⁽²⁾ *The Organization expended less than \$750,000 in state funding during the fiscal year ended August 31, 2016. Accordingly, a State Single Audit is not required for these expenditures.*

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at August 31:

	<u>2016</u>	<u>2015</u>
Texas Education Agency	\$ 54,085	\$ 51,848
Texas Department of State Health Services	22,428	-
Department of Health and Human Services	<u>8,521</u>	<u>-</u>
	<u>\$ 85,034</u>	<u>\$ 51,848</u>

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

Notes to Audited Financial Statements

August 31, 2016 and 2015

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at August 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 151,000	\$ 151,000
Building and improvements	548,959	544,705
Equipment	37,054	31,741
Total property and equipment	<u>737,013</u>	<u>727,446</u>
Less accumulated depreciation	<u>(43,910)</u>	<u>(22,813)</u>
Property and equipment, net	<u><u>\$ 693,103</u></u>	<u><u>\$ 704,633</u></u>

NOTE E – ENDOWMENT FUND

The endowment fund was transferred to the New Braunfels Area Community Foundation during the year ended August 31, 2015. See Note F.

Interpretation of Relevant Law: The Board of Directors of the Organization has interpreted the State of Texas Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization. The following factors, among others, are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration.

Return Objectives and Risk Parameters: The Board has adopted investment and spending policies for the endowment fund that preserves capital and provides an income stream. The risk tolerance objective is investments should be made that insure the preservation of capital in the overall capital and offsets during a twelve-month period. Endowment funds over time are expected to provide a positive rate of return. Actual returns in any given year may vary from this amount.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.**Notes to Audited Financial Statements****August 31, 2016 and 2015****NOTE E – ENDOWMENT FUND - continued**

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization had originally invested the endowment fund with American Funds. As of December 17, 2014, the Organization entered in a designated fund gift agreement with New Braunfels Area Community Foundation (NBACF), resulting in the transfer of the endowment fund as an irrevocable gift to NBACF. The endowment is controlled by NBACF and will be invested in a prudent manner in accordance with the rules of the board of the NBACF.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The spending policy reflects the objective to distribute funds exclusively for charitable purposes, which are in ways consistent with the primary investment goals of the Organization.

A rollforward of the endowment fund is as follows for the year ended August 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment at August 31, 2014	\$ -	\$ -	\$ 69,427	\$ 69,427
Investment Return:				
Income	-	-	83	83
Contributions	-	-	3,877	3,877
Transfer of net assets	<u>-</u>	<u>-</u>	<u>(73,387)</u>	<u>(73,387)</u>
Endowment at August 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Organization is the sole beneficiary of the designated fund invested with NBACF; however requests of principal from the fund may not be made until three years after the date of the agreement. All requests must be in writing and have unanimous consent from the Organization's Board of Directors, with the Board of Directors of the NBACF having final authority to approve or deny any request. The Organization may request up to ten percent of the fund balance at the time of request. The value of the fund was \$72,524 and \$68,703 as of August 31, 2016 and 2015, respectively.

NOTE F – RESTATEMENT

During the current year, it was determined that the endowment fund reported at August 31, 2015 was not legally under control or ownership of the Organization. Effective as of December 17, 2014, the Organization transferred the endowment fund to New Braunfels Area Community Foundation through a designated fund gift agreement; however, it inadvertently continued to record the transferred fund in its statement of financial position. As such, assets and net assets were overstated by \$73,000 as of August, 31, 2015. Accordingly, the financial statements for the year ended August 31, 2015 have been restated to reflect the correction of this overstatement.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Notes to Audited Financial Statements
August 31, 2016 and 2015

NOTE G – LONG-TERM DEBT AND LINE OF CREDIT

	<u>2016</u>	<u>2015</u>
First Commercial Bank, \$528,000, with interest of 4.5%, with monthly installments of approximately \$2,862, maturing May 2040.	\$ 512,751	\$ 525,014
First Commercial Bank, \$66,000 line of credit, with interest of 2.3%, guaranteed by a certificate of deposit held at First Commercial Bank, maturing May 2017.	32,100	66,000
To individual, \$150,000, with interest of .45%, maturing September 2015. Paid in Full.	<u>-</u>	<u>150,000</u>
	<u>\$ 544,851</u>	<u>\$ 741,014</u>

Maturities of long-term debt will result in the following principal requirements:

<u>Year Ending August 31,</u>	<u>Amount</u>
2017	\$ 44,895
2018	13,349
2019	13,928
2020	14,532
2021	15,161
Thereafter	<u>442,986</u>
	<u>\$ 544,851</u>

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at August 31:

<u>Donor/Purpose</u>	<u>Restriction</u>	<u>2016</u>	<u>2015</u>
School Supplies	Use restricted	\$ 22,683	\$ 23,672
Shoes Program	Use restricted	15,192	3,649
Client Needs - Specific Campuses	Use restricted	4,882	16,036
Oakwood Fund	Use restricted	428	956
Baptist Health Foundation	Use restricted	33,300	-
Communities in Schools, Inc.	Use restricted	<u>12,000</u>	<u>5,000</u>
		<u>\$ 88,485</u>	<u>\$ 49,313</u>

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
Notes to Audited Financial Statements
August 31, 2016 and 2015

NOTE I – FAIR VALUE MEASUREMENTS

In accordance with U.S. generally accepted accounting principles, the Organization utilizes a fair value hierarchy that prioritizes the inputs for the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets
 - quoted prices for identical or similar assets or liabilities in inactive markets
 - inputs other than quoted prices that are observable for the asset or liability
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used to measure fair value.

Certificate of Deposit: Valued at its cost plus accrued interest which approximates fair value.

The following table sets forth, by level within the fair value hierarchy, the Organization’s investments at fair value as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
<i>August 31, 2016</i>				
Certificate of deposit	\$ 66,198	\$ -	\$ -	\$ 66,198
Total investments at fair value	<u>\$ 66,198</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,198</u>
<i>August 31, 2015</i>				
Certificate of deposit	\$ 66,000	\$ -	\$ -	\$ 66,000
Total investments at fair value	<u>\$ 66,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,000</u>