



Communities In Schools, Inc.

Audited Financial Statements

*Years ended September 30, 2008 and 2007
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements

Years ended September 30, 2008 and 2007

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Report of Independent Auditors

Board of Directors
Communities In Schools, Inc.

We have audited the accompanying statements of financial position of Communities In Schools, Inc. (CIS) as of September 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of CIS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CIS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities In Schools, Inc. as of September 30, 2008 and 2007, 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.

The accompanying statement of functional expense is presented for purposes of additional analysis. This statement is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Johnson Lambert & Co LLP

Falls Church, Virginia
December 23, 2008

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2008	2007
Assets		
Cash and cash equivalents	\$ 4,986,213	\$ 2,453,858
Cash held for restricted purposes	95,135	145,979
Investments	327,370	3,730,831
Pledges receivable, net	5,241,315	5,432,597
Government grants receivable	78,377	288,297
Other assets	16,899	411,501
Furniture and equipment, net	40,235	58,740
Total assets	<u>\$ 10,785,544</u>	<u>\$ 12,521,803</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 806,795	\$ 723,461
Deferred rent	54,347	100,595
Capital lease obligation	15,310	31,620
Deferred support	-	203,266
Total liabilities	<u>876,452</u>	<u>1,058,942</u>
Net assets:		
Unrestricted	985,869	1,500,831
Temporarily restricted	8,923,223	9,962,030
Total net assets	<u>9,909,092</u>	<u>11,462,861</u>
Total liabilities and net assets	<u>\$ 10,785,544</u>	<u>\$ 12,521,803</u>

The accompanying notes are an integral part of these financial statements.

Communities In Schools, Inc.

Statement of Activities

Year ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Corporate, foundation and individual contributions	\$ 7,042,458	\$ 6,081,076	\$ 13,123,534
Grants—governmental agencies	2,328,773	-	2,328,773
Other revenue	576,873	-	576,873
Investment income	68,925	-	68,925
Net assets released from restriction:			
Satisfaction of program restriction	7,119,883	(7,119,883)	-
Total support and revenue	<u>17,136,912</u>	<u>(1,038,807)</u>	<u>16,098,105</u>
Expenses			
Program services:			
Research, evaluation & learning management	3,449,843	-	3,449,843
Public awareness and communications	7,103,753	-	7,103,753
Network operations	5,061,766	-	5,061,766
CIS movement	430,748	-	430,748
Total program services	<u>16,046,110</u>	<u>-</u>	<u>16,046,110</u>
Supporting services:			
General and administrative	325,535	-	325,535
Fundraising	1,280,229	-	1,280,229
Total supporting services	<u>1,605,764</u>	<u>-</u>	<u>1,605,764</u>
Total expenses	<u>17,651,874</u>	<u>-</u>	<u>17,651,874</u>
Change in net assets	(514,962)	(1,038,807)	(1,553,769)
Net assets, beginning of year	<u>1,500,831</u>	<u>9,962,030</u>	<u>11,462,861</u>
Net assets, end of year	<u>\$ 985,869</u>	<u>\$ 8,923,223</u>	<u>\$ 9,909,092</u>

Communities In Schools, Inc.

Statement of Activities

Year ended September 30, 2007

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Corporate, foundation and individual contributions	\$ 8,074,795	\$ 11,934,323	\$ 20,009,118
Grants—governmental agencies	2,591,594	-	2,591,594
Other revenue	372,511	-	372,511
Investment income	236,091	-	236,091
Net assets released from restrictions:			
Satisfaction of program restrictions	6,466,415	(6,466,415)	-
Total support and revenue	17,741,406	5,467,908	23,209,314
Expenses			
Program services:			
Research, evaluation & learning management	2,239,743	-	2,239,743
Public awareness and communications	6,929,746	-	6,929,746
Network operations	5,423,964	-	5,423,964
CIS movement	679,050	-	679,050
Total program services	15,272,503	-	15,272,503
Supporting services:			
General and administrative	243,847	-	243,847
Fundraising	1,316,024	-	1,316,024
Total supporting services	1,559,871	-	1,559,871
Total expenses	16,832,374	-	16,832,374
Change in net assets	909,032	5,467,908	6,376,940
Net assets, beginning of year	591,799	4,494,122	5,085,921
Net assets, end of year	<u>\$ 1,500,831</u>	<u>\$ 9,962,030</u>	<u>\$ 11,462,861</u>

The accompanying notes are an integral part of these financial statements.

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30, 2008	2007
Cash flows from operating activities		
Change in net assets	\$ (1,553,769)	\$ 6,376,940
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Change in fair value of investments	96,816	(18,563)
Depreciation and amortization	18,505	13,345
Donated securities	(198,599)	(21,964)
Donated furniture & equipment	-	(5,100)
Debt forgiveness	-	(500,000)
Present value discount	(207,879)	110,774
Changes in assets and liabilities:		
Pledges receivable	399,161	(2,998,766)
Government grants receivable	209,920	(143,099)
Other assets	394,602	(293,619)
Accounts payable and accrued liabilities	82,834	41,831
Deferred support	(202,766)	198,266
Deferred rent	(46,248)	(32,402)
	(1,007,423)	2,727,643
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(278,892)	(5,948,522)
Sale of investments	3,784,136	2,443,477
Purchase of furniture and equipment	-	(20,940)
	3,505,244	(3,525,985)
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Repayment of debt	-	(350,000)
Principal payment on capital lease	(16,310)	(2,496)
	(16,310)	(352,496)
Net cash used in financing activities		
Change in cash and cash equivalents	2,481,511	(1,150,838)
Cash and cash equivalents, beginning of year	2,599,837	3,750,675
Cash and cash equivalents, end of year	\$ 5,081,348	\$ 2,599,837
Cash and cash equivalents		
Cash and cash equivalents	\$ 4,986,213	\$ 2,453,858
Cash held for restricted purpose	95,135	145,979
	\$ 5,081,348	\$ 2,599,837
Supplemental schedule of noncash financing activity		
Initiation of capital lease	\$ -	\$ 34,116

The accompanying notes are an integral part of these financial statements.

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2008 and 2007

Note A – Organization and Significant Accounting Policies

Organization

Communities In Schools, Inc. (CIS), was incorporated in Georgia on April 28, 1977, and commenced operations in June 1977. CIS is a not-for-profit corporation, the purpose of which is to champion the connection of needed community resources with schools to help young people successfully learn, stay in school, and prepare for life.

CIS works through four primary areas to achieve its mission:

Public Awareness and Communications – Building awareness of America’s dropout problem and positioning CIS as a solution to this problem.

Research, Evaluation & Learning Management – Evaluating and disseminating evidenced based program practices within the CIS network.

Network Operations – Working with CIS state offices and local affiliates to build capacity within the CIS network.

CIS Movement – Retaining and building emerging leaders within the CIS network.

National and Local Organizations

CIS developed a replication plan to build a network of locally supported not-for-profit organizations responsible for implementing CIS programs in local communities. CIS’s separately incorporated local organizations’ activities are not included in CIS’s financial statements. There were 15 state and 194 local CIS organizations at September 30, 2008.

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expense is recognized when the obligation is incurred. Additionally, as required by GAAP CIS reports its net assets as follows:

Unrestricted net assets – represents resources that have met all applicable restrictions and are considered to be available for unrestricted use.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Basis of presentation (Continued)

Temporarily restricted net assets – represents resources subject to donor-imposed stipulations on the use of the assets that may be met by actions of CIS or by the passage of time.

Permanently restricted net assets – represents resources subject to donor-imposed stipulations that CIS maintain the principal in perpetuity. Generally, the donors of these assets permit CIS to use all or part of the income earned on related investments for either general or donor-specified purposes. In fiscal years 2008 and 2007, CIS received no permanently restricted contributions.

Use of Estimates

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

Income Tax Status

CIS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified by the Internal Revenue Service as a publicly supported organization. Organizations described in Section 501 are taxable only on unrelated business income. An Internal Revenue Service determination letter has been received supporting CIS's tax-exempt status. No income taxes were incurred or paid in 2008 or 2007.

Cash and Cash Equivalents

CIS considers all cash and highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. Throughout the year, CIS has cash balances in financial institutions that are in excess of Federal Deposit Insurance Corporation (FDIC) coverage. Management does not consider these balances to be a significant credit risk.

Cash Held for Restricted Purposes

CIS maintains certain moneys as collateral under the terms of its corporate office-operating lease. These moneys are reflected as cash held for restricted purposes on the statement of financial position.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments

Investments are recorded at market value. Investment income or loss, including realized and unrealized gains and losses, is included in the statement of activities as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are reported net of any estimated uncollectible amounts. Pledges expected to be collected beyond one year are discounted to present value using the United States Treasury risk-free obligation rates according to their corresponding terms.

Furniture and Equipment

Office furniture and equipment are stated at cost when acquired, or fair value when donated. All furniture and equipment greater than \$5,000 are capitalized at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the asset, ranging from three to five years.

Deferred Support

Deferred support consists of cash received in advance of the service period for grants, contracts and conferences.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services.

Support and Revenues

Revenue and expenses are recognized in the period in which services or benefits are provided or received.

CIS receives grants and enters into contracts with the U.S. government, foundations, and corporations that primarily provide for cost reimbursement to CIS. Revenue from these grants and contracts is classified as unrestricted and is recognized as reimbursable expenditures are incurred.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Support and Revenues (Continued)

CIS recognizes contributions received, including unconditional promises to give (pledges), as revenue in the period received at their estimated present value. Contributions received are reported as unrestricted support or temporarily restricted support. Temporarily restricted net assets become unrestricted when the time restrictions expire or when the contributions are used for their restricted purpose, at which time they are reported in the statement of activities as satisfaction of program restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recognized until the conditions are met.

Life Trust

During 1985, CIS was granted an interest in a trust benefiting a donor for the donor's lifetime. Income from CIS's interest in the trust was \$129,159 and \$123,009 in 2008 and 2007, respectively. Because it is not practicable to estimate the present value of these gifts, CIS accounts for trust distributions as contribution revenue when received.

Note B – Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. Multi-year pledges were discounted using the rates ranging from 4.6% to 5.05%. At September 30, pledges receivable are comprised as follows:

	2008	2007
Receivable within one year	\$ 5,249,605	\$ 4,434,644
Receivable in one to three years	50,000	1,264,122
	5,299,605	5,698,766
Discount to present value	(58,290)	(266,169)
Net pledges receivable	\$ 5,241,315	\$ 5,432,597

Note C – Investments

CIS' investments at September 30 consisted of the following:

	2008	2007
Government bonds	\$ -	\$ 3,495,319
Mutual funds	327,370	213,095
Equity securities- index funds	-	22,417
Total investments	\$ 327,370	\$ 3,730,831

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments (Continued)

Investment earnings recorded in the statement of activities consisted of the following for the year ended September 30:

	2008	2007
Interest and dividends	\$ 165,741	\$ 217,528
Change in market value	(96,816)	18,563
Net investment earnings	\$ 68,925	\$ 236,091

Note D – Furniture and Equipment

Furniture and equipment consist of the following as of September 30:

	2008	2007
Furniture	\$ 206,463	\$ 206,463
Equipment	207,518	216,630
	413,981	423,093
Accumulated depreciation and amortization	(373,746)	(364,353)
Furniture and equipment, net	\$ 40,235	\$ 58,740

CIS leases office telephone equipment under a capital lease expiring in 2009. The leased equipment asset cost was \$43,539. Total amortization expense was \$8,708 and \$4,642 and total accumulated amortization was \$13,350 and \$4,642, as of September 30, 2008 and 2007, respectively.

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2008 is follows:

2009	\$ 16,369
Total minimum lease payments	16,369
Less: amount representing interest	(1,059)
Present value of net minimum lease payments	\$ 15,310

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note E – Related Parties

CIS receives cash from grants and contributions designated by the grantors to be given to specific state and local CIS affiliates. The total amount held by CIS and owed to affiliates was \$50,020 and \$30,526 as of September 30, 2008 and 2007, respectively.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 2 percent and 4 percent of CIS's total support and revenues in 2008 and 2007, respectively. The contributions received were made to support the general operations of CIS and specified programs such as hurricane relief, the Fellows program and designating funds for a CIS affiliate.

Note F – In Kind Contributions

Cox Communications, Inc. made a donation to CIS of advertising time during fiscal years 2008 and 2007. CIS recorded the donation at the fair market value of \$278,914 and \$318,421, respectively, as estimated by Cox Communications, Inc. During fiscal years 2008 and 2007 Discovery Espanol made donations of advertising time valued at \$73,618 and \$122,740, respectively. Additionally, other independently owned radio and television stations donated airtime to CIS. Total donated advertising time recorded for fiscal years 2008 and 2007 is \$5,394,111 and \$5,385,050, respectively and is recorded at its fair market value as determined by Multivu, Inc. which is an independent media distribution and monitoring company.

For the years ended September 30, 2008 and 2007 donated services are recorded as unrestricted contributions with the corresponding expense being included as part of the public awareness and communications program in the statement of activities.

Note G – Defined Contribution Pension Plan

CIS sponsors a defined contribution pension plan (the Plan). Benefits of the Plan are provided through the purchase of fixed-dollar annuities and variable annuities. All CIS employees are eligible to participate in the Plan immediately upon hiring. The employee is eligible to receive CIS's voluntary and matching contributions after they have completed one full year of service with CIS. At the Board's discretion, CIS makes contributions equal to 2 percent of an employee's salary and will match an employee's contribution up to 4 percent. CIS contributed \$141,624 and \$133,285 to the Plan in 2008 and 2007, respectively.

The Plan is exempt from federal income taxes under Section 403(b) of the IRC. CIS is the Plan administrator.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note H – Commitments

CIS has entered into a non-cancelable operating lease agreement for office space in Alexandria, Virginia. The lease commenced on August 1, 1999 and expires July 31, 2009. Under this operating lease, the rent charged to CIS escalates at predetermined rates. Under accounting principles generally accepted in the United States of America, CIS must record its rent on a straight-line basis over the life of the lease.

CIS holds an Irrevocable Standby letter of credit with Adams National Bank as a requirement of the lease agreement noted above. As of September 30, 2008 and 2007 the letter of credit amount was \$93,750.

Rent expense was \$506,229 and \$497,367 in fiscal years 2008 and 2007, respectively. Future minimum payments required under the above lease is \$407,111, which is expected to be paid during 2009.

Subsequent to year end CIS entered into an agreement with the intent to lease new office space. The lease is set to commence on April 15, 2009, and is for a term of 10 years and 6 months. The office space consists of 13,401 rentable square footage. The annual base rent is \$38.08 per rentable square footage or \$510,310.

Note I – Net Assets Released from Restrictions

Temporarily restricted net assets are available for use in programs specified by donors. The net assets released from donor restrictions, \$7,119,883 and \$6,466,415 for the years ended September 30, 2008 and 2007, respectively, are attributable to expenses incurred related to these specific programs.

Temporarily restricted net assets were available for the following at September 30:

	<u>2008</u>	<u>2007</u>
Research evaluation & learning management	\$ 2,004,884	\$ 2,003,890
Public awareness and communications	639,836	811,344
Network operations	5,465,016	6,550,078
CIS Movement	42,544	20,000
General & Administrative	599,936	339,035
Fundraising	171,007	237,683
	<u>\$ 8,923,223</u>	<u>\$ 9,962,030</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Risks and Uncertainties

CIS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the statement of financial position.

Communities In Schools, Inc.

Statement of Functional Expenses

Year ended September 30, 2008 with 2007 summary

	Research, Evaluation, & Learning & Management	Public Awareness & Communication	Network Operations	CIS Movement	General & Administrative	Fundraising	Total	2007 Total
Salaries	\$ 628,529	\$ 604,372	\$ 762,393	\$ 188,049	\$ 447,580	\$ 615,846	\$ 3,246,769	\$ 3,258,652
Employee benefits	127,905	105,723	155,867	37,967	91,335	119,120	637,917	624,568
Employee training	145	195	245	656	1,803	7,826	10,870	12,930
Advertising	826	5,780,260	298	24,289	4,957	377	5,811,007	5,753,091
Network Investment	181,000	10,000	3,010,292	-	-	-	3,201,292	3,664,911
Other contracted services	1,115,313	145,350	704,999	46,506	16,781	204,842	2,233,791	2,020,183
Travel	40,815	24,179	98,410	29,986	6,999	39,408	239,797	322,621
Rent	34,351	133,789	88,590	27,119	112,094	110,286	506,229	497,367
Conferences, meetings & convention	1,138,571	5,757	27,599	1,101	1,474	8,820	1,183,322	62,233
Meals & entertainment	10,069	6,544	19,534	5,198	2,820	9,972	54,137	80,197
Printing	2,760	44,085	4,299	15,269	3,038	3,688	73,139	72,816
Accounting & audit services	-	-	-	-	40,616	-	40,616	35,652
Interest expense	-	-	469	-	3,333	-	3,802	778
Telephone	1,948	1,661	3,130	116	55,493	1,154	63,502	63,354
Payroll outsourcing services	-	12,800	-	2,200	51,935	8,800	75,735	62,565
Hardware & software purchases	36	9,139	15	84	14,688	338	24,300	44,033
Postage & shipping	1,418	31,192	2,376	4,351	5,408	2,531	47,276	47,635
Office supplies	903	728	3,632	468	9,803	783	16,317	35,487
Equipment rental & maintenance	1,125	-	-	824	39,521	4,780	46,250	44,768
Insurance	-	-	-	53	23,040	210	23,303	25,212
Computer services	1,231	5,777	138	88	24,371	65	31,670	34,457
Legal services	-	1,063	-	10	639	-	1,712	3,046
Depreciation-computer equipment	-	-	-	-	18,505	-	18,505	13,345
Dues & subscriptions	700	7,983	631	161	1,011	2,527	13,013	10,474
Bank & merchant fees	-	461	-	-	4,998	-	5,459	9,721
Corporate taxes	-	-	-	-	8,265	-	8,265	7,012
Miscellaneous expense	7,792	7,100	2,066	12,687	1,882	2,352	33,879	25,266
Indirect Allocation	154,406	165,595	176,783	33,566	(666,854)	136,504	-	-
Total	\$ 3,449,843	\$ 7,103,753	\$ 5,061,766	\$ 430,748	\$ 325,535	\$ 1,280,229	\$ 17,651,874	\$ 16,832,374