

Communities In Schools, Inc.

Audited Financial Statements,
Other Financial, and
Supplemental Information

*Years ended September 30, 2012 and 2011
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements,
Other Financial and
Supplemental Information

Years ended September 30, 2012 and 2011

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Report of Independent Auditors

Board of Directors
Communities In Schools, Inc.
Arlington, Virginia

We have audited the accompanying statements of financial position of Communities In Schools, Inc. (CIS) as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of CIS's 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 and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. 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's 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 CIS as of September 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, on our consideration of CIS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental Statement of Functional Expenses on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 19 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A large, stylized handwritten signature in black ink that reads 'Johnson Lambert LLP'.

Falls Church, Virginia
January 16, 2013

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2012	2011
Assets		
Cash and cash equivalents	\$ 8,680,732	\$ 5,070,209
Cash held for restricted purposes	127,729	128,190
Investments	21,927,291	11,527,767
Pledges receivable, net	5,007,059	5,642,621
Government grants receivable	812,730	1,228,705
Other assets	291,222	78,553
Fixed assets, net	318,230	343,683
Total assets	<u>\$ 37,164,993</u>	<u>\$ 24,019,728</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,008,943	\$ 1,676,209
Deferred rent	369,887	353,526
Total liabilities	<u>1,378,830</u>	<u>2,029,735</u>
Net assets:		
Unrestricted:		
Undesignated	7,823,712	3,523,639
Accumulated net investment loss on endowment - Note J	-	(713,479)
Total unrestricted net assets	<u>7,823,712</u>	<u>2,810,160</u>
Temporarily restricted	8,130,315	7,320,197
Permanently restricted	19,832,136	11,859,636
Total net assets	<u>35,786,163</u>	<u>21,989,993</u>
Total liabilities and net assets	<u>\$ 37,164,993</u>	<u>\$ 24,019,728</u>

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

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 9,951,035	\$ 8,897,059	\$ 7,972,500	\$ 26,820,594
Grants-governmental agencies	3,560,455	-	-	3,560,455
Other revenue	5,682	-	-	5,682
Net assets released from restrictions:				
Satisfaction of program restrictions	9,427,590	(9,427,590)	-	-
Total support and revenue	22,944,762	(530,531)	7,972,500	30,386,731
Expenses				
Program services:				
Advocacy	754,026	-	-	754,026
Public awareness and communications	2,040,456	-	-	2,040,456
Network operations	14,377,170	-	-	14,377,170
Total program services	17,171,652	-	-	17,171,652
Supporting services:				
General and administrative	359,287	-	-	359,287
Fundraising	1,231,109	-	-	1,231,109
Total supporting services	1,590,396	-	-	1,590,396
Total expenses	18,762,048	-	-	18,762,048
Change in net assets before investment activity	4,182,714	(530,531)	7,972,500	11,624,683
Investment income (loss), net	117,359	2,054,128	-	2,171,487
Replenishment of accumulated net investment loss on endorsement to unrestricted net assets (Note J)	713,479	(713,479)	-	-
Change in net assets	5,013,552	810,118	7,972,500	13,796,170
Net assets, beginning of year	2,810,160	7,320,197	11,859,636	21,989,993
Net assets, end of year	\$ 7,823,712	\$ 8,130,315	\$ 19,832,136	\$ 35,786,163

Communities In Schools, Inc.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 6,171,070	\$ 6,823,710	\$ 3,000,000	\$ 15,994,780
Grants—governmental agencies	3,997,442	-	-	3,997,442
Net assets released from restrictions:				
Satisfaction of program restrictions	7,092,762	(7,092,762)	-	-
Total support and revenue	17,261,274	(269,052)	3,000,000	19,992,222
Expenses				
Program services:				
Advocacy	880,883	-	-	880,883
Public awareness and communications	2,449,385	-	-	2,449,385
Network operations	10,930,243	-	-	10,930,243
Total program services	14,260,511	-	-	14,260,511
Supporting services:				
General and administrative	351,703	-	-	351,703
Fundraising	1,302,002	-	-	1,302,002
Total supporting services	1,653,705	-	-	1,653,705
Total expenses	15,914,216	-	-	15,914,216
Change in net assets before investment activity	1,347,058	(269,052)	3,000,000	4,078,006
Investment income (loss), net	38,592	(719,815)	-	(681,223)
Absorption of net investment loss on endorsement by unrestricted net assets (Note J)	(719,815)	719,815	-	-
Change in net assets	665,835	(269,052)	3,000,000	3,396,783
Net assets, beginning of year	2,144,325	7,589,249	8,859,636	18,593,210
Net assets, end of year	\$ 2,810,160	\$ 7,320,197	\$ 11,859,636	\$ 21,989,993

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

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 13,796,170	\$ 3,396,783
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in fair value of investments	(1,828,056)	793,786
Depreciation and amortization	48,607	27,769
Donated securities	(323,696)	(15,514)
Contributions restricted for long term investment	(7,972,500)	(3,000,000)
Present value discount	(54,357)	(99,516)
Changes in assets and liabilities:		
Pledges receivable	689,919	227,310
Government grants receivable	415,975	(796,933)
Other assets	(212,669)	105,248
Accounts payable and accrued liabilities	(667,266)	714,967
Deferred rent	16,361	32,112
Net cash provided by operating activities	3,908,488	1,386,012
Cash flows from investing activities		
Purchase of investments	(22,312,391)	(41,453,133)
Sale of investments	14,064,619	38,388,827
Purchase of furniture and equipment	(23,154)	(240,538)
Net cash used in investing activities	(8,270,926)	(3,304,844)
Cash flows from financing activities		
Contributions to be held permanently	7,972,500	3,000,000
Net cash provided by financing activities	7,972,500	3,000,000
Change in cash and cash equivalents	3,610,062	1,081,168
Cash and cash equivalents, beginning of year	5,198,399	4,117,231
Cash and cash equivalents, end of year	\$ 8,808,461	\$ 5,198,399
Cash and cash equivalents		
Cash and cash equivalents	\$ 8,680,732	\$ 5,070,209
Cash held for restricted purpose	127,729	128,190
	\$ 8,808,461	\$ 5,198,399

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

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2012 and 2011

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 surround students with a community of support, empowering them to stay in school and achieve in life.

CIS works through three 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.

Network Operations – Working with CIS state offices and local affiliates to build capacity within the CIS network as well as evaluating and disseminating evidence-based program practices.

Advocacy – Educating legislators, public officials, and the general public on a non-partisan basis on the types of and benefits of public policies conducive to improving public education, by means of research, publications, lectures and legislative involvement.

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 186 local CIS organizations at September 30, 2012.

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) promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC or the guidance). 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.

Use of Estimates

The preparation of financial statements in conformity with 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 reporting period. Actual results could differ from those estimates.

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 funds 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.

Investments and Fair Value Measurements

Investments are recorded at fair value. Investment income or loss, including realized and unrealized gains and losses and net of fees, 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.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

U.S. GAAP establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as follows:

Level 1 – Inputs to the valuation methodology are quoted (unadjusted) for identical assets or liabilities traded in active markets.

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 markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability are significant to the fair value measurement.

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, estimates of fair value are made using methods, models and assumptions that management believes are relevant to the particular asset or liability, which may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

CIS recognizes transfers between levels at either the actual date of the event or a change in circumstance that caused the transfer.

During 2012 and 2011, CIS's endowment fund was invested into commingled private investment vehicles comprised of positions in money market funds and two commingled private investment vehicles: a Multi-Strategy Equity Fund and a Multi-Strategy Bond Fund. These investments are not publicly traded; their fair value is based on CIS's pro-rata share of the net asset value of the respective funds at the balance sheet date. The net asset values of these investments are based on the fair value of the underlying securities held by each respective fund.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

As permitted by GAAP, CIS uses the net asset value as a practical expedient to determine the fair value of all private investment vehicles. The investment manager reserves the right to adjust the reported net asset value if it is deemed to be not reflective of fair value. Because of the inherent uncertainty of valuations of investments in these investments, their estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.

The categorization of the private investment vehicles within the hierarchy is based on the availability of reported net asset value and liquidity and does not necessarily correspond to the investment manager's perceived risk of these investments. These are generally open-end funds that offer subscription and redemption options to investors. Redemption and subscription provisions are typically monthly and require 5 business days written notice prior to execution. Due to the redemption options available, the net asset value is considered to be a Level 2 input. As of September 30, 2012 and 2011, there were no unfunded commitments related to these investments.

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 such changes could materially affect the amounts reported in the statement of financial position.

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-adjusted rates according to their corresponding terms.

Fixed Assets

Fixed Assets are stated at cost when acquired, or fair value when donated. All fixed assets greater than \$5,000 are capitalized at cost. Furniture and equipment are depreciated using the straight-line method over the estimated useful life of the asset, ranging from three to five years. The office cubicles and leasehold improvements are depreciated over the remainder of the life of the office lease when the asset is put into service. The office lease is a 10.5 year lease which expires on October 15, 2019.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

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. Grants receivable represent amounts expended and not yet reimbursed under a Federal grant awarded to CIS.

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, temporarily restricted support or permanently 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. Permanently restricted support represents resources subject to donor-imposed stipulations that CIS maintain the principal in perpetuity, and use of related income earned on related investments for either general or donor-specified purposes.

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 \$3,907,288 and \$497,266 in 2012 and 2011, respectively. Because it is not practicable to estimate the present value of these gifts, CIS accounts for trust distributions as contribution revenue when received.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

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. Management has concluded that CIS has properly maintained their exempt status. In accordance with GAAP, CIS has concluded that there are no uncertain tax positions and has further concluded that revenue within the statement of activities has been properly classified as exempt for the year ended September 30, 2012. Tax years for years ending September 30, 2009-2012 are subject to examination by taxing authorities; there are no examinations being conducted.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through January 16, 2013, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date.

Endowment Funds

CIS reports its endowment activity in accordance with the accounting guidance for Endowments of Not-for-Profit Organizations, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). CIS has made the required disclosures in Note J, *Endowment Funds*.

Reclassifications

Certain 2011 amounts have been reclassified to conform with 2012 presentation.

Note B – Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. The only multi-year pledge was discounted using the rate 2.22%. At September 30, pledges receivable are comprised as follows:

	2012	2011
Receivable within one year	\$ 4,913,481	\$ 5,553,400
Receivable in one to three years	100,000	150,000
	5,013,481	5,703,400
Discount to present value	(6,422)	(60,779)
Pledges receivable, net	<u>\$ 5,007,059</u>	<u>\$ 5,642,621</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements

Investments at September 30 are comprised of the following:

	2012	2011
Multi-Strategy Equity fund	\$ 14,130,357	\$ 5,247,677
Multi-Strategy Bond fund	6,042,203	2,587,843
Money Market funds	1,000,225	3,308,708
Mutual funds	754,498	377,470
Tax Free Daily Income Trust	8	6,069
Total investments	<u>\$ 21,927,291</u>	<u>\$ 11,527,767</u>

All securities except the Multi-Strategy funds are classified as Level 1 in accordance with the fair value hierarchy and are valued based on quoted market prices.

The Multi-Strategy funds are classified as Level 2 and are valued based on the unit net asset value of each fund. The funds' goals are to offer actively managed, multi-manager investment programs that will provide broad exposure to global equity and debt markets. The Equity fund seeks capital appreciation above the return of the U.S. equity market as measured by the S&P 500 Index net of fees and to provide competitive returns relative to the Russell U.S. Large Cap Market Oriented Equity Universe. The Bond fund seeks capital appreciation above the return of the broad U.S. bond market, as measured by the Barclay's Capital U.S. Aggregate Bond Index, net of fees and to provide competitive returns relative to the Russell U.S. Core Plus Fixed Income Universe. The funds' risk characteristics will vary from those of the index due to its diversified exposures to sectors outside of the index, including non-U.S. equity markets and to certain marketable alternative strategies for the Equity fund and below investment grade debt and international bonds for the Bond fund.

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

	2012	2011
Interest and dividends	\$ 391,895	\$ 118,900
Change in market value	1,828,056	(793,786)
Investment fees	(48,464)	(6,337)
Investment income (loss), net	<u>\$ 2,171,487</u>	<u>\$ (681,223)</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

	2012	2011
Furniture	\$ 249,301	\$ 247,406
Equipment	99,300	78,150
Leasehold improvements	103,682	103,573
	452,283	429,129
Accumulated depreciation and amortization	(134,053)	(85,446)
Furniture and equipment, net	\$ 318,230	\$ 343,683

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 \$240,690 and \$920,611 as of September 30, 2012 and 2011, respectively. The amount owed to affiliates is recorded within accounts payable and accrued liabilities on the statement of financial position.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 25 percent and 39 percent of CIS's total support and revenues in 2012 and 2011, respectively. The contributions received were made to support the general operations of CIS, designating funds for a CIS affiliate and the endowment fund.

Note F – In Kind Contributions

Total donated advertising time recorded for fiscal year 2011 was \$214,730 and was recorded at its fair market value as determined by The Causeway Agency which is an independent advertising company. For fiscal year 2012 there was no donated advertising time to CIS.

For the year ended September 30, 2011 donated services were recorded as unrestricted contributions with the corresponding expense being included as part of the public awareness and communications program in the statement of activities.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

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. Employees are 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 \$160,025 and \$147,186 to the Plan in 2012 and 2011, respectively.

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

Note H – Commitments

CIS has entered into a non-cancelable operating lease agreement for office space in Arlington, Virginia. The lease commenced on April 15, 2009 and expires on October 15, 2019. Under this operating lease, the rent charged to CIS escalates at predetermined rates. Under GAAP, CIS must record its rent expense on a straight-line basis over the life of the lease resulting in the difference between the straight-lined expense and cash outlay as deferred rent in the statement of financial position.

CIS holds an irrevocable standby letter of credit with Capitol One, a requirement of the lease agreement noted above. The letter of credit amount was \$127,729 and \$128,190 as of September 30, 2012 and 2011, respectively.

Rent expense was \$584,498 and \$560,314 in fiscal years 2012 and 2011, respectively. Future minimum payments required under the above lease are as follows:

2013	\$ 557,000
2014	574,000
2015	591,000
2016	609,000
2017	627,000
Thereafter	1,336,000
Total	<u>\$ 4,294,000</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note I – Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for use in programs specified by donors. The net assets released from donor restrictions for the year ended September 30, 2012 and 2011 are attributable to expenses incurred related to these specific programs. Temporarily restricted net assets were released from restrictions for the following programs during 2012 and 2011:

	2012	2011
Public awareness and communications	\$ 249,949	\$ 353,168
Network operations	9,129,993	6,719,220
General & administrative	47,648	20,374
	<u>\$ 9,427,590</u>	<u>\$ 7,092,762</u>

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2012 and 2011:

	2012	2011
Public awareness and communications	\$ 168,920	\$ 229,253
Network operations	6,486,317	7,060,944
General & administrative	42,633	30,000
Fundraising	91,796	-
Endowment earnings	1,340,649	-
	<u>\$ 8,130,315</u>	<u>\$ 7,320,197</u>

Note J – Endowment Funds

CIS's endowment funds consist of an individual donor fund as of September 30, 2012 and 2011 established for various purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

Interpretation of Relevant Law

For donor-restricted endowment funds absent explicit donor stipulations to the contrary, CIS applies the policy of requiring the preservation of the fair value of the original gift as of the gift date. Accordingly, CIS classifies as permanently restricted net assets (a) the original value of gifts donated 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 in a manner consistent with their policy.

In the absence of donor stipulations or law to the contrary, losses on the investments in the endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

Return Objectives and Risk Parameters

CIS has adopted investment and spending policies for endowment assets that attempt to maintain the real purchasing power of the Fund and provide a stable source of liquidity and financial support for the mission of CIS. Under these policies, the board acknowledges the importance of preserving capital but recognizes the necessity of accepting risk if the Fund is to be able to meet its long-term investment goals.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, CIS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The current asset allocation for endowment funds targets a composition of 70% in equities and 30% in fixed income.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Distributions from the Fund will be made in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Commonwealth of Virginia. UPMIFA allows the institution to determine the prudent amount to be appropriated for expenditure from endowment funds within the restrictions of any gift agreements.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued)

CIS' policy spending rate for the Fund shall be the lesser of 4 percent of the balance of the endowment at the end of the prior year or the Fund's earnings from the prior year. The amount available for appropriation during each fiscal year shall be calculated by applying the policy spending rate to the average of the previous three fiscal years' beginning-period endowment values. Any special appropriation or decision not to spend the amount indicated by the spending formula must be approved in advance by the Board of Directors.

The changes in the endowment net assets are as follows for the years ended September 30:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Endowment Net Assets
Beginning of year, 2011	\$ 6,336	\$ -	\$ 8,859,636	\$ 8,865,972
Contributions	-	-	3,000,000	3,000,000
Investment loss, net	-	(719,815)	-	(719,815)
Transfer of net investment loss to unrestricted net assets	(719,815)	719,815	-	-
End of year, 2011	(713,479)	-	11,859,636	11,146,157
Contributions	-	-	7,972,500	7,972,500
Investment earnings, net		2,054,128	-	2,054,128
Replenishment of net investment loss to unrestricted net asset	713,479	(713,479)	-	-
End of year, 2012	<u>\$ -</u>	<u>\$1,340,649</u>	<u>\$19,832,136</u>	<u>\$21,172,785</u>

Endowment Fund Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds discussed above may fall below the level that the donor requires CIS to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets until investment losses are able to be replenished as recovered. As of September 30, 2012 and 2011, there were deficiencies of \$0 and \$713,479, reported in unrestricted net assets.

Other Financial and Supplemental Information

Communities In Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2012 (with 2011 Summary)

	Public						
	Advocacy	Awareness & Communication	Network Operations	General & Administrative	Fundraising	Total	2011 Total
Salaries	\$315,361	\$698,258	\$2,128,676	\$622,016	\$637,103	\$4,401,414	\$3,964,896
Employee benefits	64,656	139,337	427,343	125,292	128,857	885,485	753,864
Employee training	884	4,908	25,851	7,393	2,448	41,484	33,407
Network Investment	-	-	8,637,631	-	-	8,637,631	6,738,001
Other contracted services	232,328	499,307	1,301,099	166,404	120,779	2,319,917	1,647,243
CIS Branded Items	-	32,672	424	-	-	33,096	-
Travel	25,352	73,768	582,317	9,281	32,768	723,486	714,010
Rent	31,139	117,997	255,398	92,423	87,541	584,498	560,314
Advertising	1,604	94,432	384	3,214	5,649	105,283	408,677
Scholarships	-	-	5,500	-	-	5,500	23,500
Conferences, meetings & convention	2,079	5,091	64,683	1,156	3,521	76,530	62,294
Meals & entertainment	15,084	21,396	179,632	9,771	26,940	252,823	181,297
Printing	2	40,941	6,084	6,094	6,246	59,367	67,755
Accounting & audit services	-	-	-	59,886	-	59,886	36,484
Telephone	546	887	12,962	42,785	793	57,973	62,785
Payroll outsourcing services	-	-	-	76,750	-	76,750	64,415
Hardware & software purchases	157	236	4,715	34,456	471	40,035	110,416
Postage & shipping	184	8,038	2,457	3,617	2,142	16,438	26,354
Office supplies	234	3,192	10,471	32,578	522	46,997	54,527
Equipment rental & maintenance	-	-	21,936	27,676	4,472	54,084	52,868
Insurance	-	-	-	24,330	-	24,330	20,867
Computer services	5,613	81,585	29,416	7,247	11,816	135,677	209,562
Legal services	-	-	-	19,301	-	19,301	16,684
Depreciation	-	-	-	48,607	-	48,607	27,769
Dues & subscriptions	2,349	11,558	1,967	1,350	1,774	18,998	43,296
Bank & merchant fees	-	-	-	7,644	-	7,644	6,539
Corporate taxes	-	-	850	22,268	-	23,118	15,208
Miscellaneous expense	918	425	1,506	1,711	1,136	5,696	11,184
Indirect allocation	55,536	206,428	675,868	(1,093,963)	156,131	-	-
Total	\$ 754,026	\$ 2,040,456	\$ 14,377,170	\$ 359,287	\$ 1,231,109	\$ 18,762,048	\$ 15,914,216

Communities In Schools, Inc.

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award/ Federal Grant Number	Federal Expenditures
Corporation for National & Community Service Pass-Through Programs from:			
Edna McConnell Clark Foundation - Social Innovation Fund	94.019	10SIHNY003	\$ 474,968
Department of Education Cluster Pass-Through Programs From:			
John Hopkins University – Diplomas Now Program (American Recovery and Reinvestment Act Funds)			
• Diplomas Now Secondary School Turnaround	84.396B	2001283342	2,060,030
• Diplomas Now at Browne Learning Academy and Springarn High School (DC Public School System)	84.Unknown	2001283342	96,421
• Diplomas Now Project at Columbus Public Schools	84.010	255	20,000
• The Diplomas Now Model at Boston Public School System	84.010	33637	16,150
<i>DOE Pass-Through Program Cluster/ARRA Total</i>			<u>2,192,601</u>
Department of Justice			
Multi-State Mentoring Initiative	16.726		<u>892,886</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 3,560,455</u>

Communities In Schools, Inc.

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Communities In Schools, Inc. (CIS) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note B – Subrecipients

Of the federal expenditures presented in the schedule, CIS provided federal awards to subrecipients as follow:

Program Title	Federal CFDA Number	Amounts Provided to Subrecipients
Department of Education Cluster	84.396B, 84.Unknown, 84.010	\$ 1,699,115
Multi-State Mentoring Initiative	16.726	<u>648,985</u>
Total Federal Awards Provided to Subrecipients		<u>\$ 2,348,100</u>

**Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors
Communities In Schools, Inc.
Arlington, Virginia

We have audited the financial statements of Communities In School, Inc. (CIS) for the year ended September 30, 2012, and have issued our report thereon dated January 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of CIS is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered CIS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CIS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CIS's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Audit Committee, the Board of Directors, management, and the federal awarding agencies identified in the schedule of expenditures of federal awards. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Falls Church, Virginia
January 16, 2013

**Report on Compliance with Requirements that Could Have a Direct and Material
Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Board of Directors
Communities In Schools, Inc.
Arlington, Virginia

Compliance

We have audited the compliance of Communities In Schools, Inc. (CIS) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CIS's major federal programs for the year ended September 30, 2012. CIS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the CIS's management. Our responsibility is to express an opinion on CIS's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CIS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CIS's compliance with those requirements.

In our opinion, CIS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

The management of CIS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CIS's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CIS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses as defined above.

This report is intended solely for the information and use of the Audit Committee, the Board of Directors, management, and the federal awarding agencies identified in the schedule of expenditures federal awards. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Falls Church, Virginia
January 16, 2013

Communities In Schools, Inc.

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting: Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over the major programs Material weakness identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Type of auditor’s report issued on compliance for the major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.726	- Department of Justice Multi-State Mentoring Initiative
84.396/84.Unknown/84.010	- Department of Education Cluster Pass-Through Program- Johns Hopkins University/Diplomas Now/ARRA

Dollar threshold used to distinguish between Type A and B programs:	\$300,000
Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.