

Communities In Schools, Inc.

Audited Financial Statements,
Other Financial and
Supplemental Information

*Years ended September 30, 2013 and 2012
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements,
Other Financial and
Supplemental Information

Years ended September 30, 2013 and 2012

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Communities In Schools, Inc. (CIS), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities In Schools, Inc. as of September 30, 2013 and 2012, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Statement of Functional Expenses for the year ended September 30, 2013 (with 2012 summary) 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 for the year ended September 30, 2013 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014 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.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned in the lower right quadrant of the page.

Falls Church, Virginia
January 16, 2014

Communities In Schools, Inc.

Statements of Financial Position

| | September 30, | |
|--|----------------------|----------------------|
| | <u>2013</u> | <u>2012</u> |
| Assets | | |
| Cash and cash equivalents | \$ 8,393,036 | \$ 8,680,732 |
| Cash held for restricted purposes | 128,123 | 127,729 |
| Investments | 31,028,901 | 21,927,291 |
| Pledges receivable, net | 13,043,967 | 5,007,059 |
| Government grants receivable | 674,857 | 812,730 |
| Other assets | 1,878,364 | 291,222 |
| Furniture and equipment, net | <u>1,001,138</u> | <u>318,230</u> |
| Total assets | <u>\$ 56,148,386</u> | <u>\$ 37,164,993</u> |
| Liabilities and net assets | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,244,139 | \$ 1,008,943 |
| Deferred rent | <u>370,024</u> | <u>369,887</u> |
| Total liabilities | <u>1,614,163</u> | <u>1,378,830</u> |
| Net assets: | | |
| Unrestricted | 11,388,699 | 7,823,712 |
| Temporarily restricted | 18,135,444 | 8,130,315 |
| Permanently restricted | <u>25,010,080</u> | <u>19,832,136</u> |
| Total net assets | <u>54,534,223</u> | <u>35,786,163</u> |
| Total liabilities and net assets | <u>\$ 56,148,386</u> | <u>\$ 37,164,993</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, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Support and revenue | | | | |
| Corporate, foundation and individual contributions | \$ 11,158,105 | \$ 16,363,732 | \$ 5,177,944 | \$ 32,699,781 |
| Grants-governmental agencies | 5,673,486 | - | - | 5,673,486 |
| Other revenue | 73,743 | - | - | 73,743 |
| Net assets released from restrictions: | | | | - |
| Satisfaction of program restrictions | 9,752,094 | (9,752,094) | | |
| Release of distribution of endowment earnings | 280,000 | (280,000) | - | - |
| Total support and revenue | <u>26,937,428</u> | <u>6,331,638</u> | <u>5,177,944</u> | <u>38,447,010</u> |
| Expenses | | | | |
| Program services: | | | | |
| Advocacy | 854,928 | - | - | 854,928 |
| Public awareness and communications | 2,532,297 | - | - | 2,532,297 |
| Network operations | 17,945,175 | - | - | 17,945,175 |
| Total program services | <u>21,332,400</u> | <u>-</u> | <u>-</u> | <u>21,332,400</u> |
| Supporting services: | | | | |
| General and administrative | 400,186 | - | - | 400,186 |
| Fundraising | 1,833,127 | - | - | 1,833,127 |
| Total supporting services | <u>2,233,313</u> | <u>-</u> | <u>-</u> | <u>2,233,313</u> |
| Total expenses | <u>23,565,713</u> | <u>-</u> | <u>-</u> | <u>23,565,713</u> |
| Change in net assets before investment activity | 3,371,715 | 6,331,638 | 5,177,944 | 14,881,297 |
| Investment income, net | <u>193,272</u> | <u>3,673,491</u> | <u>-</u> | <u>3,866,763</u> |
| Change in net assets | 3,564,987 | 10,005,129 | 5,177,944 | 18,748,060 |
| Net assets, beginning of year | <u>7,823,712</u> | <u>8,130,315</u> | <u>19,832,136</u> | <u>35,786,163</u> |
| Net assets, end of year | <u>\$ 11,388,699</u> | <u>\$ 18,135,444</u> | <u>\$ 25,010,080</u> | <u>\$ 54,534,223</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, net | 117,359 | 2,054,128 | - | 2,171,487 |
| Replenishment of accumulated net investment loss on endowment 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.

Statements of Cash Flows

| | Year ended September 30, | |
|---|--------------------------|---------------------|
| | 2013 | 2012 |
| Cash flows from operating activities | | |
| Change in net assets | \$ 18,748,060 | \$ 13,796,170 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Change in fair value of investments | (3,349,942) | (1,828,056) |
| Depreciation and amortization | 111,330 | 48,607 |
| Donated securities | (392,891) | (323,696) |
| Donated equipment | (659,008) | - |
| Contributions restricted for long term investment | (5,177,944) | (7,972,500) |
| Present value discount | 9,055 | (54,357) |
| Changes in assets and liabilities: | | |
| Pledges receivable | (8,045,963) | 689,919 |
| Government grants receivable | 137,873 | 415,975 |
| Other assets | (1,587,142) | (212,669) |
| Accounts payable and accrued liabilities | 235,196 | (667,266) |
| Deferred rent | 137 | 16,361 |
| Net cash provided by operating activities | <u>28,761</u> | <u>3,908,488</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (13,954,002) | (22,312,391) |
| Sale of investments | 8,595,224 | 14,064,619 |
| Purchase of furniture and equipment | (135,229) | (23,154) |
| Net cash used in investing activities | <u>(5,494,007)</u> | <u>(8,270,926)</u> |
| Cash flows from financing activities | | |
| Contributions to be held permanently | <u>5,177,944</u> | <u>7,972,500</u> |
| Net cash provided by financing activities | <u>5,177,944</u> | <u>7,972,500</u> |
| Change in cash and cash equivalents | (287,302) | 3,610,062 |
| Cash and cash equivalents, beginning of year | <u>8,808,461</u> | <u>5,198,399</u> |
| Cash and cash equivalents, end of year | <u>\$ 8,521,159</u> | <u>\$ 8,808,461</u> |
| Cash and cash equivalents | | |
| Cash and cash equivalents | \$ 8,393,036 | \$ 8,680,732 |
| Cash held for restricted purpose | 128,123 | 127,729 |
| | <u>\$ 8,521,159</u> | <u>\$ 8,808,461</u> |

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

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2013 and 2012

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 18 state and 184 local CIS organizations at September 30, 2013.

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, 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)

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). The levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted (unadjusted) for identical assets or liabilities traded in active markets that CIS 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 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 and 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 2013 and 2012, CIS's endowment fund was invested in 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, 2013 and 2012, 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, equipment and software 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 by CIS. 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 \$400,373 and \$3,907,288 in 2013 and 2012, respectively. This income was recorded in corporate, foundation and individual contributions in statements of activities. Because it is not practicable to estimate the present value of these gifts, CIS accounts for trust distributions as contribution revenue when received. See Note J for information on a subsequent event relating to this trust.

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 its 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, 2013. Tax years for years ending September 30, 2010-2013 are subject to examination by taxing authorities; however, there are no examinations being conducted.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through January 16, 2014, 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*.

Note B – Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. The multi-year pledges was discounted using rates between .32% and 2.22%. At September 30, pledges receivable are comprised as follows:

| | 2013 | 2012 |
|----------------------------------|----------------------|---------------------|
| Receivable within one year | \$ 11,809,444 | \$ 4,913,481 |
| Receivable in one to three years | 1,250,000 | 100,000 |
| | <u>13,059,444</u> | <u>5,013,481</u> |
| Discount to present value | (15,477) | (6,422) |
| Pledges receivable, net | <u>\$ 13,043,967</u> | <u>\$ 5,007,059</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:

| | 2013 | 2012 |
|-----------------------------|---------------|---------------|
| Multi-Strategy Equity fund | \$ 21,819,822 | \$ 14,130,357 |
| Multi-Strategy Bond fund | 7,924,337 | 6,042,203 |
| Money Market funds | 63 | 1,000,225 |
| Mutual funds | 1,284,588 | 754,498 |
| Tax Free Daily Income Trust | 91 | 8 |
| Total investments | \$ 31,028,901 | \$ 21,927,291 |

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 in active markets.

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:

| | 2013 | 2012 |
|------------------------|--------------|--------------|
| Interest and dividends | \$ 589,636 | \$ 391,895 |
| Change in market value | 3,349,942 | 1,828,056 |
| Investment fees | (72,815) | (48,464) |
| Investment income, net | \$ 3,866,763 | \$ 2,171,487 |

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note D – Fixed Assets

Fixed assets consists of the following as of September 30:

| | 2013 | 2012 |
|---|---------------------|-------------------|
| Furniture | \$ 249,301 | \$ 249,301 |
| Equipment | 821,853 | 99,300 |
| Leasehold improvements | 175,367 | 103,682 |
| | <u>1,246,521</u> | <u>452,283</u> |
| Accumulated depreciation and amortization | (245,383) | (134,053) |
| Furniture and equipment, net | <u>\$ 1,001,138</u> | <u>\$ 318,230</u> |

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 \$191,919 and \$240,690 as of September 30, 2013 and 2012, 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 7 percent and 25 percent of CIS's total support and revenues in 2013 and 2012, respectively. Outstanding pledges receivable from members of the CIS Board of Directors approximated 3% and 5% of total pledges receivable in 2013 and 2012, 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 equipment and services recorded for fiscal year 2013 was \$1,470,015 and was recorded at its fair value as determined by the donors. In-kind donations were received for audio visual equipment, software, and donated maintenance and services for software. For fiscal year 2012 there were no donated services to CIS.

For the year ended September 30, 2013 donated software and services in the amount of \$811,007 were recorded as unrestricted contributions with the corresponding expense being included as part of network operations. Donated audio visual equipment in the amount of \$659,008 was recorded as an unrestricted contribution and a fixed asset.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note G – Retirement Plans

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 to the Plan. During the year ending September 30, 2013, these contributions were 3 percent of an employee's salary and a matching component of up to 3 percent of an employee's contribution. During the year ended September 30, 2012, contributions were equal to 2 percent of an employee's salary and a matching component of up to 4 percent of an employee's contribution. CIS contributed \$199,341 and \$160,025 to the Plan in 2013 and 2012, respectively.

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

During the year ending September 30, 2013, CIS created a deferred compensation 457 plan. This plan was created for the benefit of certain executive employees. There were no contributions to this plan during the fiscal year 2013.

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 established an irrevocable standby letter of credit, a requirement of the lease agreement noted above. The letter of credit amount was \$128,123 and \$127,729 as of September 30, 2013 and 2012, respectively.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note H – Commitments (Continued)

Rent expense was \$593,263 and \$584,498 in fiscal years 2013 and 2012, respectively. Future minimum payments required under the above lease are as follows:

| | | |
|--------------|----|----------------------------|
| 2014 | \$ | 574,000 |
| 2015 | | 591,000 |
| 2016 | | 609,000 |
| 2017 | | 627,000 |
| 2018 | | 646,000 |
| Thereafter | | 666,000 |
| Total | | <u><u>\$ 3,713,000</u></u> |

Note I – Temporarily 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, 2013 and 2012 are attributable to expenses incurred related to these specific programs. Temporarily restricted net assets were released from restrictions for the following programs during 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|----------------------------|----------------------------|
| Public awareness and communications | \$ 221,221 | \$ 249,949 |
| Network operations | 9,369,289 | 9,129,993 |
| General & administrative | 64,113 | 47,648 |
| Fundraising | 97,471 | - |
| | <u><u>\$ 9,752,094</u></u> | <u><u>\$ 9,427,590</u></u> |

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|-----------------------------|----------------------------|
| Public awareness and communications | \$ 570,817 | \$ 168,920 |
| Network operations | 12,259,061 | 6,486,317 |
| Advocacy | 117,000 | - |
| General & administrative | 78,000 | 42,633 |
| Fundraising | 376,425 | 91,796 |
| Endowment earnings | 4,734,141 | 1,340,649 |
| | <u><u>\$ 18,135,444</u></u> | <u><u>\$ 8,130,315</u></u> |

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds

CIS's endowment funds consist of an individual donor fund as of September 30, 2013 and 2012 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.

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, 2012 | \$(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 assets | 713,479 | (713,479) | - | - |
| End of year, 2012 | - | 1,340,649 | 19,832,136 | 21,172,785 |
| Contributions | - | - | 5,177,944 | 5,177,944, |
| Investment earnings, net | - | 3,673,493 | - | 3,673,493 |
| Distribution of earnings | - | (280,000) | - | (280,000) |
| End of year, 2013 | \$ - | \$4,734,142 | \$25,010,080 | \$29,744,222 |

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.

Note J – Subsequent Event

On December 17, 2013, CIS received a distribution of approximately \$4,458,000 relating to the dissolution of the life trust discussed in Note A. CIS anticipates remitting approximately \$800,000 to CIS of Georgia and \$1,150,000 to CIS of Atlanta during fiscal year 2014.

Other Financial and Supplemental Information

Communities In Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2013 (with 2012 Summary)

| | Public | | | | | Total | 2012 Total |
|------------------------------------|------------------|---------------------------|---------------------|--------------------------|---------------------|---------------------|----------------------|
| | Advocacy | Awareness & Communication | Network Operations | General & Administrative | Fundraising | | |
| Salaries | \$246,487 | \$ 715,490.00 | \$2,412,081 | \$664,007 | \$994,010 | \$5,032,075 | \$4,401,414 |
| Employee benefits | 51,534 | 149,782 | 501,278 | 139,371 | 55,032 | 896,997 | 885,485 |
| Employee training | 1,590 | 11,859 | 43,209 | 22,150 | 4,806 | 83,614 | 41,484 |
| Network investment | 28,000 | - | 9,851,002 | - | - | 9,879,002 | 8,637,631 |
| Other contracted services | 396,544 | 1,022,856 | 2,030,484 | 300,011 | 224,146 | 3,974,041 | 2,319,917 |
| CIS Branded Items | - | 25,437 | 2,425 | - | 691 | 28,553 | 33,096 |
| Travel | 19,574 | 94,813 | 612,851 | 12,884 | 55,830 | 795,952 | 723,486 |
| Rent | 24,944 | 93,209 | 258,246 | 103,915 | 136,855 | 617,169 | 584,498 |
| Advertising | - | 40,090 | - | 11,967 | - | 52,057 | 105,283 |
| Scholarships | - | 6,000 | 34,250 | - | - | 40,250 | 5,500 |
| Conferences, meetings & convention | 1,662 | 2,032 | 21,776 | 867 | 2,342 | 28,679 | 76,530 |
| Meals & entertainment | 6,192 | 18,382 | 273,885 | 7,776 | 17,347 | 323,582 | 252,823 |
| Printing | 305 | 23,154 | 16,942 | 7,606 | 4,038 | 52,045 | 59,367 |
| Accounting & audit services | - | - | - | 45,679 | - | 45,679 | 59,886 |
| Telephone | 727 | 1,628 | 11,342 | 42,840 | 1,422 | 57,959 | 57,973 |
| Payroll outsourcing services | - | - | - | 89,938 | - | 89,938 | 76,750 |
| Hardware & software purchases | 3,500 | 29,172 | 512,210 | 29,794 | 5,525 | 580,201 | 40,035 |
| Postage & shipping | 268 | 2,655 | 4,438 | 2,606 | 1,109 | 11,076 | 16,438 |
| Office supplies | 487 | 3,533 | 15,885 | 21,697 | 2,197 | 43,799 | 46,997 |
| Equipment rental & maintenance | - | - | 520,327 | 40,426 | 191 | 560,944 | 54,084 |
| Insurance | - | - | 772 | 19,208 | - | 19,980 | 24,330 |
| Computer services | 12,087 | 58,385 | 56,836 | 15,701 | 4,800 | 147,809 | 135,677 |
| Legal services | 89 | 7,734 | 2,165 | 1,817 | 134 | 11,939 | 19,301 |
| Depreciation | - | - | - | 111,331 | - | 111,331 | 48,607 |
| Dues & subscriptions | 3,455 | 15,762 | 4,259 | 1,746 | 4,743 | 29,965 | 18,998 |
| Bank & merchant fees | - | - | - | 9,312 | - | 9,312 | 7,644 |
| Corporate taxes | - | - | 880 | 30,146 | - | 31,026 | 23,118 |
| Miscellaneous expense | 28 | 49 | 361 | 1,892 | 42 | 2,372 | 5,696 |
| Employee and board relations | 461 | 781 | 936 | 1,023 | 5,166 | 8,367 | - |
| Indirect allocation | 56,994 | 209,494 | 756,335 | (1,335,524) | 312,701 | - | - |
| Total | \$854,928 | \$ 2,532,297 | \$17,945,175 | \$ 400,186 | \$ 1,833,127 | \$23,565,713 | \$ 18,762,048 |

Communities In Schools, Inc.

Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Award/ Federal Grant Number | Pass- Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--------------------------------------|---|----------------------------|
| Corporation for National & Community Service Pass-Through Programs from: | | | | |
| Edna McConnell Clark Foundation - Social Innovation Fund | 94.019 | 10SIHNY003 | 2011YDF-SIF | \$ 1,375,000 |
| 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 | Unknown | 3,376,816 |
| • Diplomas Now Project at Columbus Public Schools | 84.010 | 255 | Unknown | 71,508 |
| • The Diplomas Now Model at Boston Public School System | 84.010 | 33637 | Unknown | <u>25,735</u> |
| <i>DOE Pass-Through Program Cluster/ARRA Total</i> | | | | <u>3,474,059</u> |
| Department of Justice | | | | |
| Multi-State Mentoring Initiative | 16.726 | | | <u>824,427</u> |
| <i>Total Expenditures of Federal Awards</i> | | | | <u><u>\$ 5,673,486</u></u> |

Communities In Schools, Inc.

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2013

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, 84.010 | \$ 2,736,777 |
| Multi-State Mentoring Initiative | 16.726 | <u>613,703</u> |
| Total Federal Awards Provided to Subrecipients | | <u>\$ 3,350,480</u> |

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters 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, in accordance with the 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, the financial statements of Communities In Schools, Inc. (CIS), which comprise the statement of financial position as of September 30, 2013 and the related statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CIS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CIS's internal control. Accordingly, we do not express an opinion on the effectiveness of CIS's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIS's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned to the right of the main text.

Falls Church, Virginia
January 16, 2014

**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Communities in Schools, Inc's (CIS) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Circular A-133 (OMB Circular A-133 Compliance Supplement)* could have a direct and material effect on its major federal program for the year ended September 30, 2013. CIS's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for CIS's major federal program based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of CIS's compliance.

Opinion on Major Federal Program

In our opinion, CIS complied, in all material respects, with the types of compliance requirements referred to above that could have a material and direct effect on its major federal program for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of CIS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CIS's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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, 2014

Communities In Schools, Inc.

Schedule of Findings and Questioned Costs

Year ended September 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|---|---------------|
| Type of auditor’s report issued: | Unmodified |
| Internal control over financial reporting: | |
| Are any material weaknesses identified? | No |
| Are any significant deficiencies identified not considered to be material weaknesses? | None Reported |
| Is any noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Type of auditor’s report issued on compliance for major programs: | Unmodified |
| Internal control over major programs: | |
| Are any material weaknesses identified? | No |
| Are any significant deficiencies identified not considered to be material weaknesses? | None Reported |
| Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, <i>Audits of State, Local Governments, and Non-Profit Organizations</i> , Section .510(a)? | No |

Identification of major programs:

CFDA Number(s) and Name of Federal Program or Cluster

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 84.396B/84.010 | Department of Education Cluster Pass-Through Program- Johns Hopkins University/Diplomas Now/ARRA |

| | |
|--|------------|
| Enter the dollar threshold used to distinguish between Type A and Type B programs: | \$ 300,000 |
|--|------------|

| | |
|---|-----|
| Is the auditee qualified as a low-risk auditee? | Yes |
|---|-----|

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.