



Communities In Schools, Inc.

Audited Financial Statements,
Other Financial, and
Supplemental Information

*Years ended September 30, 2011 and 2010
with Report of Independent Auditors*

Communities In Schools, Inc.

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Other Financial, and
Supplemental Information

Years ended September 30, 2011 and 2010

Contents

Report of Independent Auditors.....	1
<i>Audited Financial Statements</i>	
Statements of Financial Position.....	2
Statements of Activities	3 - 4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6 - 16
<i>Other Financial Information</i>	
Statement of Functional Expenses	17
Schedule of Expenditures of Federal Awards.....	18
Notes to the Schedule of Expenditures of Federal Awards	19
<i>OMB Circular A-133 Supplemental Reports</i>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20 - 21
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	22 - 23
Schedule of Findings and Questioned Costs.....	24

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, 2011 and 2010, 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, 2011 and 2010, 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 10, 2012, 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 17 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 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.

Johnson Lambert & Co. LLP

Falls Church, Virginia
January 10, 2012

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2011	2010
Assets		
Cash and cash equivalents	\$ 5,070,209	\$ 3,988,719
Cash held for restricted purposes	128,190	128,512
Investments	11,527,767	9,242,460
Pledges receivable, net	5,642,621	5,770,413
Government grants receivable	1,228,705	431,772
Other assets	78,553	183,801
Fixed assets, net	343,683	130,189
Total assets	<u>\$ 24,019,728</u>	<u>\$ 19,875,866</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 755,598	\$ 816,941
Due to CIS affiliates	920,611	144,301
Deferred rent	353,526	321,414
Total liabilities	<u>2,029,735</u>	<u>1,282,656</u>
Net assets:		
Unrestricted:		
Undesignated	3,523,639	2,144,325
Accumulated net investment loss on endowment - Note J	(713,479)	-
Total unrestricted net assets	<u>2,810,160</u>	<u>2,144,325</u>
Temporarily restricted	7,320,197	7,589,249
Permanently restricted	11,859,636	8,859,636
Total net assets	<u>21,989,993</u>	<u>18,593,210</u>
Total liabilities and net assets	<u>\$ 24,019,728</u>	<u>\$ 19,875,866</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, 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 by unrestricted (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.

Statement of Activities and Changes in Net Assets

Year ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 4,468,633	\$ 4,614,962	7,859,636	\$ 16,943,231
Grants—governmental agencies	1,401,559	-	-	1,401,559
Net assets released from restrictions:				
Satisfaction of program restrictions	8,086,680	(8,086,680)	-	-
Total support and revenue	<u>13,956,872</u>	<u>(3,471,718)</u>	<u>7,859,636</u>	<u>18,344,790</u>
Expenses				
Program services:				
Advocacy	849,226	-	-	849,226
Public awareness and communications	1,513,623	-	-	1,513,623
Network operations	9,955,154	-	-	9,955,154
Total program services	<u>12,318,003</u>	<u>-</u>	<u>-</u>	<u>12,318,003</u>
Supporting services:				
General and administrative	351,731	-	-	351,731
Fundraising	1,215,536	-	-	1,215,536
Total supporting services	<u>1,567,267</u>	<u>-</u>	<u>-</u>	<u>1,567,267</u>
Total expenses	<u>13,885,270</u>	<u>-</u>	<u>-</u>	<u>13,885,270</u>
Change in net assets before investment activity	71,602	(3,471,718)	7,859,636	4,459,520
Investment income	70,280	-	-	70,280
Change in net assets	<u>141,882</u>	<u>(3,471,718)</u>	<u>7,859,636</u>	<u>4,529,800</u>
Net assets, beginning of year	<u>2,002,443</u>	<u>11,060,967</u>	<u>1,000,000</u>	<u>14,063,410</u>
Net assets, end of year	<u>\$ 2,144,325</u>	<u>\$ 7,589,249</u>	<u>\$ 8,859,636</u>	<u>\$ 18,593,210</u>

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

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2011	2010
	<u> </u>	<u> </u>
Cash flows from operating activities		
Change in net assets	\$ 3,396,783	\$ 4,529,800
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Change in fair value of investments	793,786	(24,976)
Depreciation and amortization	27,769	23,869
Donated securities	(15,514)	(6,872,639)
Contributions restricted for long term investment	(3,000,000)	(986,997)
Present value discount	(99,516)	(133,824)
Changes in assets and liabilities:		
Pledges receivable	227,310	2,491,069
Government grants receivable	(796,933)	(406,646)
Other assets	105,248	(88,183)
Accounts payable and accrued liabilities	(61,343)	(4,836)
Due to CIS affiliates	776,310	144,301
Deferred rent	32,112	66,051
	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	1,386,012	(1,263,011)
	<u> </u>	<u> </u>
Cash flows from investing activities		
Purchase of investments	(41,453,133)	(26,644,369)
Sale of investments	38,388,827	17,770,112
Purchase of furniture and equipment	(240,538)	(16,644)
	<u> </u>	<u> </u>
Net cash used in investing activities	(3,304,844)	(8,890,901)
	<u> </u>	<u> </u>
Cash flows from financing activities		
Contributions to be held permanently	3,000,000	7,859,636
	<u> </u>	<u> </u>
Net cash used in financing activities	3,000,000	7,859,636
	<u> </u>	<u> </u>
Change in cash and cash equivalents	1,081,168	(2,294,276)
Cash and cash equivalents, beginning of year	4,117,231	6,411,507
	<u> </u>	<u> </u>
Cash and cash equivalents, end of year	\$ 5,198,399	\$ 4,117,231
	<u> </u>	<u> </u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 5,070,209	\$ 3,988,719
Cash held for restricted purpose	128,190	128,512
	<u> </u>	<u> </u>
	\$ 5,198,399	\$ 4,117,231
	<u> </u>	<u> </u>

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

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2011 and 2010

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 12 state and 183 local CIS organizations at September 30, 2011.

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. In fiscal years 2011 and 2010, CIS received \$3,000,000 and \$7,859,636 in permanently restricted contributions, respectively.

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 market value. Investment income or loss, including realized and unrealized gains and losses, is included in the statement of activities as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law. Gains and losses arising from the sale, maturity and other dispositions are accounted for on a specific identification basis calculated as of the trade date.

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:

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (continued)

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. This 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 2011, CIS' endowment fund was invested into commingled private investment vehicles managed by CommonFund Asset Management (CommonFund) and the related securities are held in the custody of StateStreet. Funds managed by CommonFund are comprised of positions in money market funds and two commingled private investment vehicles: CommonFund Institutional Multi-strategy Equity Fund and the CommonFund Institutional Multi-strategy Bond Fund (collectively "the CommonFund Investments"). The CommonFund Investments are not publicly traded; their fair value is based on CIS' pro-rata share of the net asset value of the respective funds at the balance sheet date. The net asset values of CommonFund 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 CommonFund Investments. 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 CommonFund investments, their estimated values may differ significantly from the values that would have been used had a ready market for the CommonFund Investments existed, and the difference could be material.

The categorization of CommonFund Investments 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 the CommonFund 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, 2011, there were no unfunded commitments related to the CommonFund 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 is recognized in the period in which services are provided or benefits are 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 as 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 \$497,266 and \$264,630 in 2011 and 2010, respectively. Because it is not practicable to estimate the present value of these gifts, CIS accounts for trust distributions as contribution revenue when received.

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*.

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, 2011. Tax years after 2007 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 10, 2012, the date on which these financial statements were available to be issued. All material subsequent events have been disclosed as of that date.

Note B – Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. Multi-year pledges were discounted using the rates ranging from 2.22% to 2.60%. At September 30, pledges receivable are comprised as follows:

	2011	2010
Receivable within one year	\$ 5,553,400	\$ 3,680,708
Receivable in one to three years	150,000	2,250,000
	5,703,400	5,930,708
Discount to present value	(60,779)	(160,295)
Pledges receivable, net	\$ 5,642,621	\$ 5,770,413

Note C – Investments and Fair Value Measurements

Investments at September 30 are comprised of the following:

	2011	2010
CommonFund Multi-strategy Equity Fund	\$ 5,247,677	\$ -
CommonFund Multi-strategy Bond Fund	2,587,843	-
Money Market funds	3,308,708	1,000,000
Mutual funds	377,470	367,657
Morgan Stanley Tax Free Daily Income Trust	6,069	3,653,106
Corporate Bonds	-	4,221,697
Total investments	\$ 11,527,767	\$ 9,242,460

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments and Fair Value Measurements (Continued)

All securities except the CommonFund Investments are classified as Level 1 in accordance with the fair value hierarchy and are valued based on quoted market prices.

The transfer of Level 1 investments into Level 2 investments reflected CIS' management of the investment portfolio in compliance with the approved investment policy and strategy.

CommonFund Investments 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 income recorded in the statement of activities consisted of the following for the year ended September 30:

	2011	2010
Interest and dividends	\$ 118,900	\$ 45,304
Change in market value	(793,786)	24,976
Net investment earnings	\$ (674,886)	\$ 70,280

Note D – Fixed Assets

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

	2011	2010
Furniture	\$ 247,406	\$ 121,179
Equipment	78,150	78,803
Leasehold improvements	103,573	-
	429,129	199,982
Accumulated depreciation and amortization	(85,446)	(69,793)
Furniture and equipment, net	\$ 343,683	\$ 130,189

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note E – Related Parties

CIS receives cash from grants and contributions designated by the grantors to be given to specific state and local CIS affiliates. The total amount held by CIS and owed to affiliates was \$920,611 and \$144,301 as of September 30, 2011 and 2010, respectively.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 42 percent and 59 percent of CIS's total support and revenues in 2011 and 2010, 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 space recorded for fiscal year 2011 was \$214,730 and was recorded at its fair value as determined by The Causeway Agency which is an independent advertising company. For fiscal year 2010 there was no donated airtime 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.

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. Each employee is eligible to receive CIS's voluntary and matching contributions after they have completed one full year of service with CIS. At the Board's discretion, CIS makes contributions equal to 2 percent of an employee's salary and will match an employee's contribution up to 4 percent. CIS contributed \$147,186 and \$133,034 to the Plan in 2011 and 2010, 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 a difference between the straight-lined expense and the cash outlay which is recorded as deferred rent in the statement of financial position.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note H – Commitments (Continued)

CIS holds an Irrevocable Standby letter of credit with Wachovia Bank as a requirement of the lease agreement noted above. The letter of credit amount was \$128,190 and \$128,512 for 2011 and 2010, respectively.

Rent expense was \$560,315 and \$553,388 in fiscal years 2011 and 2010, respectively. Future minimum payments required under the above lease are as follows:

2012	\$ 541,000
2013	558,000
2014	574,000
2015	592,000
Thereafter	<u>2,549,000</u>
Total	<u>\$ 4,814,000</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, 2011 and 2010 are attributable to expenses incurred related to these specific programs. Temporarily restricted net assets were released from restrictions for the following programs during 2011 and 2010:

	2011	2010
Public awareness and communications	\$ 353,168	\$ 404,334
Network operations	6,719,220	7,116,278
General & administrative	<u>20,374</u>	<u>566,068</u>
	<u>\$ 7,092,762</u>	<u>\$ 8,086,680</u>

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2011 and 2010:

	2011	2010
Public awareness and communications	\$ 229,253	\$ 13,613
Network operations	7,060,944	7,567,118
General & administrative	<u>30,000</u>	<u>8,518</u>
	<u>\$ 7,320,197</u>	<u>\$ 7,589,249</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note J – Endowment Funds

CIS's endowment funds ("the Fund") consist of an individual donor fund as of September 30, 2011 and 2010 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)

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, 2010	\$ 3,401	\$ -	\$ 1,000,000	\$ 1,003,401
Contributions	-	-	7,859,636	7,859,636
Investment income, net	-	2,935	-	2,935
Appropriations/other reclassifications	2,935	(2,935)	-	-
End of year, 2010	6,336	-	8,859,636	8,865,972
Contributions	-	-	3,000,000	3,000,000
Investment loss, net	-	(719,815)	-	(719,815)
Appropriations/other reclassifications	-	-	-	-
Transfer of net investment loss to unrestricted net assets	(719,815)	719,815	-	-
End of year, 2011	<u>\$ (713,479)</u>	<u>\$ -</u>	<u>\$11,859,636</u>	<u>\$11,146,157</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, 2011 and 2010, there were deficiencies of \$713,479 and \$0, reported in unrestricted net assets.

Communities In Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2011 (with 2010 Summary)

	Public					Total	2010 Total
	Advocacy	Awareness & Communication	Network Operations	General & Administrative	Fundraising		
Salaries	\$ 404,921	\$ 584,561	\$ 1,741,724	\$ 578,810	\$ 654,880	\$ 3,964,896	\$ 4,095,297
Employee benefits	78,150	113,620	327,631	108,042	126,421	753,864	696,643
Employee training	968	3,234	8,065	13,636	7,504	33,407	14,236
Network Investment			6,738,001			6,738,001	4,978,138
Other contracted services	185,377	595,968	538,765	211,586	115,547	1,647,243	2,094,628
Travel	40,811	80,515	473,451	59,778	59,455	714,010	533,024
Rent	42,473	117,081	220,269	89,144	91,347	560,314	553,388
Advertising	580	398,617	2,183	6,717	580	408,677	137,467
Scholarships	-	-	23,500	-	-	23,500	15,666
Conferences, meetings & convention	2,222	11,500	44,589	1,175	2,808	62,294	16,637
Meals & entertainment	15,526	17,891	120,338	7,771	19,771	181,297	122,506
Printing	32	49,596	10,778	5,180	2,169	67,755	14,812
Accounting & audit services				36,484		36,484	37,083
Telephone	608	898	9,505	51,052	722	62,785	77,447
Payroll outsourcing services				64,415		64,415	59,805
Hardware & software purchases	280	5,738	58,215	39,944	6,239	110,416	107,812
Postage & shipping	451	18,652	3,592	2,161	1,498	26,354	24,999
Office supplies	1,500	21,513	15,360	14,414	1,740	54,527	33,502
Equipment rental & maintenance	2,139	205	855	45,396	4,273	52,868	52,097
Insurance				20,867		20,867	24,760
Computer services	2,172	173,037	27,101	5,068	2,184	209,562	42,954
Legal services	1,172		1,960	12,849	703	16,684	18,130
Depreciation				27,769		27,769	23,869
Dues & subscriptions	11,526	10,107	6,625	2,992	12,046	43,296	57,548
Bank & merchant fees				6,539		6,539	14,211
Corporate taxes				15,208		15,208	17,371
Miscellaneous expense	1,702	2,255	2,011	4,092	1,124	11,184	21,240
Indirect allocation	88,273	244,397	555,725	(1,079,386)	190,991	-	-
Total	\$ 880,883	\$ 2,449,385	\$ 10,930,243	\$ 351,703	\$ 1,302,002	\$ 15,914,216	\$ 13,885,270

Communities In Schools, Inc.

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award/ Federal Grant Number	Federal Expenditures
Department of Education			
Fund for the Improvement of Education Program/Unsolicited Grants	84.215		\$ 3,057,254
Corporation for National & Community Service Pass-Through Programs from:			
Edna McConnell Clark Foundation - Social Innovation Fund	94.019	10SIHNY003	650,032
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	200,224
• Educational Partner Provider for Improvement Strategies for K-8 Schools (Detroit Public School System)	84.388A	2001294626	24,000
• Diplomas Now at Browne Learning Academy and Springarn High School (DC Public School System)	84.Unknown	2001314109	48,500
<i>DOE Pass-Through Program Cluster/ARRA Total</i>			272,724
Department of Justice			
Multi-State Mentoring Initiative	16.726		17,432
<i>Total Expenditures of Federal Awards</i>			\$ 3,997,442

Communities In Schools, Inc.

Note to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

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*.

**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 School, Inc.
Arlington, Virginia

We have audited the financial statements of Communities In School, Inc. (CIS) for the year ended September 30, 2011, and have issued our report thereon dated January 10, 2012. 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 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 Board of Directors, management, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Johnson Lambert & Co. LLP

Falls Church, Virginia
January 10, 2012

**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 School, Inc.
Arlington, Virginia

Compliance

We have audited Communities In Schools, Inc. (CIS) compliance 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, 2011. 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, 2011.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 consider to be material weaknesses, as defined above.

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

Johnson Lambert & Co. LLP

Falls Church, Virginia
January 10, 2012

Communities In Schools, Inc.

Schedule of Findings and Questioned Costs

Year ended September 30, 2011

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>
84.215	<ul style="list-style-type: none"> • Department of Education- Fund for Improvement of Education Program /Unsolicited Grants
94.019	<ul style="list-style-type: none"> • CNCS Pass-Through Program/Edna McConnell Clark Foundation/Social Innovation Fund
84.396B/84.338A/84.Unknown	<ul style="list-style-type: none"> • 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
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Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530?	Yes
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Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.