



Communities In Schools, Inc.

Audited Financial Statements
and Other Financial
and Supplemental Information

*Years ended September 30, 2009 and 2008
with Report of Independent Auditors*

Communities In Schools, Inc.

Audited Financial Statements and Other
Financial and Supplemental Information

Years ended September 30, 2009 and 2008

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Report of Independent Auditors

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

We have audited the accompanying statements of financial position of Communities In Schools, Inc (“CIS”) as of September 30, 2009 and 2008, 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, 2009 and 2008, 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 December 28, 2009, 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 schedule of functional expenses on page 15 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Johnson Lambert & Co LLP

Falls Church, Virginia
December 28, 2009

Communities In Schools, Inc.

Statements of Financial Position

	September 30,	
	2009	2008
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 5,188,083	\$ 4,986,213
Cash held for restricted purposes	1,223,424	95,135
Government grants receivable	25,126	78,377
Investments	343,227	327,370
Pledges receivable, net	8,127,658	5,241,315
Other assets	95,618	16,899
Furniture and equipment, net	137,414	40,235
	<u> </u>	<u> </u>
Total assets	<u>\$ 15,140,550</u>	<u>\$ 10,785,544</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 821,777	\$ 806,795
Deferred rent	255,363	54,347
Capital lease obligation	-	15,310
	<u> </u>	<u> </u>
Total liabilities	<u>1,077,140</u>	<u>876,452</u>
Net assets:		
Unrestricted	2,002,443	985,869
Temporarily restricted	11,060,967	8,923,223
Permanently restricted	1,000,000	-
	<u> </u>	<u> </u>
Total net assets	<u>14,063,410</u>	<u>9,909,092</u>
Total liabilities and net assets	<u>\$ 15,140,550</u>	<u>\$ 10,785,544</u>

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

Communities In Schools, Inc.

Statement of Activities

Year ended September 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Corporate, foundation and individual contributions	\$ 5,110,497	\$ 9,643,450	\$ 1,000,000	\$ 15,753,947
Grants—governmental agencies	1,000,116	-	-	1,000,116
Other revenue	38,850	-	-	38,850
Investment income	68,947	-	-	68,947
Net assets released from restrictions:				
Satisfaction of program restrictions	7,505,706	(7,505,706)	-	-
Total support and revenue	<u>13,724,116</u>	<u>2,137,744</u>	<u>1,000,000</u>	<u>16,861,860</u>
Expenses				
Program services:				
Advocacy	821,455	-	-	821,455
Public awareness and communications	1,719,013	-	-	1,719,013
Network operations	8,384,915	-	-	8,384,915
Total program services	<u>10,925,383</u>	<u>-</u>	<u>-</u>	<u>10,925,383</u>
Supporting services:				
General and administrative	445,991	-	-	445,991
Fundraising	1,336,168	-	-	1,336,168
Total supporting services	<u>1,782,159</u>	<u>-</u>	<u>-</u>	<u>1,782,159</u>
Total expenses	<u>12,707,542</u>	<u>-</u>	<u>-</u>	<u>12,707,542</u>
Change in net assets	1,016,574	2,137,744	1,000,000	4,154,318
Net assets, beginning of year	985,869	8,923,223	-	9,909,092
Net assets, end of year	<u>\$ 2,002,443</u>	<u>\$ 11,060,967</u>	<u>\$ 1,000,000</u>	<u>\$ 14,063,410</u>

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

Communities In Schools, Inc.

Statement of Activities

Year ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Corporate, foundation and individual contributions	\$ 7,042,458	\$ 6,081,076	\$ 13,123,534
Grants—governmental agencies	2,328,773	-	2,328,773
Other revenue	576,873	-	576,873
Investment income	68,925	-	68,925
Net assets released from restrictions:			
Satisfaction of program restrictions	7,119,883	(7,119,883)	-
Total support and revenue	<u>17,136,912</u>	<u>(1,038,807)</u>	<u>16,098,105</u>
Expenses			
Program services:			
Advocacy	271,340	-	271,340
Public awareness and communications	6,941,853	-	6,941,853
Network operations	8,912,151	-	8,912,151
Total program services	<u>16,125,344</u>	<u>-</u>	<u>16,125,344</u>
Supporting services:			
General and administrative	325,537	-	325,537
Fundraising	1,200,993	-	1,200,993
Total supporting services	<u>1,526,530</u>	<u>-</u>	<u>1,526,530</u>
Total expenses	<u>17,651,874</u>	<u>-</u>	<u>17,651,874</u>
Change in net assets	(514,962)	(1,038,807)	(1,553,769)
Net assets, beginning of year	<u>1,500,831</u>	<u>9,962,030</u>	<u>11,462,861</u>
Net assets, end of year	<u>\$ 985,869</u>	<u>\$ 8,923,223</u>	<u>\$ 9,909,092</u>

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

Communities In Schools, Inc.

Statements of Cash Flows

	Year ended September 30,	
	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 4,154,318	\$ (1,553,769)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in fair value of investments	3,218	96,816
Depreciation and amortization	18,900	18,505
Donated securities	(5,420)	(198,599)
Present value discount	235,829	(207,879)
Changes in assets and liabilities:		
Pledges receivable	(3,122,172)	399,161
Government grants receivable	53,251	209,920
Other assets	(78,719)	394,602
Accounts payable and accrued liabilities	14,982	82,834
Deferred support	-	(202,766)
Deferred rent	201,016	(46,248)
	<u>1,475,203</u>	<u>(1,007,423)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchase of investments	(18,353)	(278,892)
Sale of investments	4,699	3,784,136
Purchase of furniture and equipment	(116,080)	-
	<u>(129,734)</u>	<u>3,505,244</u>
Net cash (provided by) used in investing activities		
Cash flows from financing activities		
Principal payment on capital lease	(15,310)	(16,310)
	<u>(15,310)</u>	<u>(16,310)</u>
Net cash used in financing activities		
Change in cash and cash equivalents	1,330,159	2,481,511
Cash and cash equivalents, beginning of year	5,081,348	2,599,837
Cash and cash equivalents, end of year	<u>\$ 6,411,507</u>	<u>\$ 5,081,348</u>
Cash and cash equivalents		
Cash and cash equivalents	\$ 5,188,083	\$ 4,986,213
Cash held for restricted purpose	1,223,424	95,135
	<u>\$ 6,411,507</u>	<u>\$ 5,081,348</u>

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

Communities In Schools, Inc.

Notes to Financial Statements

Years ended September 30, 2009 and 2008

Note A – Organization and Significant Accounting Policies

Organization

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

CIS works through 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 14 state and 200 local CIS organizations at September 30, 2009.

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 2009 and 2008, CIS received \$1,000,000 and \$0 in permanently restricted contributions, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Cash and Cash Equivalents

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

Cash Held for Restricted Purposes

CIS maintains certain moneys as collateral under the terms of its corporate office-operating lease. These moneys are reflected as cash held for restricted purposes on the statement of financial position. Cash held for restricted purposes as of September 30, 2009 also includes the permanently restricted contribution received during 2009.

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.

Recent changes in accounting standards refined the definition of fair value, established a framework and hierarchy for measuring fair value and expanded disclosures about fair value measurements.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (Continued)

The new standard established 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 and those investments included in each are as follows:

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

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

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

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, estimates of fair value are made using methods, models and assumptions that management believes are relevant to the particular asset or liability. 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.

Pledges Receivable

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

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Furniture and Equipment

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

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.

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 \$251,832 and \$239,949 in 2009 and 2008, respectively. Because it is not practicable to estimate the present value of these gifts, CIS accounts for trust distributions as contribution revenue when received.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note A – Organization and Significant Accounting Policies (Continued)

Income Tax Status

CIS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified by the Internal Revenue Service as a publicly supported organization. Management has concluded that the CIS has properly maintained their exempt status. In accordance with US 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, 2009.

Subsequent Events

CIS has evaluated subsequent events for disclosure and recognition through December 28, 2009, 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

In August 2008, the Endowments of Not-for-Profit Organizations accounting guidance was issued, 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). The guidance also improves disclosures about an organization's endowed funds whether or not the organization is subject to UPMIFA. CIS has made the required disclosures in Note J, *Endowment Funds*.

Reclassifications

Certain 2008 amounts have been reclassified to conform with 2009 presentation.

Note B – Pledges Receivable

Pledges receivable represent unconditional promises to give by donors. Multi-year pledges were discounted using the rates ranging from 2.24% to 5.05%. At September 30, pledges receivable are comprised as follows:

	2009	2008
Receivable within one year	\$ 3,921,777	\$ 5,249,605
Receivable in one to three years	4,500,000	50,000
	<u>8,421,777</u>	<u>5,299,605</u>
Discount to present value	(294,119)	(58,290)
Net pledges receivable	<u>\$ 8,127,658</u>	<u>\$ 5,241,315</u>

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note C – Investments

At September 30, 2009 and 2008, CIS's investments consisted solely of mutual funds which are valued based on quoted market prices, and therefore are classified as Level 1.

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

	2009	2008
Interest and dividends	\$ 72,165	\$ 165,741
Change in market value	(3,218)	(96,816)
Net investment earnings	<u>\$ 68,947</u>	<u>\$ 68,925</u>

Note D – Furniture and Equipment

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

	2009	2008
Furniture	\$ 121,179	\$ 206,463
Equipment	206,318	207,518
	<u>327,497</u>	<u>413,981</u>
Accumulated depreciation and amortization	(190,083)	(373,746)
Furniture and equipment, net	<u>\$ 137,414</u>	<u>\$ 40,235</u>

CIS leases office telephone equipment under a capital lease that expired in 2009. The leased equipment asset cost was \$43,539. Total amortization expense was \$8,708 in 2009 and 2008 and total accumulated amortization was \$22,058 and \$13,350, as of September 30, 2009 and 2008, respectively.

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 \$0 and \$50,020 as of September 30, 2009 and 2008, respectively.

Certain members of the CIS Board of Directors have made contributions and/or pledges to CIS. These contributions approximated 12 percent and 2 percent of CIS's total support and revenues in 2009 and 2008, respectively. The contributions received were made to support the general operations of CIS and specified programs such as the Fellows program, designating funds for a CIS affiliate and the endowment fund.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note F – In Kind Contributions

During fiscal years 2009 and 2008, independently owned radio and television stations donated airtime to CIS. Total donated advertising time recorded for fiscal years 2009 and 2008 is \$578,000 and \$5,394,111, respectively and is recorded at its fair market value as determined by Multivu, Inc. which is an independent media distribution and monitoring company.

For the years ended September 30, 2009 and 2008 donated services are recorded as unrestricted contributions with the corresponding expense being included as part of the public awareness and communications program in the statement of activities.

Note G – Defined Contribution Pension Plan

CIS sponsors a defined contribution pension plan (the Plan). Benefits of the Plan are provided through the purchase of fixed-dollar annuities and variable annuities. All CIS employees are eligible to participate in the Plan immediately upon hiring. The employee is eligible to receive CIS's voluntary and matching contributions after they have completed one full year of service with CIS. At the Board's discretion, CIS makes contributions equal to 2 percent of an employee's salary and will match an employee's contribution up to 4 percent. CIS contributed \$134,468 and \$141,624 to the Plan in 2009 and 2008, respectively.

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

Note H – Commitments

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

CIS holds an Irrevocable Standby letter of credit with Wachovia Bank as a requirement of the lease agreement noted above. As of September 30, 2009 the letter of credit amount was \$127,578.

Communities In Schools, Inc.

Notes to Financial Statements (Continued)

Note H – Commitments (Continued)

Rent expense was \$781,945 and \$506,229 in fiscal years 2009 and 2008, respectively. Future minimum payments required under the above lease are as follows:

2010	\$ 491,105
2011	525,043
2012	540,795
2013	557,018
2014	573,729
Thereafter	<u>3,162,443</u>
Total	<u>\$ 5,850,133</u>

Note I – Temporarily and Permanently Restricted Net Assets

The temporarily restricted net assets of CIS are available for the following programs or purposes as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Public awareness and communications	\$ 294,253	\$ 639,836
Network operations	10,412,814	7,512,444
General & Administrative	335,437	599,936
Fundraising	<u>18,463</u>	<u>171,007</u>
	<u>\$ 11,060,967</u>	<u>\$ 8,923,223</u>

Temporarily restricted net assets are available for use in programs specified by donors. The net assets released from donor restrictions, \$7,505,706 and \$7,119,883 for the years ended September 30, 2009 and 2008, respectively, are attributable to expenses incurred related to these specific programs. The permanently restricted net assets as of September 30, 2009 consist of a \$1,000,000 endowment fund received during the year from an individual donor.

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, 2009 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.

Changes in Endowment Net Assets

The changes in the endowment net assets are as follows for the year ended September 30, 2009:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Total Endowment Net Assets</u>
Beginning of year, October 1, 2008	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	1,000,000	1,000,000
Investment earnings	-	3,401	-	3,401
Release from restriction	3,401	(3,401)	-	-
Year ended, September 30, 2009	<u>\$ 3,401</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 1,003,401</u>

Classification Policy

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.

Note K – Risks and Uncertainties

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

Communities In Schools, Inc.

Statement of Functional Expenses

For the Year Ended September 30, 2009

	Public					Total	2008 Total
	Awareness & Communication	Network Operations	Advocacy	General & Administrative	Fundraising		
Salaries	\$ 511,368	\$ 1,498,531	\$ 391,112	\$ 588,922	\$ 559,577	\$ 3,549,510	\$ 3,246,769
Employee benefits	94,139	299,198	79,929	110,151	114,929	698,346	637,917
Employee training	1,329	5,584	808	13,520	784	22,025	10,870
Advertising	652,156	1,959	4,500	2,277	2,700	663,592	5,811,007
Network Investment	9,000	4,373,215	-	-	-	4,382,215	3,201,292
Scholarships	-	5,750	-	-	-	5,750	-
Other contracted services	11,298	943,448	82,308	115,172	228,041	1,380,267	2,233,791
Travel	18,346	255,575	38,494	12,942	29,052	354,409	239,797
Rent	140,732	229,341	72,972	182,531	156,369	781,945	506,229
Conferences, meetings & convention	(118)	24,721	(472)	10	764	24,905	1,183,322
Meals & entertainment	8,276	74,037	35,153	10,435	19,637	147,538	54,137
Printing	44,863	2,325	72	5,734	755	53,749	73,139
Accounting & audit services	-	-	-	33,520	-	33,520	40,616
Interest expense	-	-	-	1,059	-	1,059	3,802
Telephone	602	8,711	865	72,334	977	83,489	63,502
Payroll outsourcing services	-	-	-	56,540	-	56,540	75,735
Hardware & software purchases	390	14,594	-	25,262	-	40,246	24,300
Postage & shipping	18,784	1,631	1,088	(1,224)	1,751	22,030	47,276
Office supplies	2,331	76,413	1,624	132,201	1,210	213,779	16,317
Equipment rental & maintenance	285	1,326	3,029	45,212	3,528	53,380	46,250
Insurance	-	103	258	24,590	155	25,106	23,303
Computer services	15,333	6,756	500	7,250	500	30,339	31,670
Legal services	902	-	-	750	-	1,652	1,712
Depreciation	-	-	-	18,900	-	18,900	18,506
Dues & subscriptions	2,021	4,560	8,831	1,781	6,331	23,524	13,013
Bank & merchant fees	-	-	-	7,730	-	7,730	5,459
Corporate taxes	-	-	-	10,373	-	10,373	8,265
Miscellaneous expense	606	11,833	3,748	3,406	2,031	21,624	33,878
Indirect Allocation	186,370	545,304	96,636	(1,035,387)	207,077	-	-
Total	\$ 1,719,013	\$ 8,384,915	\$ 821,455	\$ 445,991	\$ 1,336,168	\$ 12,707,542	\$ 17,651,874

Communities In Schools, Inc.

Schedule of Expenditures of Federal Awards

Year ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Grant Number	Federal Expenditures
Corporation for National & Community Service			
CNCS 10/08 – 2008 Youth-Serving Organizations Capacity Building	94.007	08ERHVA001	\$ 999,999
<i>Total Corporation for National & Community Service</i>			<u>999,999</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 999,999</u>

Communities In Schools, Inc.

Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2009

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 follows:

<u><i>Program Title</i></u>	<u><i>Federal CFDA Number</i></u>	<u><i>Amount Provided to Subrecipients</i></u>
CNCS 10/08 – 2008 Youth-Serving Organizations Capacity Building	94.007	<u>\$ 105,446</u> <u>\$ 105,446</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Communities In School, Inc. (CIS) as of and for the year ended September 30, 2009, and have issued our report thereon dated December 28, 2009. 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

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 agency 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
December 28, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH CIRCULAR A-133**

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

Compliance

We have audited the compliance of Communities In Schools, Inc. (CIS) with the types of compliance requirements described in the U.S. Office of Management and Budget *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2009. CIS's major federal program is 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 program is the responsibility of the entity'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 generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and 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's complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be 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 agency 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
December 28, 2009

Communities In Schools, Inc.

Schedule of Findings and Questioned Costs

Year ended September 30, 2009

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:

Program Title

Corporation for National & Community Service- Youth Serving
Organizations Capacity Building

Federal
CFDA Number
94.007

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

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.