

Communities in Schools of Houston, Inc.

(A Texas Nonprofit Organization)

Annual Financial and Compliance Report for the
Year Ended August 31, 2012

(With summarized comparative financial
information for 2011)

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

AUGUST 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Communities in Schools of Houston, Inc.

We have audited the accompanying statement of financial position of Communities in Schools Houston, Inc. (the "Organization") (a Texas nonprofit organization) as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's fiscal year 2011 financial statements and, in our report dated April 3, 2012, we expressed an unqualified opinion on those financial statements.

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 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 the Organization'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 audit provides 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 the Organization as of August 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, on our consideration of the Organization'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 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 financial statements as a whole. The schedule of functional expenses on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements of the Organization. Likewise, the accompanying schedules of expenditures of federal and state awards, on pages 17 and 18, are presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"* and the State of Texas Single Audit Circular, and are also not a required part of the financial statements of the Organization. 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 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Houston, Texas
March 25, 2013

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2012

(With summarized financial information for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,982,257	\$ 516,995	\$ 2,499,252	\$ 2,518,544
Pledges receivable	269	311,386	311,655	306,415
Grants receivable	-	358,993	358,993	209,989
Prepayments	70,319	-	70,319	87,358
Other receivables	969	-	969	-
Total current assets	<u>2,053,814</u>	<u>1,187,374</u>	<u>3,241,188</u>	<u>3,122,306</u>
NONCURRENT ASSETS				
Capital assets, net	<u>22,444</u>	<u>418</u>	<u>22,862</u>	<u>54,790</u>
TOTAL ASSETS	<u><u>\$ 2,076,258</u></u>	<u><u>\$ 1,187,792</u></u>	<u><u>\$ 3,264,050</u></u>	<u><u>\$ 3,177,096</u></u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 256,707	\$ -	\$ 256,707	\$ 208,692
Deferred credit	46,142	-	46,142	51,689
Interfund (receivable)/payable	<u>(359,411)</u>	<u>359,411</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>(56,562)</u>	<u>359,411</u>	<u>302,849</u>	<u>260,381</u>
TOTAL LIABILITIES	<u><u>\$ (56,562)</u></u>	<u><u>\$ 359,411</u></u>	<u><u>\$ 302,849</u></u>	<u><u>\$ 260,381</u></u>
NET ASSETS	<u>2,132,820</u>	<u>828,381</u>	<u>2,961,201</u>	<u>2,916,715</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,076,258</u></u>	<u><u>\$ 1,187,792</u></u>	<u><u>\$ 3,264,050</u></u>	<u><u>\$ 3,177,096</u></u>

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

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF ACTIVITIES
YEAR ENDED AUGUST 31, 2012

(With summarized financial information for 2011)

			Totals	
	Unrestricted	Temporarily Restricted	2012	2011
SUPPORT AND REVENUE				
Cash contributions and grants:				
Individuals	\$ 208,117	\$ 335,566	\$ 543,683	\$ 581,112
Corporations	195,208	1,209,214	1,404,422	1,204,284
Foundations	371,902	589,278	961,180	858,601
Governmental agencies	-	4,943,375	4,943,375	6,002,416
Noncash contributions and donations	-	669,392	669,392	806,135
Others	14,761	-	14,761	13,527
Net assets released from restriction:				
Satisfaction of purpose restrictions	7,075,076	(7,075,076)	-	-
Expiration of time restrictions	790,862	(790,862)	-	-
TOTAL SUPPORT AND REVENUE	8,655,926	(119,113)	8,536,813	9,466,075
EXPENSES				
Program services:				
Supportive guidance	2,610,465	-	2,610,465	2,877,615
Health and human services	518,311	-	518,311	986,611
Parental involvement	1,082,149	-	1,082,149	1,068,828
Cultural enrichment	880,428	-	880,428	1,233,263
Academic enhancement	1,797,978	-	1,797,978	1,891,004
Employment/pre-employment	114,869	-	114,869	164,435
Total program services	7,004,200	-	7,004,200	8,221,756
Support services:				
General administration	893,191	-	893,191	876,276
Fundraising	594,936	-	594,936	629,673
Total support services	1,488,127	-	1,488,127	1,505,949
TOTAL EXPENSES	8,492,327	-	8,492,327	9,727,705
CHANGE IN NET ASSETS	163,599	(119,113)	44,486	(261,630)
NET ASSETS, BEGINNING OF YEAR	1,969,221	947,494	2,916,715	3,178,345
NET ASSETS, END OF YEAR	\$ 2,132,820	\$ 828,381	\$ 2,961,201	\$ 2,916,715

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

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 44,486	\$ (261,630)
Adjustments to reconcile change in net assets to net cash (used in)/provided by operating activities:		
Depreciation	33,316	49,462
Capital assets write off	-	12,314
Changes in:		
Pledges receivable	(5,240)	357,535
Grants receivable	(149,004)	84,531
Prepayments	17,039	7,093
Other receivables	(969)	-
Deferred credit	(5,547)	(1,789)
Accounts payable and accrued expenses	48,015	(28,640)
Total adjustments	(62,390)	480,506
Net cash (used in)/provided by operating activities	(17,904)	218,876
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,388)	(17,906)
Net cash used in investing activities	(1,388)	(17,906)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(19,292)	200,970
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,518,544	2,317,574
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,499,252	\$ 2,518,544

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

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Communities in Schools of Houston, Inc. (the "Organization") is a Texas nonprofit corporation which coordinates private and public sector participation in the Organization's alternative education program. The goal of the Organization is to help disadvantaged, urban-area youth become more self-sufficient and productive citizens. The Organization provides youth with intensive educational and social attention in the public school environment through utilization of the mutually supportive services of municipal and county agencies and voluntary health and welfare organizations.

The Organization is supported primarily through contributions and grants from governmental entities, foundations, corporations and individuals.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The financial statements of the Organization include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient details to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2011, from which the summarized information was derived.

The Organization's funding sources include donors who have placed specific restrictions on the use of donated assets and, in certain instances, the use of income derived from those assets. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*. Accordingly, net assets of the Organization and changes therein are classified and reported as:

Unrestricted net assets – These are resources that are not subject to donor-imposed stipulations and can be used for the general operations of the Organization.

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Temporarily restricted net assets – These are resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – These are resources that are subject to donor restrictions requiring that the principal be held in perpetuity and any income thereon be used by the Organization. As of August 31, 2012 and during the year then ended, the Organization had no permanently restricted net assets.

In addition, the Organization is required by FASB ASC Topic 958-205 to present statements of activities and cash flows.

Revenue Recognition

The Organization follows the provisions of FASB ASC Topic 958-605, *Not-for-Profit Entities-Revenue Recognition*. Accordingly, the Organization records contributions and unconditional promises to give, as revenues when received or when a promise is made. Conditional promises to give are recognized as revenue when the conditions on which they depend have been substantially met. Contributions and promises to give receivable are recorded net of estimated uncollectible amounts which are determined based on management's analysis of specific contributions and promises made. Multi-year promises to give are not discounted if the amount of discount is not material.

The Organization reports donations of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. In accordance with FASB ASC Topic 958-605, revenues are reported as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence or non-existence of donor imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

When both restricted and unrestricted resources are available for use for the same purpose, it is the Organization's policy to use restricted resources first, then unrestricted resources as they are needed.

Government grants conditioned on the incurrence of certain qualifying expenses are recognized as grant revenues to the extent the expenses are incurred. Revenues under performance-based contracts are recorded as the Organization performs the services required by the contracts.

Donations of land, buildings, equipment, and other capitalizable assets to the Organization are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donations of capital assets with explicit restrictions that specify how the assets are to be used and donations of cash or other assets that must be

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used to acquire capital assets are recorded as restricted support. Absent explicit donor stipulations about how capital assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired capital assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization did not receive any donated capital assets in fiscal year 2012.

In-Kind Contributions and Contributed Services

Many individuals volunteer from time to time to perform a variety of tasks that assist the Organization in its operations. The Organization records the value of contributed services when there is an objective basis available to measure the value. During the year ended August 31, 2012, the Organization did not have any contributed volunteer services meeting the criteria for recognition in the financial statements and, accordingly, no value was recorded.

Contributed professional services are recorded in the accompanying financial statements as noncash contributions and non-cash donations at their estimated fair values at the date of performance. The value of non-cash donations of materials, services, and free use of facilities that are included in the financial statements and the corresponding expenses for the year ended August 31, 2012 was \$669,392.

Cash and Cash Equivalents

The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from date of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The value of cash equivalents included in cash and cash equivalents as of August 31, 2012, was \$1,514,269.

Capital Assets

Capital assets are generally recorded at cost or, if donated, at their estimated fair value at the date of donation. The Organization follows the policy of capitalizing all expenditures for property, improvements, furniture and fixtures, vehicles, office and other equipment in excess of \$1,500. Capital assets are depreciated using the straight-line method based on the estimated useful lives of the related assets ranging from three to five years. Maintenance and repairs are charged to operations when incurred. Major improvements and renewals are capitalized.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs

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have been allocated among the programs and supporting services benefited in accordance with the Organization's cost allocation plan. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Taxes

The Organization is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided for in the accompanying financial statements.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

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 certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements are the valuation of non-cash donations of goods, services, and free use of facilities, as well as functional allocation of expenses.

Reclassification

Certain amounts in the prior financial statements have been reclassified to conform to current year presentation.

New Accounting Pronouncement

In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-05 – Statement of Cash Flows (Topic 230), *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated assets that upon receipt were directed without any limitations for sale imposed by the not-for-profit entity and were converted nearly immediately into cash. This update will be effective for the Organization's 2013 annual

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financial statements. Management does not anticipate that this update will significantly affect the Organization's financial statements.

2. PROGRAM AND SUPPORT SERVICES

The following are the major programs and support services provided by the Organization:

- (1) Supportive Guidance: Students served by the Organization face an often overwhelming number of obstacles, including but not limited to poverty, that can make it difficult for the students to concentrate on schoolwork or perform well socially. The Organization provides both individual and group supportive guidance to help these students deal with difficult family situations and with the stresses experienced by all children growing up in poverty.
- (2) Academic Support: Children often suffer academically because they have no one to help them in their studies. Teachers certainly try their best, but with a room full of students, it is difficult for teachers to provide the individual attention that some children must have to succeed in their schoolwork. Many at-risk children have parents who are high-school dropouts or have only basic reading and math skills. Since individual attention can enable a child struggling with a subject to master it, the Organization recruits adults to tutor and mentor these children, provide remedial help and serve as positive role models.
- (3) Cultural Enrichment: This covers a variety of activities, from field trips to guest speakers to parties and sports. The students the Organization serves are often so underprivileged that they have never been to a restaurant or a movie, or have never found their clothing anywhere but a second-hand store or charity closet. In their families, it is a struggle simply to feed them, much less provide anything beyond the necessities of physical life. This poverty leads to a lack of understanding about the world around them. A number of the Organization's students have never been outside of their immediate neighborhoods. For students who have no other life experience, the idea of academic achievement or a professional career may seem foreign. The Organization tries to provide these students with experience and information that would expand their view of the world and motivate them to higher aspirations in life.
- (4) Career Awareness: The Organization holds workshops for high school students on employment-related issues, and helps these students to obtain after-school and/or summer jobs. Although some middle school students are too young to enter the workforce, the concept of planning for the future is heavily emphasized, and where age-appropriate, summer employment is an integral part of the Organization's program. The Organization tries to instill in all students an understanding of how academic success is linked to future career success. Students are encouraged to identify their strengths and interests, and to begin thinking about what they would like to do

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when they grow up. With a good education, they will be able to overcome the circumstances of their lives and achieve more than they ever may have dreamed possible.

- (5) Parental Involvement: Concerned and involved parents are critical for children to succeed in life. Realizing this fact, the Organization evaluates and helps children and considers their individual family situations. Often the parents of at-risk children are single mothers who lack even a high school diploma and who may have great difficulty finding consistent employment. Some parents may have trouble managing the responsibilities of a family; others face significant language barriers. Parents of at-risk students face challenge themselves; the Organization works to help them so that they can help their children.
- (6) Social Services: The Organization serves as the single point of entry on campus for service provision. Sometimes students have needs that cannot be addressed directly by the Organization's staff. On other occasions, another community agency can meet a student's needs as well or better. As such, the Organization partners with other community agencies to ensure that needs of students and their families are effectively met.

3. CONCENTRATION OF CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization's deposit policy is to obtain collateral from financial institutions, whenever possible, to minimize the custodial credit risk. The total cash and cash equivalents in the bank as of August 31, 2012 was \$2,539,623 of which cash equivalents of \$1,514,269 invested in Money Market Investment Accounts (MMIA) were not insured nor guaranteed by the Federal Deposit Insurance Corporation ("FDIC") because those cash equivalents are interest-bearing and are not considered deposits by FDIC. Cash and cash equivalents of \$475,466 that exceeded the current FDIC insured limit per bank were secured by collaterals from the financial institution. The value of such collaterals as of August 31, 2012 was \$1,985,491.

MMIA balances of \$1,514,269 are not insured against loss in value; however, the Securities Investors Protection Corporation ("SIPC"), a non-government entity, replaces such securities in customer accounts held by its members up to \$500,000, including up to \$100,000 in cash, if a member bank or bank brokerage subsidiary fails. Consequently, \$1,014,269 invested in MMIA exceeded SIPC insured limit at August 31, 2012, and was not otherwise insured.

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

4. PLEDGES RECEIVABLE

The Organization's pledges receivable at August 31, 2012, are as follows:

	<u>Amount</u>
Receivable in less than one year	\$ 311,655
Receivable in more than one year	<u>-</u>
Total pledges receivable	<u><u>\$ 311,655</u></u>

5. CAPITAL ASSETS

The following is a summary of capital assets, less accumulated depreciation at August 31, 2012:

	<u>Amount</u>
Furniture and equipment	\$ 166,697
Vehicles	<u>13,285</u>
	179,982
Less: Accumulated depreciation	<u>(157,120)</u>
Capital assets, net	<u><u>\$ 22,862</u></u>

Depreciation expense for the year ended August 31, 2012 was \$33,316.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses at August 31, 2012:

	<u>Amount</u>
Accounts payable	\$ 35,156
Accrued payroll and related expenses	<u>221,551</u>
Accounts payable, accrued and other liabilities	<u><u>\$ 256,707</u></u>

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

7. NET ASSETS

Unrestricted net assets as of August 31, 2012 amounted to \$2,132,820 and are available to support the programs and activities of the Organization.

Temporarily restricted net assets are available for the following purposes:

	<u>Amount</u>
Nursing program	\$ 5,471
Finger scholarship program	38,407
Spring branch middle school program	32,071
Student special program	19,142
Emergency programs	25,219
Project MOVE dental program	57,400
Mental health program	415,733
Back to school fundraising program	233,738
Others	<u>1,200</u>
Total temporarily restricted net assets	<u><u>\$ 828,381</u></u>

8. PENSION PLAN

The Organization sponsors a 403(b) Thrift Plan (the "Thrift Plan") covering substantially all employees. The Plan permits participant contributions to be made on a before-tax basis and provides for the Organization to contribute 1% of each participant's salary and match each participant's contributions up to 2%. The Organization's total contribution to the Thrift Plan for the fiscal year ended August 31, 2012 was \$137,872, net of forfeitures of \$20,732.

The Organization also sponsors a 403(b) TDA Plan (the "Plan") covering substantially all employees. The Plan permits employees to contribute up to 98% of pretax annual compensation, as defined under the Plan, however, the Organization does not contribute to the Plan.

9. RELATED PARTY TRANSACTIONS

The Board of Directors of the Organization has mutually agreed to support the Organization by making cash contributions. Pursuant to this commitment, the Organization has received \$447,003 in cash contributions from certain members of the Board of Directors for the year ended August 31, 2012.

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

10. COMMITMENTS

The Organization has entered into various non-cancelable operating lease agreements covering office space and office equipment that expire at various times by fiscal year 2017. The following is a schedule of future minimum lease payments under non-cancelable operating leases:

Year ending August 31,	<u>Amount</u>
2013	\$ 252,030
2014	259,416
2015	122,258
2016	22,051
2017	10,406
Thereafter	-
	<u>\$ 666,161</u>

Rent expense for the year ended August 31, 2012 was \$744,854, of which \$522,500 was donated and included in noncash contributions and donations described in Note 1 to the financial statements.

11. CONTINGENCIES

The Organization receives grant funds, principally from federal and state governmental agencies for various programs, which are governed by various laws and regulations. Expenditures charged to these programs are reimbursed to the Organization after review and adjustment by the grantors. The Organization may become liable to refund money to the funding agencies where it fails to comply with contract provisions. Also, the ability of the Organization to collect any related receivables at August 31, 2012 is subject to the compliance approval process on the activities related to those reimbursable expenditures. Any liability for potential recoupment or reimbursement that could arise from such compliance approval processes is not considered material.

In accordance with the employment agreement of the Organization's Executive Director, in the event that the Organization terminates the employment of the Executive Director without cause, the Executive Director will be compensated with severance pay equal to one year of basic salary at the time of the termination.

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NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 25, 2013; the date financial statements were available to be issued. No change were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

SUPPLEMENTAL SCHEDULE

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
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SCHEDULES OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2012
(With summarized financial information for 2011)

	2012				2011
	Program Services	General Administration	Fundraising	Total Expenses	Total Expenses
Salaries and fringe benefits	\$ 5,750,473	\$ 666,469	\$ 293,872	\$ 6,710,814	\$ 7,686,994
Professional and contractual services <i>(includes total in-kind expenses of \$36,955)</i>	230,649	68,800	45,076	344,525	413,868
Supplies <i>(includes total in-kind expenses of \$109,937)</i>	75,359	4,899	16,515	96,773	172,620
Communications	24,789	7,165	22,965	54,919	54,067
Occupancy <i>(includes total in-kind expenses of \$522,500)</i>	645,280	58,607	40,967	744,854	841,782
Rental and maintenance of equipment	21,782	3,556	2,421	27,759	34,501
Printing	9,457	494	34,000	43,951	32,002
Travel	50,215	8,001	1,976	60,192	81,066
Conference and meetings	66,492	11,169	78,482	156,143	170,741
Program support	52,921	500	40,918	94,339	61,691
Depreciation	30,381	1,956	979	33,316	49,462
Miscellaneous	46,402	61,575	16,765	124,742	128,911
	<u>\$ 7,004,200</u>	<u>\$ 893,191</u>	<u>\$ 594,936</u>	<u>\$ 8,492,327</u>	<u>\$ 9,727,705</u>

SINGLE AUDIT SECTION

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award / Contract Number	Federal Expenditures
U.S. Department of Education:			
<i>Passed-through Spring Branch Independent School District:</i>			
Title I, Part A – Improving Basic Programs	84.010A	-	\$ 1,147,041
<i>Passed-through Houston Independent School District:</i>			
Title I Part A – Improving Basic Programs	84.010A	-	411,868
<i>Passed-through Houston Independent School District:</i>			
ARRA - Title I, School Initiatives	84.389A	-	30,000
<i>Passed-through Houston Independent School District:</i>			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	-	101,360
Total - U.S. Department of Education			1,690,269
U.S. Department of Housing and Urban Development:			
<i>Passed-through City of Houston, Texas:</i>			
Juvenile Delinquency Prevention Program	14.218	-	53,451
Total - U.S. Department of Housing and Urban Development			53,451
U.S. Department of Health and Human Services:			
<i>Passed-through Texas Education Agency:</i>			
Temporary Assistance for Needy Families	93.558	P18SA110045	248,770
Total for U.S. Department of Health and Human Services			248,770
Total Expenditures of Federal Awards			\$1,992,490

See accompanying notes to schedules of expenditures of federal and state awards.

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED AUGUST 31, 2012

State Grantor/Pass Through Grantor/ Program Title	State Identification Number	State Expenditures
Texas Education Agency:		
<i>Direct State Funding:</i>		
Compensatory Education Program	120958027120017	\$ 629,098
<i>Passed-through Alief Independent School District:</i>		
Compensatory Education Program	-	1,000,518
<i>Passed-through Aldine Independent School District:</i>		
Compensatory Education Program	-	83,232
		<u>1,712,848</u>
<i>Passed-through Houston Independent School District:</i>		
High School Allotment	-	35,472
<i>Passed-through Alief Independent School District:</i>		
Texas High School Initiative Collaborative Dropout Cycle 3	-	20,665
		<u>1,768,985</u>
Total - Texas Education Agency		
State of Texas, Office of the Governor, Criminal Justice Division:		
Delinquency Prevention Program In Houston's Fifth Ward	SF-2166003	67,500
Dropout and Juvenile Delinquency Prevention Initiative	SF-2148203	45,000
		<u>112,500</u>
Total – State of Texas, Office of Governor, Criminal Justice Division		
		<u>\$ 1,881,485</u>
Total State of Texas Awards		<u>\$ 1,881,485</u>

See accompanying notes to schedules of expenditures of federal and state awards.

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.

(A Texas Nonprofit Organization)

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
YEAR ENDED AUGUST 31, 2012**

1. Basis of Presentation:

The accompanying Schedules of Expenditures of Federal and State Awards (“Schedules”) include federal and state grant activities of Communities in Schools of Houston, Inc. (the “Organization”) under programs of the federal and state government for the year ended August 31, 2012. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the State of Texas Single Audit Circular. Because the Schedules present only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies:

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and State of Texas Uniform Grant Management Standards, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Commitments and Contingencies:

Federal and state grants received by the Organization are subject to review and audit by grantor agencies. The Organization’s management believes that the results of such audits will not have a material effect on the Schedules.



**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 of
Communities in Schools of Houston, Inc.

We have audited the financial statements of Communities in Schools of Houston, Inc. (the "Organization"), a Texas nonprofit organization, as of and for the year ended August 31, 2012, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization'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 the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 solely for the information and use of management, the Audit Committee, Board of Directors, others within the Organization, federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Houston, Texas
March 25, 2013



**INDEPENDENT AUDITORS' 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 AND THE STATE OF TEXAS SINGLE
AUDIT CIRCULAR**

To the Board of Directors of
Communities in Schools of Houston, Inc.

Compliance

We have audited Communities in Schools of Houston, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and in the State of Texas Single Audit Circular that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended August 31, 2012. The Organization's major federal and state 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 each of its major federal and state programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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; OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*; and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and the State of Texas Single Audit Circular 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 and state program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 of the Organization's compliance with those requirements.



In our opinion, the Organization 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 and state programs for the year ended August 31, 2012.

Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Organization’s internal control over compliance with the requirements that could have a direct and material effect on a major federal and state program 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 and the State of Texas Single Audit Circular, 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 the Organization’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 and state 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 and state 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Organization’s major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Organization’s compliance but not to provide an opinion on the effectiveness of the Organization’s internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Houston, Texas
March 25, 2013

FINDINGS AND QUESTIONED COSTS

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012

SECTION 1:

SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a) Significant deficiency identified? | No |
| b) Significant deficiencies identified that are not considered to be material weaknesses? | No |
| c) Noncompliance material to financial statements noted? | No |

Federal and State Awards:

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a) Significant deficiency identified? | No |
| b) Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 2. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |
| 4. Identification of major programs: | |

Federal - CFDA Number

Name of Federal Program or Cluster

Title I, Part A Cluster:	
84.010A	Title I, Part A - Improving Basic Programs
84.389A	ARRA - Title I, Grants to Local Education Agencies

State - Identification Number

Name of State Program or Cluster

120958027120017	Compensatory Education Program (TEA Direct)
None	Compensatory Education Program (Aldine ISD)
None	Compensatory Education Program (Alief ISD)

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012

5. Dollar threshold used to distinguish between Type A and Type B programs:

Federal	\$300,000
State	\$300,000

6. Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530 or the *State of Texas Audit Circular*?

Federal	Yes
State	Yes

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

None to report.

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012

SECTION 3:

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AND STATE AWARD
PROGRAMS**

None to report.

COMMUNITIES IN SCHOOLS OF HOUSTON, INC.
(A Texas Nonprofit Organization)

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2012

There were no prior year audit findings on which to report.