Communities in Schools of Houston, Inc.

(A Texas Nonprofit Organization)

Annual Financial and Compliance Report for the
Year Ended August 31, 2014

(With summarized comparative financial
information for 2013)

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

AUGUST 31, 2014

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Communities in Schools of Houston, Inc. (the "Organization"), a Texas nonprofit organization, which comprise the statements of financial position as of August 31, 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's fiscal year 2013 financial statements and, in our report dated April 6, 2014, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

4828 Loop Central Drive,
Suite 1000
Houston, TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Similarly, the accompanying schedules of expenditures of federal and state awards, as listed in table of contents, is presented for purposes of additional analysis as required by 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, respectively, and are also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015, 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* in considering the Organization's internal control over financial reporting and compliance.

McConnell & Jones LLP

Houston, Texas
February 27, 2015

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

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2014

(With summarized financial information for 2013)

	Unrestricted	Temporarily Restricted	Totals 2014	Totals 2013
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 1,003,415	$ 722,027	$ 1,725,442	$ 2,778,589
Certificates of deposit	-	100,058	100,058	-
Pledges receivable	70	500,266	500,336	470,326
Grants receivable	-	697,686	697,686	305,797
Prepayments	78,542	-	78,542	67,552
Other receivables	2,141	-	2,141	-
Total current assets	1,084,168	2,020,037	3,104,205	3,622,264
NONCURRENT ASSETS				
Certificate of deposit	883,937	119,478	1,003,415	-
Pledges receivable, net of current portion	-	729,080	729,080	-
Capital assets, net	23,129	418	23,547	11,740
Total noncurrent assets	907,066	848,976	1,756,042	11,740
TOTAL ASSETS	$ 1,991,234	$ 2,869,013	$ 4,860,247	$ 3,634,004
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 339,231	$ -	$ 339,231	$ 321,728
Deferred credit	12,501	-	12,501	33,079
Interfund (receivable) payable	(841,160)	841,160	-	-
Total current liabilities	(489,428)	841,160	351,732	354,807
TOTAL LIABILITIES	$ (489,428)	$ 841,160	$ 351,732	$ 354,807
NET ASSETS	2,480,662	2,027,853	4,508,515	3,279,197
TOTAL LIABILITIES AND NET ASSETS	$ 1,991,234	$ 2,869,013	$ 4,860,247	$ 3,634,004

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, 2014

(With summarized financial information for 2013)

	Unrestricted	Temporarily Restricted	Totals 2014	Totals 2013
SUPPORT AND REVENUE				
Cash contributions and grants:				
Individuals	$ 230,211	$ 365,343	$ 595,554	$ 390,069
Corporations	151,173	1,764,418	1,915,591	1,474,263
Foundations	420,776	2,351,062	2,771,838	1,915,643
Governmental agencies	-	5,902,541	5,902,541	5,247,846
Noncash contributions and donations	-	1,071,879	1,071,879	734,034
Others	19,248	-	19,248	14,260
Net assets released from restriction:				
Satisfaction of purpose restrictions	9,723,751	(9,723,751)	-	-
Expiration of time restrictions	757,665	(757,665)	-	-
TOTAL SUPPORT AND REVENUE	11,302,824	973,827	12,276,651	9,776,115
EXPENSES				
Program services:				
Supportive guidance	3,776,650	-	3,776,650	3,062,308
Health and human services	566,497	-	566,497	621,361
Parental involvement	755,330	-	755,330	863,708
Cultural enrichment	1,227,411	-	1,227,411	916,944
Academic enhancement	2,832,487	-	2,832,487	2,327,322
Employment/pre-employment	283,249	-	283,249	154,148
Total program services	9,441,624	-	9,441,624	7,945,791
Support services:				
General administration	973,030	-	973,030	913,098
Fundraising	632,679	-	632,679	599,230
Total support services	1,605,709	-	1,605,709	1,512,328
TOTAL EXPENSES	11,047,333	-	11,047,333	9,458,119
CHANGE IN NET ASSETS	255,491	973,827	1,229,318	317,996
NET ASSETS, BEGINNING OF YEAR	2,225,171	1,054,026	3,279,197	2,961,201
NET ASSETS, END OF YEAR	$ 2,480,662	$ 2,027,853	$ 4,508,515	$ 3,279,197

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, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,229,318	$ 317,996
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,566	14,763
Changes in:		
Pledges receivable	(759,089)	(158,671)
Grants receivable	(391,888)	53,195
Prepayments	(12,717)	2,767
Other receivables	(415)	969
Deferred credit	(20,578)	(13,063)
Accounts payable and accrued expenses	17,502	65,021
Total adjustments	(1,154,619)	(35,019)
Net cash provided by operating activities	74,699	282,977
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of certificates of deposit	(1,103,473)	-
Capital expenditures	(24,373)	(3,640)
Net cash used in investing activities	(1,127,846)	(3,640)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,053,147)	279,337
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,778,589	2,499,252
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,725,442	$ 2,778,589

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

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, 2013, 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.

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, 2014 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-Proft 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. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the same fiscal year in which the contributions are recognized. 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 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 2014.

<u>In-Kind Contributions and Contributed Services</u>

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, 2014, 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, 2014 was $1,071,879

<u>Cash and Cash Equivalents</u>

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, 2014, was $1,613,293.

<u>Capital Assets</u>

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 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. The Federal income tax returns of the Organization for fiscal years 2011 through 2013 are still subject to examination by the Internal Revenue Service, generally for three years after they were filed.

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.

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 was adopted for the Organization's 2014 annual financial statements and the implementations of the new standard had no significant effect on the current year financial statements.

In April 2013, the FASB issued Accounting Standards Update (ASU) 2013-06 – Not-for-profit Entities (Topic 958), *Services Received from Personnel of an Affiliate*, which requires a not-for-profit entity to recognize all services received from personnel of an affiliate at either (a) the cost recognized by the affiliate for the personnel providing that service or (b) the fair value of that service. If the recipient not-for-profit entity is required to provide a performance indicator, the entity should report an increase in net assets associated with the services rendered as an equity transfer. This update will be effective for the Organization's 2015 annual financial statements and 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) <u>Supportive Guidance</u>: 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) <u>Academic Support</u>: 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) <u>Cultural Enrichment</u>: 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 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. Bank balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per bank. The total cash and cash equivalents in the bank as of August 31, 2014 was $1,800,340. At August 31, 2014, the Organization's deposits at one of its banks included the sum of $340,219 in collateralized funds which provided additional coverage leaving an uninsured balance of $1,713,530. Management believes that this credit risk exposure was mitigated by the financial strength of the banking institutions in which the deposits were held.

Credit risk associated with grants receivable is minimal due to the credit worthiness of federal, state, and local funding agencies.

4. FAIR VALUE MEASUREMENTS

U.S. GAAP requires that certain assets and liabilities be reported at fair value and establishes a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

Certain financial assets of the Organization are measured at fair value on a recurring basis. The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Pricing inputs include significant inputs that are generally less observable or from unobservable sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial Instruments measured at fair value on a recurring basis at August 31, 2014 are as follows:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 1,103,473	$ -	$ 1,103,473

The Organization's remaining financial instruments consist of cash, receivables, and accounts payable. Management believes the carrying amount of cash, receivables and accounts payable approximate the fair value. The valuation techniques utilized in determining the fair values of the Organization's financial instruments are consistently applied.

5. PLEDGES RECEIVABLE

The Organization's pledges receivable at August 31, 2014, are as follows:

		Amount
Receivable in less than one year	$	500,336
Receivable in more than one year		729,080
Total pledges receivable	$	1,229,416

A discount on pledges receivable in more than one year has not been recorded because management believes it is immaterial to the overall financial statements.

6. CAPITAL ASSETS

The following is a summary of capital assets, less accumulated depreciation at August 31, 2014:

		Amount
Furniture and equipment	$	184,317
Vehicles		13,285
		197,602
Less: Accumulated depreciation		(174,055)
Capital assets, net	$	23,547

Depreciation expense for the year ended August 31, 2014 was $12,566.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses at August 31, 2014:

		Amount
Accounts payable	$	78,998
Accrued payroll and related expenses		260,233
Accounts payable, accrued and other liabilities	$	339,231

8. NET ASSETS

Unrestricted net assets as of August 31, 2014 amounted to $2,480,662 and are available to support the programs and activities of the Organization.
Temporarily restricted net assets are available for the following purposes:

	Amount
Contributions and grants for specific projects	$ 1,867,254
Time restrictions – contribution for operations	160,599
Total temporarily restricted net assets	$ 2,027,853

9. PENSION PLAN

The Organization sponsors a 403(b) Thrift Plan (the "Thrift Plan") covering substantially all employees. The Thrift 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, 2014 was $188,442.

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.

10. 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 $760,817 in cash contributions from certain members of the Board of Directors for the year ended August 31, 2014.

11. 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 2022. The following is a schedule of future minimum lease payments under non-cancelable operating leases:

	Amount
Year ending August 31,	
2015	$ 250,021
2016	281,336
2017	277,206
2018	274,316
2019	281,831
Thereafter	736,519
	$ 2,101,229

Rent expense for the year ended August 31, 2014 was $937,148, of which $712,700 was donated and included in noncash contributions and donations described in Note 1 to the financial statements.

12. 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, 2014 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 base salary at the time of the termination.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 27, 2015; the date financial statements were available to be issued. No changes 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.
(A Texas Nonprofit Organization)

SCHEDULES OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2014
(With summarized financial information for 2013)

	2014				2013
	Program Services	**General Administration**	**Fundraising**	**Total Expenses**	**Total Expenses**
Salaries and fringe benefits	$ 7,465,806	$ 741,728	$ 349,639	$ 8,557,173	$ 7,463,401
Professional and contractual services *(includes total in-kind expenses of $67,328)*	389,465	97,351	57,831	544,647	528,214
Supplies *(includes total in-kind expenses of $291,851)*	179,433	12,765	15,515	207,713	122,286
Communications	22,313	8,010	16,409	46,732	45,603
Occupancy *(includes total in-kind expenses of $712,700)*	837,663	63,785	35,700	937,148	842,813
Rental and maintenance of equipment	20,783	3,819	11,303	35,905	26,094
Printing	4,130	583	52,095	56,808	31,851
Travel	69,705	7,480	3,256	80,441	71,619
Conference and meetings	146,580	13,610	70,450	230,640	181,452
Program support	206,954	-	10,026	216,980	54,069
Depreciation	8,674	2,817	1,075	12,566	14,763
Miscellaneous	90,118	21,082	9,380	120,580	75,954
	$ 9,441,624	**$ 973,030**	**$ 632,679**	**$ 11,047,333**	**$ 9,458,119**

SINGLE AUDIT SECTION

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award / Contract Number	Federal Expenditures
U.S. Department of Education:			
Passed-through Spring Branch Independent School District:			
Title I, Part A – Improving Basic Programs	84.010A	-	$ 1,188,008
Passed-through Houston Independent School District:			
Title I Part A – Improving Basic Programs	84.010A	-	578,359
Total - U.S. Department of Education			1,766,367
U.S. Department of Housing and Urban Development:			
Passed-through City of Houston, Texas:			
Juvenile Delinquency Prevention Program	14.218	-	65,012
Total - U.S. Department of Housing and Urban Development			65,012
U.S. Department of Health and Human Services:			
Passed-through Texas Education Agency:			
Temporary Assistance for Needy Families	93.558	-	246,395
Total for U.S. Department of Health and Human Services			246,395
Total Expenditures of Federal Awards			$ 2,077,774

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, 2014

State Grantor/Pass Through Grantor/ Program Title	State Identification Number	State Expenditures
Texas Education Agency:		
Direct State Funding:		
Compensatory Education Program	140958027120017	$ 882,853
Passed-through Alief Independent School District:		
Compensatory Education Program	-	1,335,377
Passed-through Aldine Independent School District:		
Compensatory Education Program	-	83,232
Passed-through Houston Independent School District:		
Compensatory Education Program	-	5,180
		2,306,642
Passed-through Houston Independent School District:		
High School Allotment	-	16,010
Total - Texas Education Agency		2,322,652
State of Texas, Office of the Governor, Criminal Justice Division:		
Passed-through Harris County:		
Delinquency and Dropout Prevention Program	P223688	98,040
Delinquency and Dropout Prevention Program	P223690	98,040
Total – State of Texas, Office of Governor, Criminal Justice Division		196,080
Total State of Texas Awards		$ 2,518,732

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

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS YEAR ENDED AUGUST 31, 2014

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, 2014. 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.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Communities in Schools of Houston, Inc. (the "Organization"), a Texas nonprofit Organization, which comprise the statements of financial position as of August 31, 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

4828 Loop Central Drive,
Suite 1000
Houston, TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM

that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

McConnell & Jones LLP

Houston, Texas
February 27, 2015

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR

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

Report on Compliance for Each Major Federal and State Program

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, 2014. The Organization's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit 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 or 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.

4828 Loop Central Drive,
Suite 1000
Houston, TX 77081
Phone: 713.968.1600
Fax: 713.968.1601

WWW.MCCONNELLJONES.COM

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program 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 or 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 program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

McConnell & Jones LLP

Houston, Texas
February 27, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014

SECTION 1:

SUMMARY OF AUDITORS' RESULTS

Financial Statements:

1. Type of auditors' report issued:	Unmodified
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:	Unmodified
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

State - Identification Number	Name of State Program or Cluster
140958027120017	Compensatory Education Program (TEA Direct)
None	Compensatory Education Program (Aldine ISD)
None	Compensatory Education Program (Alief ISD)

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014

SECTION 2:

FINDINGS – FINANCIAL STATEMENT AUDIT

None reported.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014

SECTION 3:

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AND STATE AWARD PROGRAMS

None reported.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2013

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