

**COMMUNITIES IN SCHOOLS
OF SOUTH CENTRAL TEXAS, INC.**

Financial Statements for the Years Ended
August 31, 2010 and 2009

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

TABLE OF CONTENTS

| | <u>Page No.</u> |
|-----------------------------------|-----------------|
| Independent Auditor's Report | 1 |
| Financial Statements: | |
| Statements of Financial Position | 2 |
| Statements of Activities | 3 |
| Statements of Functional Expenses | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 10 |

Rick C. Reed
& COMPANY, PLLC
Certified Public Accountants

November 29, 2010

Board of Directors
Communities in Schools of South Central Texas, Inc.

We have audited the accompanying statements of financial position of Communities in Schools of South Central Texas, Inc., (a non-profit corporation) as of August 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Communities in Schools of South Texas, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities in Schools of South Central Texas, Inc. as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rick C. Reed & Company, PLLC

Rick C. Reed & Company, PLLC

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.
STATEMENTS OF FINANCIAL POSITION

August 31, 2010 & 2009

| | 2010 | 2009 |
|------------------------------------|------------|------------|
| Assets: | | |
| Current Assets: | | |
| Cash | \$ 125,988 | \$ 120,281 |
| Accounts receivable | 70,591 | 70,591 |
| Inventory | 21,897 | - |
| Prepaid expenses | 27,500 | 12,824 |
| Total current assets | 245,976 | 203,696 |
| Property and Equipment | 299,944 | 214,251 |
| Less: accumulated depreciation | (219,902) | (203,705) |
| Total property and equipment - net | 80,042 | 10,546 |
| Endowment Investments | 3,096 | 2,914 |
| Total Assets | \$ 329,114 | \$ 217,156 |
| Liabilities and Net Assets: | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,746 | \$ 10,321 |
| Deferred revenue | - | 1,628 |
| Note payable | - | 10,000 |
| Total current liabilities | 6,746 | 21,949 |
| Other liabilities: | | |
| Accrued absences | 81,804 | 71,532 |
| Payroll Liabilities | - | 25 |
| Total other liabilities | 81,804 | 71,557 |
| Total Liabilities | 88,550 | 93,506 |
| Net Assets: | | |
| Unrestricted | 132,683 | 114,736 |
| Temporarily restricted | 104,785 | 6,000 |
| Permanently restricted | 3,096 | 2,914 |
| Total Net Assets | 240,564 | 123,650 |
| Total Liabilities and Net Assets | \$ 329,114 | \$ 217,156 |

See accompanying notes to the financial statements.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

STATEMENTS OF ACTIVITIES

For The Years Ended August 31, 2010 & 2009

| | Fiscal Year Ended 08/31/2010 | | | Fiscal Year Ended 08/31/2009 | | | | |
|---------------------------------------|------------------------------|------------------------|------------------------|------------------------------|--------------|------------------------|------------------------|------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues & other support: | | | | | | | | |
| Grants | \$ 73,323 | \$ 960,423 | \$ - | \$ 1,033,746 | \$ 56,436 | \$ 868,655 | \$ - | \$ 925,091 |
| Contributions | 37,187 | 19,380 | - | 56,567 | 19,923 | 18,698 | - | 38,621 |
| In-Kind Rent (Note 12) | 130,000 | - | - | 130,000 | 125,000 | - | - | 125,000 |
| Interest/Dividend Income | 2,170 | - | 125 | 2,295 | 3,383 | - | 146 | 3,529 |
| Unrealized (loss) on investments | - | - | 57 | 57 | - | - | (499) | (499) |
| Service Delivery Agreements | - | 643,750 | - | 643,750 | - | 799,375 | - | 799,375 |
| Fundraisers | 238,522 | - | - | 238,522 | 123,649 | - | - | 123,649 |
| Miscellaneous | 16,885 | - | - | 16,885 | 19,305 | - | - | 19,305 |
| Net Assets Released from Restrictions | 1,524,768 | (1,524,768) | - | - | 1,741,093 | (1,741,093) | - | - |
| Total revenues and other support | 2,022,855 | 98,785 | 182 | 2,121,822 | 2,088,789 | (54,365) | (353) | 2,034,071 |
| Expenses: | | | | | | | | |
| Program Services | 1,575,928 | - | - | 1,575,928 | 1,727,471 | - | - | 1,727,471 |
| Support Services | 428,980 | - | - | 428,980 | 325,991 | - | - | 325,991 |
| Total expenses | 2,004,908 | - | - | 2,004,908 | 2,053,462 | - | - | 2,053,462 |
| Change in net assets | | | | | | | | |
| Net assets at Beginning of Year | 17,947 | 98,785 | 182 | 116,914 | 35,327 | (54,365) | (353) | (19,391) |
| Reclassification of Net Assets | 114,736 | 6,000 | 2,914 | 123,650 | 65,451 | 60,365 | 17,225 | 143,041 |
| | - | - | - | - | 13,958 | - | (13,958) | - |
| Net assets at End of Year | \$ 132,683 | \$ 104,785 | \$ 3,096 | \$ 240,564 | \$ 114,736 | \$ 6,000 | \$ 2,914 | \$ 123,650 |

See accompanying notes to the financial statements

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For The Years Ended August 31, 2010 and 2009

| | Fiscal Year Ended 08/31/2010 | | | | Fiscal Year Ended 08/31/2009 | | | | |
|-----------------------------|------------------------------|----------------------|-------------|------------------|------------------------------|----------------------|-------------|------------------|--------------|
| | Support Services | | Total | | Support Services | | Total | | |
| | Program Services | Management & General | Fundraising | Support Services | Program Services | Management & General | Fundraising | Support Services | |
| Salary & benefits | \$ 1,292,193 | \$ 179,258 | 25,146 | \$ 204,404 | \$ 1,496,597 | \$ 168,655 | - | \$ 168,655 | \$ 1,551,231 |
| Supplies | 3,607 | 14,460 | 3,278 | 17,738 | 21,345 | 8,046 | - | 8,046 | 14,636 |
| Travel | 19,197 | 3,165 | - | 3,165 | 22,362 | 3,129 | - | 3,129 | 25,023 |
| Audit & Bookkeeping | - | 12,406 | - | 12,406 | 12,406 | 9,723 | - | 9,723 | 9,723 |
| Fundraising | - | - | 31,204 | 31,204 | 31,204 | - | 36,213 | - | 36,213 |
| Other: | | | | | | | | | |
| SSHS Expenses | 47,345 | - | - | - | 47,345 | - | - | - | 78,436 |
| BH Foundation Grant | - | - | - | - | - | - | - | - | 74,250 |
| Insurance Expense | 12,148 | 1,350 | - | 1,350 | 13,498 | 1,181 | - | 1,181 | 11,808 |
| Other Operating Costs | 143,480 | 123,240 | 27,644 | 150,884 | 294,364 | 82,114 | - | 82,114 | 226,531 |
| Reimbursable Expenditures | 28 | 1,048 | - | 1,048 | 1,076 | 16,005 | - | 16,005 | 16,377 |
| Middle School | | | | | | | | | |
| Counseling Expense | 18,775 | - | - | - | 18,775 | - | - | - | - |
| After School Program | 24,526 | - | - | - | 24,526 | - | - | - | - |
| Focus on the Future Program | 5,211 | - | - | - | 5,211 | - | - | - | - |
| Subtotal | \$ 1,566,510 | \$ 334,927 | \$ 87,272 | \$ 422,199 | \$ 1,988,709 | \$ 288,853 | \$ 36,213 | \$ 325,066 | \$ 2,044,228 |
| Depreciation | 9,418 | 1,046 | 5,733 | 6,779 | 16,197 | 923 | - | 923 | 9,232 |
| Rounding | - | 2 | - | 2 | 2 | 2 | - | 2 | 2 |
| Total Functional Expenses | \$ 1,575,928 | \$ 335,975 | \$ 93,005 | \$ 428,980 | \$ 2,004,908 | \$ 289,778 | \$ 36,213 | \$ 325,991 | \$ 2,053,462 |

See accompanying notes to the financial statements

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

STATEMENTS OF CASH FLOWS

For The Years Ended August 31, 2010 & 2009

| Cash Flows from Operating Activities: | 2010 | 2009 |
|--|------------|-------------|
| Change in net assets | \$ 116,914 | \$ (19,391) |
| Adjustments to reconcile the change in net assets to net cash used by operating activities: | | |
| Depreciation | 16,197 | 9,234 |
| (Increase)/Decrease in accounts receivable | - | (400) |
| (Increase)/Decrease in inventory | (21,897) | - |
| (Increase)/Decrease in prepaid expenses | (14,676) | (6,788) |
| Increase/(Decrease) in accounts payable | (3,575) | 3,480 |
| Increase/(Decrease) in deferred revenue | (1,628) | 1,628 |
| Increase/(Decrease) in other liabilities | 10,247 | 15,526 |
| | 101,582 | 3,289 |
| Cash Flows from Investing Activities: | | |
| Purchase of furniture and equipment | (85,693) | (5,822) |
| (Increase) Decrease in Endowment Investments | (182) | 353 |
| Net cash used by investing activities | (85,875) | (5,469) |
| Cash Flows from Financing Activities: | | |
| Proceeds from loan | 50,000 | 10,000 |
| Payments on loan | (60,000) | - |
| Net cash used by financing activities | (10,000) | 10,000 |
| Net increase/(decrease) in cash | 5,707 | 7,820 |
| Cash at Beginning of Year | 120,281 | 112,461 |
| Cash at End of Year | \$ 125,988 | \$ 120,281 |

Disclosure of accounting policy:

For purpose of the Statement of Cash Flows, the Corporation considers cash to include cash on hand and on demand type bank accounts which are reflected as cash on the Statement of Financial Position.

Interest and Taxes Paid:

The Corporation paid \$1,041 and \$0 interest expense for the years ended August 31, 2010 and 2009, respectively. The Corporation paid no income taxes for the years ended August 31, 2010 and 2009.

See accompanying notes to the financial statements

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2010 and 2009

Note 1- Summary of Significant Accounting Policies

- **Organization and Purpose** - The Greater New Braunfels Communities in Schools, Inc. (hereafter “the Corporation”) was incorporated in Texas on December 15, 1992 (Inception). It is governed by a self-perpetuating Board of Directors. In September 1996, the Corporation changed its legal name to Communities in Schools of Comal County, Inc. The Corporation’s Board changed the name to Communities in Schools of South Central Texas, Inc. to represent their expansion outside of Comal County, effective February 27, 2004.

The primary purpose of the Corporation is coordinating and delivering human services to at-risk youth and their families (“the participants”) in South Central Texas through the supportive environment of the public schools. The Corporation endeavors to enable the participants to have access to a broad range of needed social and educational services. The objective of the Corporation is to reduce the number of students dropping out of public schools in its service area.

- **Relationship with School Districts** – To accomplish its purpose, the Corporation places Project Directors on the campuses of various schools in the New Braunfels Independent School District, the Comal Independent School District, the Marion Independent School District, and the Schertz-Cibolo-Universal City Independent School District.

The school campuses provide office space and certain furniture, equipment, and supplies at no cost to the Corporation.

- **Basis of Accounting** – The financial statements of the Corporation are prepared on the accrual basis of accounting.
- **Accounting Estimates** – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could vary from estimates that were assumed in preparing the financial statements.
- **Contributions Received** – Under SFAS No. 116, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.
- **Service Delivery Agreement** – These payments are amounts paid by the school districts for campuses that are in the Communities in Schools program.
- **Inventory** – Inventory represents the estimated fair market value of items donated to the Corporation which will be sold at their thrift store as more fully described in Note 11. The Corporation contributed \$1,914 of vouchers to participants of Communities in Schools which were redeemable for merchandise at the Corporation’s Thrift Store.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Principles – Continued

- **Program Services Expenses** – These expenses reflect the direct cost of services being distributed to participants that fulfill the corporate purpose.
- **Contributed Services** – The Corporation does not recognize on the financial statements the value of services contributed. The amount of any contributed services is not material to the financial statements.
- **Support Services Expenses** – These expenses reflect the cost of management and general activities including oversight. The principal support services costs of the Corporation pertain to the compensation and activities of an Executive Director, a bookkeeper and a Development Director, as well as occupancy expenses of the administrative office.
- **Federal Income Tax** – The Corporation has received a final determination letter from the Internal Revenue Service indicating it is a Section 501(c)(3) organization and therefore is exempt from federal income tax.
- **Cash**
Effective October 14, 2008, accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 on interest bearing accounts and non-interest bearing accounts have an unlimited guarantee by the FDIC through December 31, 2012. At August 31, 2010, the carrying amount of the Corporation’s deposits was \$125,988, including petty cash of \$800, and the bank balance was \$160,868, which was all insured by FDIC.

Note 2 - Contracts with the Texas Education Agency - The Corporation obtains substantial funding from contracts with the Texas Education Agency (TEA), which includes federal funds passed through from the U. S. Department of Health and Human Services. In these contracts, TEA engages the Corporation to provide services at public school campuses. Funds are budgeted for participant services, equipment, and special projects.

Total funds used under these contracts were as follows for the year ended August 31, 2010:

| Grant Year End | <u>Grant Total</u> | <u>Receipts</u> | <u>Expenditures</u> | Grant Receivable (Deferred) at 8/31/10 |
|--|------------------------|------------------|---------------------|---|
| 1. 8/31/10 | <u>\$705,910</u> | <u>\$635,319</u> | <u>\$ 705,910</u> | <u>\$ 70,591</u> |
| | <u>\$705,910</u> | <u>\$635,319</u> | <u>\$ 705,910</u> | <u>\$ 70,591</u> |
| Less: Grant awarded for previous fiscal year | (-0-) | | | |
| Grant awarded from TEA for current fiscal year. | <u>\$705,910</u> | | | |

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 - Contracts with the Texas Education Agency – Continued

Subsequent to August 31, 2010, a contract with the Texas Education Association (TEA) in the amount of \$701,910 has been approved for the fiscal year ended August 31, 2011.

The amounts funded during the year ended August 31, 2010 are included in the statement of activities as grants of \$705,910.

Note 3 - Property and Equipment – A majority of the property and equipment presently used by the Corporation was purchased with locally raised funds. No funds from TEA contracts were used to purchase property and equipment during the year ended August 31, 2010. For the year ended August 31, 2008, total net property and equipment were reflected as permanently restricted net assets on the statement of financial position to account for assets that were purchased with state or federal funds in prior years. These assets were restricted as to their use and disposition. However, all of these assets are fully depreciated with no book value and therefore have been reclassified as unrestricted for the fiscal year ended August 31, 2009. All of the property and equipment purchased in recent years was purchased with locally raised funds and is therefore unrestricted.

The property and equipment are depreciated on the straight-line method over their estimated useful lives of 3 to 5 years. Property and equipment are capitalized at cost. It is the Corporation's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed.

Changes in property and equipment are as follows:

| | Balance At 9/1/09 | Additions | Deductions | Balance At 8/31/10 |
|---------------------------|----------------------|------------------|---------------|-----------------------|
| Furniture | \$ 12,143 | \$ -0- | \$ -0- | \$ 12,143 |
| Equipment | 202,108 | 16,896 | -0- | 219,004 |
| Leasehold improvements | -0- | 68,797 | -0- | 68,797 |
| | <u>214,251</u> | <u>85,693</u> | <u>-0-</u> | <u>\$ 299,944</u> |
| Accumulated depreciation: | | | | |
| Furniture | (12,143) | -0- | -0- | (12,143) |
| Equipment | (191,562) | (10,464) | -0- | (202,026) |
| Leasehold improvements | -0- | (5,733) | -0- | (5,733) |
| | <u>(203,705)</u> | <u>(16,197)</u> | <u>-0-</u> | <u>(219,902)</u> |
| Property & Equipment, Net | <u>\$ 10,546</u> | <u>\$ 69,496</u> | <u>\$ -0-</u> | <u>\$ 80,042</u> |

Note 4 – Permanently Restricted Net Assets – Permanently restricted net assets for the year ended August 31, 2010 consists of endowment investments of \$3,096. The endowment investments are assets invested in a mutual fund whose use is permanently restricted to fund services for the program. See Note 3 above related to property and equipment that was previously included as permanently restricted net assets.

The endowment investments are stated at cost that substantially equals its fair market value at August 31, 2010.

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5 – Temporarily Restricted Net Assets

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Purpose restriction accomplished:

Service Delivery Agreements:

| | |
|--|--------------------|
| NBISD | \$ 206,000 |
| CISD | 283,250 |
| Marion ISD | 51,500 |
| Schertz-Cibolo-Universal City ISD | 103,000 |
| Grants | 106,707 |
| SSHS | 49,021 |
| Contributions, designated | 19,380 |
| TEA Compensatory Education Grant | 553,075 |
| TEA through TDPRS - Temporary Assistance to Needy Families Grant | 136,331 |
| TEA General Revenue Fund | <u>16,504</u> |
| Total restrictions released | <u>\$1,524,768</u> |

Temporarily restricted net assets at August 31, 2010 are available for the following purpose:

| | |
|-------------------------|-------------------|
| Project Success Program | \$ 16,000 |
| Technology Grant | 4,066 |
| After School Program | <u>84,719</u> |
| | <u>\$ 104,785</u> |

Note 6 – Sources of Revenues

In addition to revenue amounts reported in Note 2, the Corporation receives support from other sources including the following:

| | |
|--|--------------------|
| Community aid: | |
| Fundraisers | \$ 174,247 |
| Thrift Store sales & donated inventory | 64,275 |
| Other unrestricted donations | 37,187 |
| Temporarily restricted donations | 19,380 |
| In-Kind Rent | 130,000 |
| Comal ISD | 283,250 |
| New Braunfels ISD | 206,000 |
| Schertz-Cibolo-Universal City ISD | 103,000 |
| Marion ISD | 51,500 |
| United Way | 73,323 |
| SSHS Grant | 49,021 |
| McKenna Grants | 104,681 |
| Kronkosky Grant | 50,000 |
| Miscellaneous Grants | 50,811 |
| Interest & dividend income | 2,295 |
| Unrealized gain on investments | 57 |
| Miscellaneous | <u>16,885</u> |
| Total Other Revenues | <u>\$1,415,912</u> |

COMMUNITIES IN SCHOOLS OF SOUTH CENTRAL TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7 – Concentrations of Risk – Over 33% of the revenues of the Corporation are from grants of the Communities in Schools program of TEA. The Corporation has received a contract from TEA for the fiscal year ending August 31, 2011, as discussed in Note 2, which represents approximately 30% of the anticipated revenues. As discussed in Note 6, the Corporation has other revenue sources for the program. At August 31, 2010 and 2009, the Corporation had accounts receivable of \$70,591 due from TEA for the contracts awarded to the Corporation for the fiscal years ended August 31, 2010, as detailed in Note 2, and for August 31, 2009, which represents 100% of the accounts receivable reflected on the statements of financial position.

Note 8 – Accrued Absences

All eligible employees may accrue 11 days of leave per year. Any leave not used at the end of the fiscal year may be carried forward until used. An employee may carry forward 232 hours to the following year. Upon termination, the Corporation is not required to pay unused accrued absences.

Note 9 – Retirement Plan

All full time eligible employees may participate in a 403(B) tax deferred annuity program. For the fiscal year ended August 31, 2010, the Corporation made an elective matching contribution to the plan in the amount of \$13,172.

Note 10 – Note Payable

The Corporation has a line of credit with a local bank for \$60,000, collateralized with a certificate of deposit. The line of credit matures July 17, 2011 and has an interest rate of 3.25%. During the current fiscal year, the Corporation made various draws totaling \$50,000 on the line of credit, all of which has been repaid at August 31, 2010. Therefore, there is no balance due on the line of credit at August 31, 2010.

Note 11 – Thrift Store

The Corporation has entered into a commercial lease effective September 1, 2009 to lease 4500 square feet of commercial space to operate a thrift store to sell used clothing and other household items. The thrift store began operations in March of 2010. The lease is a triple net lease consisting of base monthly rent of \$2,380 for 60 months plus tenant's pro-rata share of 42.8% of expenses consisting of insurance, taxes and "CAM" (landlord's expenses). Although the lease is for 60 months, expiring August 31, 2014, the Corporation has the right to terminate the lease after 36 months. For the fiscal year ended August 31, 2010, the Corporation has incurred \$68,797 of costs for finish-out construction on the leased space which has been capitalized as leasehold improvements. The base monthly rent as stated above is a discounted amount to compensate the Corporation for a portion of the costs of the leasehold improvements.

The Corporation began accepting donations in July of 2009. The donations received prior to August 31, 2009 have not been reflected on the prior year's financial statements as the total amount received was not material. The items received prior to August 31, 2009 have been recorded as donations for the fiscal year ended August 31, 2010.

Note 12 – In-Kind Rent

Contribution revenue is being recognized by the Corporation, for the estimated fair value of the use of facilities, that the Corporation receives for free or at a below-market rate at their main office and at the various school campuses they serve. Corresponding rent expense has also been recorded on the statement of activities and statement of functional expenses.

Note 13 – Subsequent Events

Other than the grant awarded to the Corporation for fiscal year ended August 31, 2011 (as described in Note 2), there are no other significant subsequent events to be disclosed. Subsequent events were evaluated through December 2, 2010, the date that the financial statements were issued.