

**COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.**

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**FINANCIAL STATEMENTS**

**for the year ended June 30, 2005**

**COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.**

**INDEX TO FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors  
Communities In Schools of North Carolina, Inc.

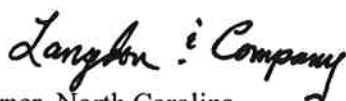
We have audited the accompanying statement of financial position of Communities In Schools of North Carolina, Inc. (a nonprofit organization) as of June 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the 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 2004 financial statements and, in our report dated September 13, 2004, 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 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 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 Communities In Schools of North Carolina, Inc. as of June 30, 2005, 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 a report dated September 16, 2005 on our consideration of Communities In Schools of North Carolina, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Communities In Schools of North Carolina, Inc. taken as a whole. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Garner, North Carolina  
September 16, 2005

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2005  
with comparative totals as of June 30, 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 489,870	\$ 621,326
Custodial funds	6,461	9,751
Accounts receivable	211,438	126,542
Note receivable	32,000	-
Prepaid expenses	27,037	18,359
Assets held for future use	-	<u>11,298</u>
Total current assets	<u>766,806</u>	<u>787,276</u>
Furniture and equipment	208,444	271,384
Less accumulated depreciation	<u>116,718</u>	<u>169,368</u>
	<u>91,726</u>	<u>102,016</u>
Noncurrent note receivable	<u>-</u>	<u>6,667</u>
Total assets	<u>\$ 858,532</u>	<u>\$ 895,959</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 57,385	\$ 102,244
Custodial funds	6,461	9,751
Accrued liabilities	32,081	32,254
Current maturity of obligation under capital lease	<u>4,846</u>	<u>13,055</u>
Total current liabilities	<u>100,773</u>	<u>157,304</u>
Long-term liability:		
Obligation under capital lease, less current maturity	<u>25,006</u>	<u>20,425</u>
Total liabilities	<u>125,779</u>	<u>177,729</u>
Net assets:		
Unrestricted	597,259	635,143
Temporarily restricted	<u>135,494</u>	<u>83,087</u>
Total net assets	<u>732,753</u>	<u>718,230</u>
Total liabilities and net assets	<u>\$ 858,532</u>	<u>\$ 895,959</u>

*The accompanying notes are an integral  
part of the financial statements.*

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## STATEMENT OF ACTIVITIES

**for the year ended June 30, 2005  
with comparative totals for 2004**

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Total
Public support and revenue:				
Public support:				
State of North Carolina (Note 6)	\$ 1,167,588	\$ -	\$ 1,167,588	\$ 1,151,000
Grants	-	284,997	284,997	125,368
Contributions	16,348	35,728	52,076	33,227
Fund raising events:				
Fund raising events revenue	390,400	-	390,400	342,566
Less: direct expenses	(153,138)	-	(153,138)	(133,319)
In-kind contributions	<u>31,652</u>	<u>6,482</u>	<u>38,134</u>	<u>56,288</u>
Total public support	<u>1,452,850</u>	<u>327,207</u>	<u>1,780,057</u>	<u>1,575,130</u>
Revenue:				
Program service income	139,732	-	139,732	165,563
Interest income	<u>5,793</u>	<u>-</u>	<u>5,793</u>	<u>4,874</u>
Total revenue	<u>145,525</u>	<u>-</u>	<u>145,525</u>	<u>170,437</u>
Net assets released from restrictions	<u>274,800</u>	(274,800)	-	-
Total public support and revenue	<u>1,873,175</u>	<u>52,407</u>	<u>1,925,582</u>	<u>1,745,567</u>
Expenses:				
Program services:				
Development and sustainability	665,260	-	665,260	625,505
Direct support	271,392	-	271,392	271,072
Replication	138,209	-	138,209	155,797
Training	183,784	-	183,784	155,964
Local program volunteers	241,599	-	241,599	156,473
Community Learning Centers	<u>59,909</u>	<u>-</u>	<u>59,909</u>	<u>117,864</u>
Total program services	<u>1,560,153</u>	<u>-</u>	<u>1,560,153</u>	<u>1,482,675</u>
Supporting services:				
Management and general	245,464	-	245,464	239,867
Fund raising	<u>105,442</u>	<u>-</u>	<u>105,442</u>	<u>181,498</u>
Total supporting services	<u>350,906</u>	<u>-</u>	<u>350,906</u>	<u>421,365</u>
Total expenses	<u>1,911,059</u>	<u>-</u>	<u>1,911,059</u>	<u>1,904,040</u>
Change in net assets	(37,884)	52,407	14,523	(158,473)
Net assets at the beginning of the period	<u>635,143</u>	<u>83,087</u>	<u>718,230</u>	<u>876,703</u>
Net assets at the end of the period	<u>\$ 597,259</u>	<u>\$ 135,494</u>	<u>\$ 732,753</u>	<u>\$ 718,230</u>

*The accompanying notes are an integral  
part of the financial statements.*

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended June 30, 2005  
with comparative totals for 2004

	2005						2004					
	Program Services						Supporting Services					
	Development & Sustainability	Direct Support	Replication	Training	Local Program Volunteers	Community Learning Centers	Total Program Services	Management & General	Fund Raising	Total Supporting Services	Grand Total	Grand Total
Employee salaries and benefits	\$ 385,282	\$ -	\$ 130,679	\$ 63,809	\$ 214,278	\$ 48,590	\$ 842,638	\$ 139,489	\$ 5,960	\$ 145,449	\$ 988,087	\$ 952,365
Contracted services and professional fees	153,343	-	230	6,727	-	-	160,300	38,076	42,009	80,085	240,385	250,972
Occupancy, communications and insurance	27,699	-	-	-	4,425	5,336	37,460	44,042	-	44,042	81,502	89,989
Equipment, depreciation and maintenance	27,950	-	-	1,049	-	383	29,382	13,724	10,612	24,336	53,718	48,651
Postage and office supplies	5,604	-	169	61	-	440	6,274	2,182	5,389	7,571	13,845	9,382
Printing and reproduction	7,520	-	-	-	-	16	7,536	1,963	500	2,463	9,999	12,179
Dues and subscriptions	1,262	-	-	-	-	-	1,262	505	1,400	1,905	3,167	5,361
Travel	26,080	-	940	-	13,212	1,324	41,556	1,562	327	1,889	43,445	51,911
Training	13,159	-	4,691	111,978	8,481	476	138,785	-	-	-	138,785	127,836
Community building	14,720	-	-	-	-	-	14,720	-	30,143	30,143	44,863	34,554
Local program support	-	271,392	1,500	-	-	3,319	276,211	-	-	-	276,211	291,117
Miscellaneous special events expenses	-	-	-	-	-	15	15	128	8,050	8,178	8,193	7,136
Miscellaneous	2,641	-	-	160	1,203	10	4,014	3,793	1,052	4,845	8,859	22,587
Total expenses	\$ <u>665,260</u>	\$ <u>271,392</u>	\$ <u>138,209</u>	\$ <u>183,784</u>	\$ <u>241,599</u>	\$ <u>59,909</u>	\$ <u>1,560,153</u>	\$ <u>245,464</u>	\$ <u>105,442</u>	\$ <u>350,906</u>	\$ <u>1,911,059</u>	\$ <u>1,904,040</u>

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

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## STATEMENT OF CASH FLOWS

**for the year ended June 30, 2005  
with comparative totals for 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from grantors and contributors	\$ 1,855,436	\$ 1,756,475
Cash paid to employees and suppliers	(1,966,996)	(1,889,638)
Interest received	5,793	4,874
Interest paid on capital leases	<u>(2,348)</u>	<u>(3,296)</u>
Net cash used by operating activities	<u>(108,115)</u>	<u>(131,585)</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	<u>(13,176)</u>	<u>(30,206)</u>
Cash flows from financing activities, principal payments of obligation under capital lease	<u>(10,165)</u>	<u>(12,028)</u>
Net decrease in cash and cash equivalents	(131,456)	(173,819)
Cash and cash equivalents at beginning of period	<u>621,326</u>	<u>795,145</u>
Cash and cash equivalents at end of period	<u>\$ 489,870</u>	<u>\$ 621,326</u>
Reconciliation of change in net assets to net cash used by operating activities:		
Change in net assets	\$ 14,523	\$ (158,473)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	44,614	43,085
In-kind fixed asset donations	(15,329)	(15,673)
Loss on disposal of equipment	718	574
Changes in assets and liabilities:		
Accounts receivable	(84,896)	1,439
Note receivable	(32,000)	-
Assets held for future use	11,298	(11,298)
Prepaid expenses	(8,678)	(5,999)
Accounts payable	(44,859)	8,666
Accrued liabilities	(173)	2,761
Noncurrent note receivable	<u>6,667</u>	<u>3,333</u>
Net cash used by operating activities	<u>\$ (108,115)</u>	<u>\$ (131,585)</u>
Supplemental Disclosure of Noncash Investing and Financing Transactions:		
In-kind fixed asset donations	\$ 15,329	\$ 15,673
Acquisition of equipment under capital lease	<u>31,433</u>	<u>-</u>
	<u>\$ 46,762</u>	<u>\$ 15,673</u>

*The accompanying notes are an integral  
part of the financial statements.*

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Communities In Schools of North Carolina, Inc. (a nonprofit organization) is a charitable organization which assists communities throughout North Carolina in developing and implementing local Communities In Schools programs and provides support to new and existing Communities In Schools programs. These programs address the needs of youth at the highest risk of educational, social, and economic failure and bring community resources into schools to serve these youth and their families.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers cash in the bank, all cash held on hand and highly liquid short-term investments with an original maturity of three months or less to be cash and cash equivalents.

#### Furniture and Equipment

Purchased and donated furniture and equipment are stated at cost and estimated fair market value at date of receipt, respectively. Depreciation and amortization are computed using the straight-line method. The estimated useful lives of furniture and equipment range from 3 to 7 years.

#### Contributions, Grants and Federal and State Awards

Contributions, grants and federal and State awards received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are to be received. When a restriction expires, that is, when a stipulated time restriction ends or a 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.

#### Donated Assets and Services

Donated materials, furniture, and equipment are recorded at their estimated fair market values at date of receipt and are reflected as contribution revenue in the accompanying financial statements. Various contributed services are performed for the Organization by volunteers. These volunteer services are significant and form an integral part of the efforts of the Organization, but they do not meet the criteria for recognition as contributed services.

The Organization received donated items and services of \$80,425 and \$54,723 for the Education Ball for the year ended June 30, 2005 and 2004, respectively.

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Functional Classification of Expenses

Operating expenses not directly attributable to a specific function are allocated to specific functions by the Organization's management based on what it considers to be the best available objective criteria, such as hours worked or relative benefit.

#### Advertising Expenses

The cost of advertising is expensed as incurred. The Organization incurred \$35,425 and \$29,256 in advertising costs for the year ended June 30, 2005 and 2004, respectively. Of these amounts \$32,925 and \$27,375 were in-kind contributions for the year ended June 30, 2005 and 2004, respectively.

#### Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) on its exempt function income and is classified by the IRS as a publicly supported organization. There was no unrelated business income for the years ended June 30, 2005 and 2004.

#### Schedule of Federal and State Awards

The accompanying schedule of federal and State awards includes the federal and State grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements prescribed by the State Auditor of North Carolina. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail 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 June 30, 2004 from which the summarized information was derived.

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## NOTES TO FINANCIAL STATEMENTS

### 2. NOTES RECEIVABLE

Note receivable and noncurrent note receivable consist of non-interest bearing notes due from local programs of \$32,000 and \$6,667 in 2005 and 2004, respectively

### 3. CUSTODIAL FUNDS

The Organization held \$6,461 and \$9,751 in 2005 and 2004, respectively, on behalf of several local Communities In Schools programs.

### 4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2005 and 2004 were available for the following purposes:

	<u>2005</u>	<u>2004</u>
Community Learning Centers - Target and Landfall Foundation	\$ 2,393	\$ -
Math in the Middle and volunteer training - Progress Energy	50,001	27,822
Program expansion - Junior League	36,345	43,645
Volunteer manuals - CIS, Inc.	5,000	9,917
Advocacy Network - N. C. Mentoring Partnership	19,235	-
Capacity building - Gates Foundation	19,305	-
E - Mentoring - IBM	<u>3,215</u>	<u>1,703</u>
	<u>\$ 135,494</u>	<u>\$ 83,087</u>

Net assets released from restrictions by accomplishing purpose restrictions were \$274,800 and \$214,698 for the years ended June 30, 2005 and 2004, respectively.

### 5. LEASES

The Organization leases office space under an operating lease agreement. The original lease, which began January 1, 2001, covered a period of four years which ended December 31, 2004. A two year extension was signed, which began January 1, 2005 with rent payable monthly. The lease may be terminated by giving the lessor one hundred-eighty days written notice. The lease also provides for an in-kind contribution of storage space, which is recorded at its fair market value. In-kind storage space amounted to \$1,735 and \$2,135 for the years ended 2005 and 2004, respectively.

The Organization also receives in-kind office space for the Wilmington Community Learning Center. In-kind office space amounted to \$4,797 and \$12,153 for the years ended 2005 and 2004, respectively.

Rent expense amounted to \$54,292 and \$60,872 for the years ended June 30, 2005 and 2004, respectively.

# COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

## NOTES TO FINANCIAL STATEMENTS

### 5. LEASES (Continued)

In March 2005 the Organization terminated its existing capital lease agreement for equipment and entered into a new capital lease agreement for equipment expiring in 2010. The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over the lesser of its related lease term or its estimated productive life. Amortization of assets under the capital lease was \$10,783 and \$13,031 for the years ended June 30, 2005 and 2004, respectively. Equipment held under the capital lease and the related accumulated amortization at June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Equipment	\$ 31,433	\$ 65,154
Accumulated depreciation	<u>2,096</u>	<u>35,835</u>
	\$ <u>29,337</u>	\$ <u>29,319</u>

At June 30, 2005, future minimum lease payments under the noncancellable operating lease and the present value of future minimum capital lease payments relating to the equipment are as follows:

<u>Year ending June 30,</u>	<u>Capital Lease</u>	<u>Operating Lease</u>
2006	\$ 7,883	\$ 47,410
2007	7,883	23,705
2008	7,883	-
2009	7,883	-
2010	<u>7,226</u>	<u>-</u>
Total minimum lease payments	38,758	\$ <u>71,115</u>
Less amount representing interest	<u>(8,906)</u>	
Present value of net minimum lease payments	\$ <u>29,852</u>	

### 6. CONCENTRATIONS

The Organization maintains its cash accounts with one financial institution. These accounts exceed the FDIC insured amount of \$100,000, exposing the Organization to a potential loss in the event of the financial institution's insolvency. However, the Organization's cash is placed in a high quality domestic bank which limits the amount of credit exposure. There have been no such losses in these accounts.

A major source of funding for the Organization is the State of North Carolina, which awarded \$1,167,588 and \$1,151,000 for the years ended June 30, 2005 and 2004, respectively.

### 7. PENSION PLAN

The Organization sponsors a defined contribution pension plan covering all eligible employees, under which it contributes a certain percentage of an employee's compensation. The plan is available to all employees meeting minimum age and service requirements. Employer contributions amounted to \$32,086 and \$30,504 for the years ended June 30, 2005 and 2004, respectively.

**COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.**

**SCHEDULE OF FEDERAL AND STATE AWARDS**

**for the year ended June 30, 2005**

<b><u>Grantor/Pass Through Grantor/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal and State Receipts/ Expenditures</u></b>	
<b>Federal Awards:</b>			
<u>Corporation for National Service</u>			
Passed through NC Commission on National and Community Service: AmeriCorps® - Project REACH	94.006	\$ 164,292	*
<u>Department of Housing and Urban Development</u>			
Passed through Communities In Schools, Inc.: Building Capacity Grant	N/A	9,917	
<u>Corporation for National Service</u>			
VISTA Project Support	N/A	<u>25,205</u>	*
Total Federal Awards		<u>199,414</u>	
<b>State Grants:</b>			
<u>Office of the Governor</u>			
General Fund	N/A	200,000	*
<u>N.C. Department of Public Instruction</u>			
General Fund	N/A	607,500	*
<u>N.C. Department of Juvenile Justice and Delinquency Prevention</u>			
General Fund	N/A	285,088	*
<u>N.C. Department of Health and Human Services</u>			
Appropriation from the General Fund	N/A	<u>75,000</u>	*
Total State Awards		<u>1,167,588</u>	
Total Awards		\$ <u>1,367,002</u>	

\* *Program having compliance requirements identified as having a direct and material effect on the entity's financial statements.*

*The accompanying notes are an  
integral part of this schedule.*

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

To the Board of Directors  
Communities In Schools of North Carolina, Inc.

We have audited the financial statements of Communities In Schools of North Carolina, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005 and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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 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*.



To the Board of Directors  
Communities In Schools of North Carolina, Inc.  
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This report is intended solely for the information and use of the audit committee, Board of Directors, management, and 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.

*Langdon Company*  
Garner, North Carolina  
September 16, 2005