

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

FINANCIAL STATEMENTS

for the year ended June 30, 2006

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

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

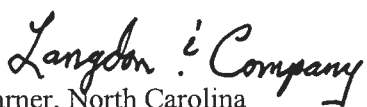
We have audited the accompanying statement of financial position of Communities In Schools of North Carolina, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the 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 2005 financial statements and, in our report dated September 16, 2005, 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, 2006, 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 15, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted 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 15, 2006

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2006
with comparative totals as of June 30, 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 730,057	\$ 489,870
Custodial funds	24,396	6,461
Accounts receivable	142,127	211,438
Note receivable	14,300	32,000
Prepaid expenses	<u>11,996</u>	<u>27,037</u>
Total current assets	<u>922,876</u>	<u>766,806</u>
Furniture and equipment	217,883	208,444
Less accumulated depreciation	<u>145,923</u>	<u>116,718</u>
	<u>71,960</u>	<u>91,726</u>
Total assets	\$ <u>994,836</u>	\$ <u>858,532</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 161,520	\$ 57,385
Custodial funds	24,396	6,461
Accrued liabilities	38,768	32,081
Current maturity of obligation under capital lease	<u>5,406</u>	<u>4,846</u>
Total current liabilities	<u>230,090</u>	<u>100,773</u>
Long-term liability:		
Obligation under capital lease, less current maturity	<u>19,600</u>	<u>25,006</u>
Total liabilities	<u>249,690</u>	<u>125,779</u>
Net assets:		
Unrestricted	671,546	597,259
Temporarily restricted	<u>73,600</u>	<u>135,494</u>
Total net assets	<u>745,146</u>	<u>732,753</u>
Total liabilities and net assets	\$ <u>994,836</u>	\$ <u>858,532</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, 2006
with comparative totals for 2005

	2006			2005
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Public support and revenue:				
Public support:				
State of North Carolina (Note 6)	\$ 1,489,088	\$ -	\$ 1,489,088	\$ 1,167,588
Grants	-	291,466	291,466	284,997
Contributions	11,575	35,844	47,419	52,076
Fund raising events:				
Fund raising events revenue	420,834	-	420,834	390,400
Less: direct expenses	(83,424)	-	(83,424)	(153,138)
In-kind contributions	<u>46,653</u>	<u>5,444</u>	<u>52,097</u>	<u>38,134</u>
Total public support	<u>1,884,726</u>	<u>332,754</u>	<u>2,217,480</u>	<u>1,780,057</u>
Revenue:				
Program service income	152,783	5,570	158,353	139,732
Interest income	<u>22,413</u>	<u>-</u>	<u>22,413</u>	<u>5,793</u>
Total revenue	<u>175,196</u>	<u>5,570</u>	<u>180,766</u>	<u>145,525</u>
Net assets released from restrictions	<u>400,218</u>	<u>(400,218)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>2,460,140</u>	<u>(61,894)</u>	<u>2,398,246</u>	<u>1,925,582</u>
Expenses:				
Program services:				
Development and sustainability	610,461	-	610,461	665,260
Direct support	454,219	-	454,219	271,392
Replication	169,164	-	169,164	138,209
Training	326,671	-	326,671	183,784
Local program volunteers	213,568	-	213,568	241,599
Community Learning Centers	62,063	-	62,063	59,909
Performance Learning Centers	<u>27,513</u>	<u>-</u>	<u>27,513</u>	<u>-</u>
Total program services	<u>1,863,659</u>	<u>-</u>	<u>1,863,659</u>	<u>1,560,153</u>
Supporting services:				
Management and general	370,334	-	370,334	245,464
Fund raising	<u>151,860</u>	<u>-</u>	<u>151,860</u>	<u>105,442</u>
Total supporting services	<u>522,194</u>	<u>-</u>	<u>522,194</u>	<u>350,906</u>
Total expenses	<u>2,385,853</u>	<u>-</u>	<u>2,385,853</u>	<u>1,911,059</u>
Change in net assets	74,287	(61,894)	12,393	14,523
Net assets at the beginning of the period	<u>597,259</u>	<u>135,494</u>	<u>732,753</u>	<u>718,230</u>
Net assets at the end of the period	\$ <u>671,546</u>	\$ <u>73,600</u>	\$ <u>745,146</u>	\$ <u>732,753</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, 2006
with comparative totals for 2005**

	2006											2005	
	Program Services							Supporting Services					
	Development & Sustainability	Direct Support	Replication	Training	Local Program Volunteers	Community Learning Centers	Performance Learning Centers	Total Program Services	Management & General	Fund Raising	Total Supporting Services	Grand Total	Grand Total
Employee salaries and benefits	\$ 312,570	\$ -	\$ 136,080	\$ 87,713	\$ 196,034	\$ 52,933	\$ 3,856	\$ 789,186	\$ 260,069	\$ 8,203	\$ 268,272	1,057,458	\$ 988,087
Contracted services and professional fees	191,249	-	6,818	21,142	-	-	8,155	227,364	27,979	44,640	72,619	299,983	240,385
Occupancy, communications and insurance	23,637	-	-	43	1,813	5,291	-	30,784	46,908	227	47,135	77,919	81,502
Equipment, depreciation and maintenance	28,010	-	-	3,401	-	761	-	32,172	15,479	8,928	24,407	56,579	53,718
Postage and office supplies	6,723	-	145	897	-	20	19	7,804	3,557	2,007	5,564	13,368	13,845
Printing and reproduction	7,654	-	3,260	15,878	-	-	-	26,792	3,628	3,837	7,465	34,257	9,999
Dues and subscriptions	445	-	-	-	-	-	21	466	934	8	942	1,408	3,167
Travel	24,983	9,921	732	7,560	4,559	933	8,535	57,223	6,159	984	7,143	64,366	43,445
Training	859	-	3,629	189,497	10,084	700	6,927	211,696	210	-	210	211,906	138,785
Community building	10,910	-	-	540	-	-	-	11,450	-	52,176	52,176	63,626	44,863
Local program support	729	444,298	18,500	-	-	1,425	-	464,952	-	-	-	464,952	276,211
Miscellaneous special events expenses	-	-	-	-	-	-	-	-	-	29,807	29,807	29,807	8,193
Miscellaneous	2,692	-	-	-	1,078	-	-	3,770	5,411	1,043	6,454	10,224	8,859
Total expenses	\$ 610,461	\$ 454,219	\$ 169,164	\$ 326,671	\$ 213,568	\$ 62,063	\$ 27,513	\$ 1,863,659	\$ 370,334	\$ 151,860	\$ 522,194	\$ 2,385,853	\$ 1,911,059

*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, 2006
with comparative totals for 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from grantors and contributors	\$ 2,422,811	\$ 1,855,436
Cash paid to employees and suppliers	(2,187,496)	(1,966,996)
Interest received	22,413	5,793
Interest paid on capital leases	<u>(3,037)</u>	<u>(2,348)</u>
Net cash provided (used) by operating activities	<u>254,691</u>	<u>(108,115)</u>
Cash flows from investing activities, purchases of furniture and equipment	<u>(9,658)</u>	<u>(13,176)</u>
Cash flows from financing activities, principal payments of obligation under capital lease	<u>(4,846)</u>	<u>(10,165)</u>
Net increase (decrease) in cash and cash equivalents	240,187	(131,456)
Cash and cash equivalents at beginning of period	<u>489,870</u>	<u>621,326</u>
Cash and cash equivalents at end of period	\$ <u><u>730,057</u></u>	\$ <u><u>489,870</u></u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Change in net assets	\$ 12,393	\$ 14,523
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	40,443	44,614
In-kind fixed asset donations	(11,154)	(15,329)
Loss on disposal of equipment	135	718
Changes in assets and liabilities:		
Accounts receivable	69,311	(84,896)
Note receivable	17,700	(32,000)
Assets held for future use	-	11,298
Prepaid expenses	15,041	(8,678)
Accounts payable	104,135	(44,859)
Accrued liabilities	6,687	(173)
Noncurrent note receivable	<u>-</u>	<u>6,667</u>
Net cash provided (used) by operating activities	\$ <u><u>254,691</u></u>	\$ <u><u>(108,115)</u></u>
Supplemental Disclosure of Noncash Investing and Financing Transactions:		
In-kind fixed asset donations	\$ 11,154	\$ 15,329
Acquisition of equipment under capital lease	<u>-</u>	<u>31,433</u>
	\$ <u><u>11,154</u></u>	\$ <u><u>46,762</u></u>

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

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS

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 with a cost of \$1,500 or more and a life expectancy of at least three years are capitalized. 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 in-kind donations of \$71,360 and \$80,425 for the Education Ball for the year ended June 30, 2006 and 2005, respectively.

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS

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. Advertising expense was \$61,976 and \$35,425 of which \$61,976 and \$32,925 were in-kind for the year ended June 30, 2006 and 2005, 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, 2006 and 2005.

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, 2005 from which the summarized information was derived.

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS

2. NOTE RECEIVABLE

Note receivable consists of a non-interest bearing note due from a local program of \$14,300 and \$32,000 in 2006 and 2005, respectively

3. CUSTODIAL FUNDS

The Organization held \$24,896 and \$6,461 in 2006 and 2005, respectively, on behalf of several local Communities In Schools programs.

4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2006 and 2005 were available for the following purposes:

	<u>2006</u>	<u>2005</u>
Community Learning Centers - Target and Landfall Foundation	\$ -	\$ 2,393
Volunteer training - Progress Energy	58,475	50,001
Program expansion - Junior League	-	36,345
Volunteer manuals - CIS, Inc.	-	5,000
Advocacy Network - N. C. Mentoring Partnership	-	19,235
Capacity building - Gates Foundation	-	19,305
E - Mentoring - IBM	7,428	3,215
GNC - CIS, Inc.	6,321	-
Knight Foundation	<u>1,376</u>	<u>-</u>
	<u>\$ 73,600</u>	<u>\$ 135,494</u>

Net assets released from restrictions by accomplishing purpose restrictions were \$400,218 and \$274,800 for the years ended June 30, 2005 and 2004, respectively.

5. LEASES

The Organization leases office space under an operating lease agreement expiring December, 2007. 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 \$3,400 and \$1,735 for the years ended 2006 and 2005, respectively.

The Organization also receives in-kind office space for the Wilmington Community Learning Center. In-kind office space amounted to \$4,797 for the years ended 2006 and 2005.

Rent expense amounted to \$55,907 and \$54,292 for the years ended June 30, 2006 and 2005, respectively.

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

NOTES TO FINANCIAL STATEMENTS

5. LEASES (Continued)

In March 2005, the Organization entered into a capital lease agreement for equipment expiring in 2010. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lesser of its related lease term or its estimated productive life. Amortization of assets under capital lease was \$6,286 and \$10,783 for the years ended June 30, 2006 and 2005, respectively. Equipment held under the capital lease and the related accumulated amortization at June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 31,433	\$ 31,433
Accumulated depreciation	<u>8,382</u>	<u>2,096</u>
	\$ <u>23,051</u>	\$ <u>29,337</u>

At June 30, 2006, 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>
2007	\$ 7,883	\$ 23,705
2008	7,883	-
2009	7,883	-
2010	<u>7,226</u>	<u>-</u>
Total minimum lease payments	30,875	\$ <u>23,705</u>
Less amount representing interest	<u>(5,869)</u>	
Present value of net minimum lease payments	\$ <u>25,006</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 \$1,523,499 and \$1,167,588 for the years ended June 30, 2006 and 2005, 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 \$37,859 and \$32,086 for the years ended June 30, 2006 and 2005, respectively.

COMMUNITIES IN SCHOOLS OF NORTH CAROLINA, INC.

SCHEDULE OF FEDERAL AND STATE AWARDS

for the year ended June 30, 2006

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal and State Receipts/ Expenditures</u>	
Federal Awards:			
<u>Corporation for National Service</u>			
Passed through NC Commission on National and Community Service: AmeriCorps® - Project REACH	94.006	\$ 167,025	*
<u>Department of Housing and Urban Development</u>			
Passed through Communities In Schools, Inc.: Building Capacity Grant	N/A	5,000	
<u>Department of Education</u>			
Passed through Communities In Schools, Inc.: Global Networked Campus	N/A	22,679	*
<u>Corporation for National Service</u>			
VISTA Project Support	N/A	404	
<u>N.C. Department of Crime and Public Safety</u>			
Governor's Crime Commission FACTOR Project	N/A	<u>34,411</u>	*
Total Federal Awards		<u>229,519</u>	
State Grants:			
<u>Office of the Governor</u>			
General Fund	N/A	200,000	*
<u>N.C. Department of Public Instruction</u>			
General Fund	N/A	1,107,500	*
<u>N.C. Department of Juvenile Justice and Delinquency Prevention</u>			
General Fund	N/A	<u>181,588</u>	*
Total State Awards		<u>1,489,088</u>	
Total Awards		\$ <u>1,718,607</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, 2006 and have issued our report thereon dated September 15, 2006. 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 15, 2006