

**COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 and 2017
and
SUPPLEMENTARY INFORMATION**

**with
INDEPENDENT AUDITORS' REPORTS**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors Communities In Schools of Georgia, Inc.

We have audited the accompanying consolidated financial statements of Communities in Schools of Georgia, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, 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.

Emphasis of Matter

As further discussed in Note 7, the Organization is dependent upon contributions, grants and other public support to maintain the ongoing activities of the Organization.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2018 supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2018 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Smith + Howard

November 26, 2018

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,013,085	\$ 1,372,781
Restricted cash	445	444
Grants and other receivables	392,747	95,997
Pledges receivable	-	75,000
Prepaid expenses and other assets	<u>67,334</u>	<u>58,440</u>
 Total Assets	 <u><u>\$ 1,473,611</u></u>	 <u><u>\$ 1,602,662</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 396,964	\$ 382,600
Advances under grants	-	12,000
Deferred rent liability	<u>149,996</u>	<u>159,881</u>
 Total Liabilities	 <u><u>546,960</u></u>	 <u><u>554,481</u></u>
 Net assets		
Unrestricted		
Undesignated	42,029	13,440
Designated for specific purposes	<u>850,000</u>	<u>950,000</u>
	892,029	963,440
 Temporarily restricted	 <u>34,622</u>	 <u>84,741</u>
 Total Net Assets	 <u><u>926,651</u></u>	 <u><u>1,048,181</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,473,611</u></u>	 <u><u>\$ 1,602,662</u></u>

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

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support:			
Contributions and other revenues	\$ 1,704,496	\$ 64,784	\$ 1,769,280
Grants	1,498,536	-	1,498,536
Interest income	1,240	-	1,240
Net assets released from restrictions	<u>114,903</u>	<u>(114,903)</u>	<u>-</u>
 Total Revenues and Other Support	 <u>3,319,175</u>	 <u>(50,119)</u>	 <u>3,269,056</u>
Expenses:			
Program services	<u>2,753,640</u>	<u>-</u>	<u>2,753,640</u>
Supportive services:			
Fundraising	303,995	-	303,995
Management and general	<u>332,951</u>	<u>-</u>	<u>332,951</u>
Total supportive services	<u>636,946</u>	<u>-</u>	<u>636,946</u>
 Total Expenses	 <u>3,390,586</u>	 <u>-</u>	 <u>3,390,586</u>
 Decrease in Net Assets	 (71,411)	 (50,119)	 (121,530)
Net assets:			
Beginning of year	<u>963,440</u>	<u>84,741</u>	<u>1,048,181</u>
 End of year	 <u>\$ 892,029</u>	 <u>\$ 34,622</u>	 <u>\$ 926,651</u>

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

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Other Support:			
Contributions and other revenues	\$ 1,046,610	\$ 10,000	\$ 1,056,610
Grants	1,446,862	-	1,446,862
Interest income	1,549	-	1,549
Net assets released from restrictions	<u>76,600</u>	<u>(76,600)</u>	<u>-</u>
 Total Revenues and Other Support	 <u>2,571,621</u>	 <u>(66,600)</u>	 <u>2,505,021</u>
Expenses:			
Program services	<u>2,221,578</u>	<u>-</u>	<u>2,221,578</u>
Supportive services:			
Fundraising	210,321	-	210,321
Management and general	<u>243,428</u>	<u>-</u>	<u>243,428</u>
Total supportive services	<u>453,749</u>	<u>-</u>	<u>453,749</u>
 Total Expenses	 <u>2,675,327</u>	 <u>-</u>	 <u>2,675,327</u>
 Decrease in Net Assets	 (103,706)	 (66,600)	 (170,306)
Net assets:			
Beginning of year	<u>1,067,146</u>	<u>151,341</u>	<u>1,218,487</u>
 End of year	 <u>\$ 963,440</u>	 <u>\$ 84,741</u>	 <u>\$ 1,048,181</u>

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

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Decrease in net assets	\$ (121,530)	\$ (170,306)
Adjustments to reconcile decrease in net assets to net cash required by operating activities:		
Changes in:		
Grants and other receivables	(296,750)	286,998
Pledges receivable	75,000	75,000
Prepaid expenses and other assets	(8,894)	(8,040)
Accounts payable and accrued expenses	14,364	(311,370)
Advances under grants	(12,000)	9,500
Deferred rent liability	(9,885)	13,947
Total adjustments	<u>(238,165)</u>	<u>66,035</u>
Net cash required by operating activities	<u>(359,695)</u>	<u>(104,271)</u>
Net Decrease in Cash and Cash Equivalents and Restricted Cash	(359,695)	(104,271)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	<u>1,373,225</u>	<u>1,477,496</u>
Cash and Cash Equivalents and Restricted Cash, End of Year	<u>\$ 1,013,530</u>	<u>\$ 1,373,225</u>

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

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Principles of Consolidation

Communities in Schools of Georgia, Inc. ("CIS") was formed August 15, 1989 as a not-for-profit organization. The purpose of the CIS is to assist communities in Georgia in providing educational and developmental services to young people who are considered to be at risk of dropping out of school or who have already dropped out.

On June 28, 2017, Georgia Subsidiaries of Communities in Schools, LLC ("LLC") was formed for the purpose of becoming direct service providers for some of the CIS's local affiliates. The LLC is a wholly owned subsidiary of CIS. All activity between CIS and LLC began on July 1, 2017, and all significant inter-company accounts and transactions have been eliminated in consolidation. CIS and LLC are together referred to herein as the "Organization."

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP").

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of ninety days or less when purchased.

Restricted Cash

Certain of the Organization's state and federal grants require that a separate bank account be maintained.

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, and grants and pledges receivable. At times, cash and cash equivalent balances exceed federally insured amounts. The Organization believes it reduces risks associated with balances in excess of federally insured amounts by maintaining its cash with major financial institutions with sound financial standing. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying consolidated financial statements. Management continually monitors receivable balances and believes that its exposure to credit risk is limited.

Property and Equipment

The Organization capitalizes property and equipment expenditures over \$1,000. Property and equipment is stated at cost. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets.

Deferred Rent Liability

Rent expense for operating leases that contain scheduled rent increases, net of any landlord allowances, is recognized for financial reporting purposes on the straight-line method. Consequently, amounts that have been expensed for financial reporting purposes, but not yet paid, are reflected as deferred rent liability in the accompanying consolidated statement of financial position.

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Organization records contributions as revenue upon notification from the donor and uses discounting for recording long-term pledges. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 consolidated statement of activities and changes in net assets as net assets released from restrictions. Bad debts are expensed and charged against the allowance account when deemed uncollectible based upon a periodic review of collections. There is no allowance deemed necessary at June 30, 2018 and 2017. During the year ended June 30, 2018, 56% of contributions and other revenues were from one donor. During the year ended June 30, 2017, 89% of contributions and other revenues were from two donors and 100% of pledges receivable were from one donor.

The Organization receives certain grants from governmental agencies and accounts for their grants as exchange transactions whereby revenue is recognized as expenses are incurred. Receivables arise from reimbursements owed through these government contracts. The Organization's ability to collect amounts due is affected by the acceptance of reimbursable expenses and performance-based outcomes, which meet contract requirements. At June 30, 2018 and 2017, there was no allowance for uncollectible government grants. For the years ended June 30, 2018 and 2017, the Organization received approximately 46% and 58%, respectively, of its total public funding through various government agencies.

Donated Goods and Services

Donated goods, such as materials, equipment, or other assets, are reported as contributions at their estimated fair values at the date of donation. Donated services that create or enhance non-financial assets or that require specialized skills, that are provided by individuals possessing those skills and that would typically need to be purchased if not provided by donation are recorded as contributions at their estimated fair values in the period the services are performed. Donated goods and services totaled approximately \$28,000 in 2018 and \$30,000 in 2017.

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as amended, and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision or liability for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

The Organization annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Organization takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In the normal course of business, the Organization is subject to examination by the federal and state taxing authorities. In general, the Organization is no longer subject to tax examinations for the years ending before June 30, 2015.

During December 2017, the President of the United States of America signed into law the Tax Cuts and Jobs Act. Under this Act, maximum corporate tax rates were reduced from a rate of 35% to a flat rate of 21%. The Organization's tax liability for any potential unrelated business income tax should not be significant. There are other changes to the law that may affect the Organization, but the magnitude of such changes has not been determined.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Subsequent Event

Management has evaluated subsequent events through the date of this report, which is the date which the consolidated financial statements were available to be issued.

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Grants receivable	\$ 373,438	\$ 76,076
Accounts receivable, local affiliates	14,876	15,536
Other	<u>4,433</u>	<u>4,385</u>
	<u><u>\$ 392,747</u></u>	<u><u>\$ 95,997</u></u>

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

The components of temporarily restricted net assets were as follows at June 30:

	<u>2018</u>	<u>2017</u>
Passage of Time	\$ -	\$ 75,000
Other	<u>34,622</u>	<u>9,741</u>
	<u><u>\$ 34,622</u></u>	<u><u>\$ 84,741</u></u>

Net assets released from restrictions during the years ended June 30 were as follows:

	<u>2018</u>	<u>2017</u>
Comprehensive Student Dropout Prevention Initiative	\$ 39,903	\$ 1,600
Passage of Time	<u>75,000</u>	<u>75,000</u>
	<u><u>\$ 114,903</u></u>	<u><u>\$ 76,600</u></u>

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - PROGRAM EXPENSES

Program service expenses during the years ended June 30 were as follows:

	<u>2018</u>	<u>2017</u>
Comprehensive Student Dropout Prevention Initiative	\$ 2,507,069	\$ 2,049,035
AmeriCorps	171,457	172,384
College Access and College Success	-	159
Division of Family and Children Services	<u>75,114</u>	<u>-</u>
	<u>\$ 2,753,640</u>	<u>\$ 2,221,578</u>

NOTE 5 - RETIREMENT PLANS

The Organization has a Simplified Employee Pension Plan (SEP), a defined contribution plan, under which the Organization may contribute, at their discretion, 3% of each employee's salary. All employees are eligible to participate in this plan. The Organization also has an Internal Revenue Code Section 403(b) defined-contribution plan whereby employees can contribute to the plan on a voluntary basis. During the years ended June 30, 2018 and 2017, the Organization had employer contributions of \$26,441 and \$24,745, respectively.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

In July 2014, the Organization entered into a non-cancelable lease for office space. The commencement date of the lease was September 1, 2014 and expires September 1, 2024. Future minimum lease payments under the non-cancelable operating lease for the years ending June 30 are as follows:

2019	\$ 144,787
2020	148,412
2021	152,114
2022	155,894
2023	159,809
Thereafter	<u>205,028</u>
	<u>\$ 966,044</u>

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - COMMITMENTS AND CONTINGENCIES (Continued)

Total rent expense under all operating leases for each of the years ended June 30, 2018 and 2017 approximated \$155,000.

The Organization is dependent upon contributions, grants and other public support for its revenues. The ability of the Organization's contributors, grantors and supporters to give amounts comparable with previous years is greatly dependent upon current and future overall programmatic and economic conditions. Therefore, the Organization has developed a financial and operational plan to continue providing its programs. While the Organization believes it has the resources to continue its programs through December 2019 and beyond, its ability to do so is dependent upon the above factors.

Grants often require fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although the return of funds is a possibility, the Organization deems the contingency unlikely as the Organization has implicitly agreed to comply with the provisions of each grant received.

SUPPLEMENTARY INFORMATION

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	COMMUNITIES IN SCHOOLS OF GEORGIA, INC.	GEORGIA SUBSIDIARIES OF COMMUNITIES IN SCHOOLS, LLC ("LLC")				ELIMINATIONS	CONSOLIDATED BALANCE
		Henry County	Troup County	Other Counties	Total LLC		
REVENUES							
Contributions and Other Revenues	\$ 1,487,805	\$ 71,980	\$ 226,880	\$ -	\$ 298,860	\$ (17,385)	\$ 1,769,280
Grants	1,498,536	24,000	24,000	48,000	96,000	(96,000)	1,498,536
Interest Income	<u>1,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,240</u>
	2,987,581	95,980	250,880	48,000	394,860	(113,385)	3,269,056
EXPENSES							
Salaries and Benefits	1,425,178	124,639	122,306	102,131	349,076	-	1,774,254
Program Costs	1,088,315	1,238	10,036	674	11,948	(96,331)	1,003,932
Travel and Parking	74,818	1,620	3,687	6,975	12,282	-	87,100
Meetings and Conferences	29,390	508	402	10	920	-	30,310
Facility Costs	197,320	880	-	530	1,410	-	198,730
Professional Services	135,762	8,222	70,613	2,371	81,206	(17,054)	199,914
Office Supplies	39,812	2,981	4,091	362	7,434	-	47,246
Insurance	20,997	984	629	334	1,947	-	22,944
Subscriptions and Publications	<u>16,927</u>	<u>2,694</u>	<u>6,535</u>	<u>-</u>	<u>9,229</u>	<u>-</u>	<u>26,156</u>
	<u>3,028,519</u>	<u>143,766</u>	<u>218,299</u>	<u>113,387</u>	<u>475,452</u>	<u>(113,385)</u>	<u>3,390,586</u>
Change in net assets	<u>\$ (40,938)</u>	<u>\$ (47,786)</u>	<u>\$ 32,581</u>	<u>\$ (65,387)</u>	<u>\$ (80,592)</u>	<u>\$ -</u>	<u>\$ (121,530)</u>