COMMUNITIES IN SCHOOLS OF GEORGIA, INC.

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 and 2011
and
SUPPLEMENTARY INFORMATION

with
INDEPENDENT AUDITORS' REPORTS

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SMITH & HOWARD
Certified Public Accountants and Advisers

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Communities In Schools of Georgia, Inc. (the "Organization") as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years 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 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 audits 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 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 Georgia, Inc. as of June 30, 2012 and 2011, and the changes in net assets and cash flows for the years 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 our report dated October 19, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Communities In Schools of Georgia, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards on page 19 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. This schedule along with the other supplementary information on page 18 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Smith + Howard

October 19, 2012

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 4,908,625	$ 1,781,786
Restricted cash	520,467	58,390
Grants and other receivables	335,732	336,881
Pledges receivable, net	3,315,103	-
Prepaid expenses and other assets	56,911	51,478
Property and equipment, net	19,759	39,509
Total Assets	$ 9,156,597	$ 2,268,044

LIABILITIES AND NET ASSETS

	2012	2011
Accounts payable and accrued expenses	$ 882,633	$ 412,114
Advances under grants	438,040	15,864
Deferred rent liability	68,913	77,415
Note payable	12,311	15,982
Total Liabilities	1,401,897	521,375
Net assets		
Unrestricted		
Undesignated	513,666	120,026
Designated for specific purposes	900,000	800,000
	1,413,666	920,026
Temporarily restricted	6,341,034	826,643
Total Net Assets	7,754,700	1,746,669
Total Liabilities and Net Assets	$ 9,156,597	$ 2,268,044

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

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012		
	Unrestricted	**Temporarily Restricted**	**Total**
Revenues and Other Support:			
Contributions and other revenues	$ 1,892,658	$ 6,393,332	$ 8,285,990
Grants	2,689,070	-	2,689,070
Interest income	7,091	-	7,091
Net assets released from restrictions	878,941	(878,941)	-
Total Revenues and Other Support	5,467,760	5,514,391	10,982,151
Expenses:			
Program services	4,314,778	-	4,314,778
Supportive services:			
Fundraising	271,835	-	271,835
Management and general	387,507	-	387,507
Total supportive services	659,342	-	659,342
Total Expenses	4,974,120	-	4,974,120
Increase in Net Assets	493,640	5,514,391	6,008,031
Net assets:			
Beginning of year	920,026	826,643	1,746,669
End of year	$ 1,413,666	$ 6,341,034	$ 7,754,700

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

2011		
Unrestricted	**Temporarily Restricted**	**Total**
$ 1,949,130	$ 992,969	$ 2,942,099
2,405,602	-	2,405,602
4,491	-	4,491
626,770	(626,770)	-
4,985,993	366,199	5,352,192
4,313,821	-	4,313,821
209,569	-	209,569
404,712	-	404,712
614,281	-	614,281
4,928,102	-	4,928,102
57,891	366,199	424,090
862,135	460,444	1,322,579
$ 920,026	$ 826,643	$ 1,746,669

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities:		
Increase in net assets	$ 6,008,031	$ 424,090
Adjustments:		
Depreciation and amortization	29,737	28,467
Credit for doubtful accounts	-	(45,000)
Donated equipment	(6,736)	(7,136)
Changes in:		
Grants and other receivables, net	1,149	291,075
Pledges receivable, net	(3,315,103)	-
Prepaid expenses and other assets	(5,433)	(5,945)
Accounts payable and accrued expenses	470,519	(486,600)
Advances under grants	422,176	(37,747)
Deferred rent liability	(8,502)	(3,405)
Total adjustments	(2,412,193)	(266,291)
Net cash provided by operating activities	3,595,838	157,799
Cash Flows from Investing Activities:		
Additions of property and equipment	(3,251)	(3,789)
Net cash required by investing activities	(3,251)	(3,789)
Cash Flows from Financing Activities:		
Principal payments on note payable	(3,671)	(3,433)
Net cash required by financing activities	(3,671)	(3,433)
Net Increase in Cash and Cash Equivalents and Restricted Cash	3,588,916	150,577
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	1,840,176	1,689,599
Cash and Cash Equivalents and Restricted Cash, End of Year	$ 5,429,092	$ 1,840,176

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

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Communities in Schools of Georgia, Inc. (the "Organization") was formed August 15, 1989 as a not-for-profit organization. The purpose of the Organization 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.

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. The cash balance that was restricted at June 30, 2012 and 2011 was $520,467 and $58,390, respectively.

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. Management continually monitors receivable balances and believes that its exposure to credit risk is limited.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of financial position.

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 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, 2012 and 2011. During the year ended June 30, 2012, 78% of contributions and other revenues and 96% of pledges receivable were from one donor. During the year ended June 30, 2011, 41% of contributions and other revenues related to the same donor.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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, 2012 and 2011, there was no allowance for uncollectible government grants. For the year ended June 30, 2012 and 2011, the Organization received approximately 24% and 45%, 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. These services totaled approximately $51,800 in 2012 and $96,300 in 2011.

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 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, 2009.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 financial presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of 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 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 financial statements were available to be issued.

NOTE 2 - GRANTS AND OTHER RECEIVABLES

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

	2012	2011
Grants receivable	$ 285,197	$ 287,162
Accounts receivable, local affiliates	38,778	29,018
Other	11,757	20,701
	$ 335,732	$ 336,881

NOTE 3 - PLEDGES RECEIVABLE, NET

At June 30, pledges receivable were as follows:

	2012	2011
CIS/ Performance Learning Centers Development and Expansion	$ 3,300,000	$ -
Other	120,000	-
	3,420,000	-
Less discount for present value	(104,897)	-
	$ 3,315,103	$ -

NOTE 3 - PLEDGES RECEIVABLE, NET (Continued)

The estimated future cash flows are as follows for years ending June 30:

2013	$ 1,920,000
2014	1,500,000
	$ 3,420,000

At June 30, 2012, pledges receivable were discounted to their present values using an interest rate of 2.25%.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2012	2011
Office equipment	$ 745,078	$ 737,339
Furniture and fixtures	132,930	132,930
Computer software	130,127	127,879
Vehicles	28,900	28,900
	1,037,035	1,027,048
Less accumulated depreciation and amortization	(1,017,276)	(987,539)
	$ 19,759	$ 39,509

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was $29,737 and $28,467, respectively.

NOTE 5 - NOTE PAYABLE

In June 2010, the Organization entered into a $19,690 note payable with a financial institution at a fixed rate of 6.94%. Interest and principal payments of $390 are due monthly. The note payable is secured by the purchased vehicle and matures in June 2015. The outstanding borrowings at June 30, 2012 and 2011 totaled $12,311 and $15,982, respectively.

NOTE 5 - NOTE PAYABLE (Continued)

Principal maturities on the note payable are as follows at June 30:

2013	$	3,820
2014		4,200
2015		4,291
	$	12,311

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	2012	2011
CIS/ Performance Learning Centers Development and Expansion	$ 5,804,119	$ 350,000
Performance Learning Centers Support	158,091	188,632
Leadership Institute	126,700	175,000
Communities in Schools Network Investment	172,345	96,081
Mentoring Program	59,779	16,930
Other	20,000	-
	$ 6,341,034	$ 826,643

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

	2012	2011
CIS/ Performance Learning Centers Development and Expansion	$ 240,431	$ 50,000
Performance Learning Centers Support	130,541	85,525
Leadership Institute	48,300	125,000
Communities in Schools Network Investment	280,486	286,016
Mentoring Program	178,630	73,729
Other	553	6,500
	$ 878,941	$ 626,770

NOTE 7 - PROGRAM EXPENSES

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

	2012	2011
Performance Learning Centers	$ 679,575	$ 888,314
Comprehensive Student Dropout Prevention Initiative	2,166,857	1,757,877
Parental Information Resource Centers III	532,707	405,908
AmeriCorps	264,890	359,424
Communities in Schools Network Investment	299,692	323,281
Adolescence & Family Life Demonstration Project	-	258,961
College Access and College Success	208,664	130,668
Communities Empowerment Youth Program	-	118,493
Volunteers in Service to America	87,476	60,100
System of Care	45,770	-
Other	29,147	10,795
	$ 4,314,778	$ 4,313,821

NOTE 8 - 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. In June 2008, the Board of Directors approved suspension of all employer contributions. This suspension continued through June 30, 2011. During the year ended June 30, 2012, the Board of Directors removed the suspension and the Organization had employer contributions of $34,801.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Organization leases office space under various non-cancellable operating leases. The office leases, which expire August 2015, stipulates terms for forecasting additional rent and operating expenses, and includes a renewal option for one additional period of five years.

Future minimum lease payments for the years ending June 30 are as follows:

2013	$ 181,611
2014	187,074
2015	192,628
2016	32,259
	$ 593,572

Total rent expense under all operating leases for the years ended June 30, 2012 and 2011 approximated $174,000 and $194,000, respectively.

The Organization is dependent upon contributions, grants and other public support for its revenues. Since 2008, the Organization experienced a significant decline in those revenues due mainly to the ending of certain programs and economic conditions that have impacted the ability of contributors, grantors and other supporters to give at levels previously provided to the Organization. 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 projecting reduced revenues and expenses to continue providing its programs. While the Organization believes it has the resources to continue its programs during the year ending June 30, 2013 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.
SCHEDULE OF STATE REVENUES
YEAR ENDED JUNE 30, 2012

Pass-through Grantor / Program Title	*State Contract Number*	*Receipts*	*Expenditures*	*Due (advance) from State Agency*
Pass-through from State of Georgia Department of Education				
Department of Education Support	12-327-17078	$ 914,438	$ 914,438	$ -
ARRA - Race to the Top - Development of Performance Learning Centers	Y0015-G18	1,173,690	705,782	(467,908)
Pass-through from State of Georgia Department of Community Affairs				
AmeriCorps	06AFHGA0010026/ 10AC108385	39,915	39,915	-
AmeriCorps	06AFHGA0010026/ 11AC126530	224,975	224,975	-
Learn and Serve America School and Community Based Programs	10KSSGA001	9,422	9,422	-
		$ 2,362,440	$ 1,894,532	$ (467,908)

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEARS ENDED JUNE 30, 2012 AND 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2012 Federal Expenditures	2011 Federal Expenditures
U.S. Corporation for National & Community Service:				
Direct Programs:				
Volunteers in Service to America	94.013	N/A	$ 87,476	$ 60,100
Pass-through programs from Georgia Department of Community Affairs:				
AmeriCorps	94.003	06AFHGA0010026/ 10AC108385	39,915	80,811
AmeriCorps	94.003	06AFHGA0010026/ 11AC126530	224,975	278,613
Total AmeriCorps			264,890	359,424
Learn and Serve America School and Community Based Programs	94.004	10KSSGA001	9,422	90,558
			361,788	510,082
U.S. Department of Education:				
Direct Programs:				
Communities in Schools of Georgia's Information and Resource Centers Project (Goals 2006: Parental Information and Resource Centers III)	84.310A	N/A	532,707	405,908
Pass-through program from Communities in Schools, Inc:				
Fund for the Improvement of Education	84.215U	N/A	20,480	37,265
Pass-through program from the Georgia Department of Education:				
ARRA - Race to the Top - Development of Performance Learning Centers	84.395A	11-335-16679	705,782	39,769
Pass-through program from the Georgia Institute of Technology:				
College Access Challenge Grant Program	84.378A	Y0015-G18	117,510	130,668
			1,376,479	613,610
U.S. Department of Health and Human Services:				
Direct Programs:				
Adolescence & Family Life Demonstration Project	93.995	N/A	-	258,961
Pass-through program from Communities in Schools, Inc:				
Communities Empowerment Youth Program	93.647	N/A	-	118,493
			-	377,454
U.S. Department of Justice:				
Pass-through program from Home Builders Institute:				
Juvenile Mentoring Program	16.726	N/A	22,009	23,402
Total Federal Expenditures			$ 1,760,276	$ 1,524,548

The accompanying notes are an integral part of this schedule.

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012 AND 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards summarizes the expenditures of Communities in Schools of Georgia, Inc. (the “Organization”) under programs of the federal government for the years ended June 30, 2012 and 2011 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the provisions of Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - NON-FEDERAL EXPENDITURES

The accompanying schedule of expenditures of federal awards includes non-federal expenditures relating to the contract match requirement of the AmeriCorp program (CFDA # 94.003) in the amounts of $80,375 and $111,212 for the years ended June 30, 2012 and 2011, respectively.

Included within the Volunteers in Service to America program (CFDA # 94.013) are non-federal expenditures relating to the contract match requirement in the amounts of $45,600 and $46,795 for the years ended June 30, 2012 and 2011, respectively.

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

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

We have audited the financial statements of Communities In Schools of Georgia, Inc. (the "Organization") as of June 30, 2012 and for the year then ended, and have issued our report thereon dated October 19, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

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 that are required to be reported under *Government Auditing Standards.*

We noted a certain matters that we reported to management of the Organization in a separate letter dated October 19 2012.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith + Howard

October 19, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of Communities In Schools of Georgia, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities listed in the schedule of expenditures of federal awards and is not intended to be and should not be used by anyone other than these specified parties.

Smith + Howard

October 19, 2012

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ yes	X no
Significant deficiencies identified that are not considered to be material weakness(es)?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ yes	X no
Significant deficiencies identified that are not considered to be material weakness(es)?	____ yes	X none reported
Type of auditor's report issued on compliance of major programs:	Unqualified	
Any audit findings disclosed that are required to be Reported in accordance with Section 510(a) of OMB Circular A-133?	____ yes	X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.395A	ARRA – Race to the Top – Early Learning Challenge

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor's Results (Continued)

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? __X__ yes _____ no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Section IV – Summary Schedule of Prior Audit Findings and Questioned Costs

No matters were reported.