COMMUNITIES IN SCHOOLS OF GEORGIA, INC.

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2013 and 2012
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 financial statements of Communities in Schools of Georgia, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013 and 2012, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated the date of this report, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Smith + Howard

November 21, 2013

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Cash and cash equivalents	$ 3,853,645	$ 4,908,625
Restricted cash	64,826	520,467
Grants and other receivables	224,904	335,732
Pledges receivable, net	1,750,000	3,315,103
Prepaid expenses and other assets	75,201	56,911
Property and equipment, net	994	19,759
Total Assets	$ 5,969,570	$ 9,156,597

LIABILITIES AND NET ASSETS

	2013	2012
Accounts payable and accrued expenses	$ 556,153	$ 882,633
Advances under grants	18,103	438,040
Deferred rent liability	55,070	68,913
Note payable	8,701	12,311
Total Liabilities	638,027	1,401,897
Net assets		
Unrestricted		
Undesignated	508,951	513,666
Designated for specific purposes	800,000	900,000
	1,308,951	1,413,666
Temporarily restricted	4,022,592	6,341,034
Total Net Assets	5,331,543	7,754,700
Total Liabilities and Net Assets	$ 5,969,570	$ 9,156,597

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, 2013 AND 2012

	2013		
	Unrestricted	**Temporarily Restricted**	**Total**
Revenues and Other Support:			
Contributions and other revenues	$ 1,310,414	$ 478,839	$ 1,789,253
Grants	2,370,853	-	2,370,853
Interest income	11,593	-	11,593
Net assets released from restrictions	2,797,281	(2,797,281)	-
Total Revenues and Other Support	6,490,141	(2,318,442)	4,171,699
Expenses:			
Program services	5,880,309	-	5,880,309
Supportive services:			
Fundraising	274,694	-	274,694
Management and general	439,853	-	439,853
Total supportive services	714,547	-	714,547
Total Expenses	6,594,856	-	6,594,856
Increase (Decrease) in Net Assets	(104,715)	(2,318,442)	(2,423,157)
Net assets:			
Beginning of year	1,413,666	6,341,034	7,754,700
End of year	$ 1,308,951	$ 4,022,592	$ 5,331,543

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

	2012	
Unrestricted	Temporarily Restricted	Total
$ 1,892,658	$ 6,393,332	$ 8,285,990
2,689,070	-	2,689,070
7,091	-	7,091
878,941	(878,941)	-
5,467,760	5,514,391	10,982,151
4,314,778	-	4,314,778
271,835	-	271,835
387,507	-	387,507
659,342	-	659,342
4,974,120	-	4,974,120
493,640	5,514,391	6,008,031
920,026	826,643	1,746,669
$ 1,413,666	$ 6,341,034	$ 7,754,700

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	$ (2,423,157)	$ 6,008,031
Adjustments:		
Depreciation and amortization	18,765	29,737
Donated equipment	-	(6,736)
Changes in:		
Grants and other receivables, net	110,828	1,149
Pledges receivable, net	1,565,103	(3,315,103)
Prepaid expenses and other assets	(18,290)	(5,433)
Accounts payable and accrued expenses	(326,480)	470,519
Advances under grants	(419,937)	422,176
Deferred rent liability	(13,843)	(8,502)
Total adjustments	916,146	(2,412,193)
Net cash provided (required) by operating activities	(1,507,011)	3,595,838
Cash Flows from Investing Activities:		
Additions of property and equipment	-	(3,251)
Net cash required by investing activities	-	(3,251)
Cash Flows from Financing Activities:		
Principal payments on note payable	(3,610)	(3,671)
Net cash required by financing activities	(3,610)	(3,671)
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	(1,510,621)	3,588,916
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	5,429,092	1,840,176
Cash and Cash Equivalents and Restricted Cash, End of Year	$ 3,918,471	$ 5,429,092

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

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, 2013 and 2012 was $64,826 and $520,467, 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. 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 financial statements. 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, 2013 and 2012. During the year ended June 30, 2013, 68% of contributions and other revenues and 86% of pledges receivable were from one donor. During the year ended June 30, 2012, 78% of contributions and other revenues and 96% of pledges receivable were from one 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, 2013 and 2012, there was no allowance for uncollectible government grants. For the year ended June 30, 2013 and 2012, the Organization received approximately 57% and 24%, 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 $13,000 in 2013 and $51,800 in 2012.

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, 2010.

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:

	2013	2012
Grants receivable	$ 189,885	$ 285,197
Accounts receivable, local affiliates	22,241	38,778
Other	12,778	11,757
	$ 224,904	$ 335,732

NOTE 3 - PLEDGES RECEIVABLE, NET

At June 30, pledges receivable were as follows:

	2013	2012
CIS/Performance Learning Centers		
Development and Expansion	$ 1,500,000	$ 3,300,000
Other	250,000	120,000
	1,750,000	3,420,000
Less, discount for present value	-	(104,897)
	$ 1,750,000	$ 3,315,103

Pledges receivable at June 30, 2013 are due in fiscal year 2014.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2013	2012
Office equipment	$ 745,078	$ 745,078
Furniture and fixtures	132,930	132,930
Computer software	130,127	130,127
Vehicles	28,900	28,900
	1,037,035	1,037,035
Less accumulated depreciation and amortization	(1,036,041)	(1,017,276)
	$ 994	$ 19,759

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 was $18,765 and $29,737, 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, 2013 and 2012 totaled $8,701 and $12,311, respectively.

Principal maturities on the note payable are as follows for the year ending June 30:

2014	$ 4,200
2015	4,501
	$ 8,701

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	2013	2012
CIS/ Performance Learning Centers Development and Expansion	$ 3,738,666	$ 5,804,119
Performance Learning Centers Support	275,541	158,091
Leadership Institute	-	126,700
Communities in Schools Network Investment	8,385	172,345
Mentoring Program	-	59,779
Other	-	20,000
	$ 4,022,592	$ 6,341,034

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

	2013	2012
CIS/ Performance Learning Centers Development and Expansion	$ 2,065,453	$ 240,984
Performance Learning Centers Support	311,396	130,541
Leadership Institute	126,700	48,300
Communities in Schools Network Investment	292,799	280,486
Mentoring Program	933	178,630
	$ 2,797,281	$ 878,941

NOTE 7 - PROGRAM EXPENSES

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

	2013	2012
Performance Learning Centers	$ 2,543,235	$ 679,575
Comprehensive Student Dropout Prevention Initiative	1,661,314	2,166,857
Parental Information Resource Centers III	409,326	532,707
AmeriCorps	298,852	264,890
Communities in Schools Network Investment	296,362	299,692
College Access and College Success	467,449	208,664
Leadership Institute	126,700	-
Volunteers in Service to America	77,071	87,476
System of Care	-	45,770
Other	-	29,147
	$ 5,880,309	$ 4,314,778

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. During the years ended June 30, 2013 and 2012, the Organization had employer contributions of $44,069 and $34,801, respectively.

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:

2014	$ 187,074
2015	192,628
2016	32,259
	$ 411,961

Total rent expense under all operating leases for the years ended June 30, 2013 and 2012 approximated $172,000 and $174,000, 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, 2014 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, 2013

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	41400-048-0000004444	$ 814,596	$ 905,107	$ 90,511
ARRA - Race to the Top - Development of Performance Learning Centers	11-335-16679	637,949	619,846	(18,103)
Pass-through from State of Georgia Department of Community Affairs				
AmeriCorps	06AFHGA0010026/ 11AFHGA0010009	75,850	75,850	-
AmeriCorps	06AFHGA0010026/ 12AC139838	190,871	222,802	31,931
		$ 1,719,266	$ 1,823,605	$ 104,339

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEARS ENDED JUNE 30, 2013 AND 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2013 Federal Expenditures	2012 Federal Expenditures
U.S. Corporation for National & Community Service:				
Direct Programs:				
Volunteers in Service to America	94.013	N/A	$ 77,071	$ 87,476
Pass-through programs from Georgia Department of Community Affairs:				
AmeriCorps	94.006	06AFHGA0010026/ 11AFHGA0010009	75,850	39,915
AmeriCorps	94.006	06AFHGA0010026/ 12AC139838	222,802	224,975
Total AmeriCorps			298,652	264,890
Learn and Serve America School and Community Based Programs	94.004	10KSSGA001	-	9,422
			375,723	361,788
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	380,116	532,707
Pass-through program from Communities in Schools, Inc:				
Fund for the Improvement of Education	84.215U	N/A	-	20,480
Pass-through program from the Georgia Department of Education:				
ARRA - Race to the Top - Development of Performance Learning Centers	84.395A	11-335-16679	619,846	705,782
Pass-through program from the Georgia Institute of Technology:				
College Access Challenge Grant Program	84.378A	Y0015-G18	-	117,510
College Access Challenge Grant Program	84.378A	Y0016-G21	126,564	-
			1,126,526	1,376,479
U.S. Department of Justice:				
Pass-through program from Home Builders Institute:				
Juvenile Mentoring Program	16.726	N/A	-	22,009
Total Federal Expenditures			$ 1,502,249	$ 1,760,276

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, 2013 AND 2012

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, 2013 and 2012 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 # 94.006) in the amounts of $80,275 and $80,375 for the years ended June 30, 2013 and 2012, 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 $50,958 and $45,600 for the years ended June 30, 2013 and 2012, respectively.

SMITH & HOWARD
Certified Public Accountants and Advisers

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, in accordance with the 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, the financial statements of Communities In Schools of Georgia, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated as of the date of this letter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith + Howard

November 21, 2013

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.

Report on Compliance for Each Major Federal Program

We have audited the Communities In Schools of Georgia, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 on 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Smith + Howard

November 21, 2013

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' 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 auditors' 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 – Development of Performance Learning Centers

COMMUNITIES IN SCHOOLS OF GEORGIA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Section I – Summary of Auditors' 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.