Harrington Group
Certified Public Accountants, LLP

COMMUNITY INITIATIVES

FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULE, and ADDITIONAL INFORMATION

JUNE 30, 2016 and 2015

C O N T E N T S

Harrington Group
Certified Public Accountants, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Initiatives

Report on the Financial Statements

We have audited the accompanying financial statements of Community Initiatives (a nonprofit organization), which comprise the Statements of Financial Position as of June 30, 2016 and 2015, and the related Statements of Activities, Functional Expenses, 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 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 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 entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Initiatives as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Other Information

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 May 4, 2017, on our consideration of Community Initiatives' 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 Community Initiatives' internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
May 4, 2017

COMMUNITY INITIATIVES

STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	**$ 19,528,811**	$ 20,386,779
Accounts receivable	**53,553**	32,921
Government grants receivable	**477,703**	423,338
Pledges receivable (Note 3)	**2,902,396**	2,235,381
Prepaid expenses	**406,156**	428,855
Property and equipment, net (Note 5)	**495,450**	508,329
TOTAL ASSETS	**$ 23,864,069**	$ 24,015,603
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	**$ 566,967**	$ 769,134
Accrued liabilities (Note 6)	**630,515**	650,037
Deferred revenue (Note 7)	**244,163**	302,866
Capital leases obligations	**4,971**	36,276
TOTAL LIABILITIES	**1,446,616**	1,758,313
NET ASSETS		
Unrestricted - CI operations	**1,729,479**	1,798,237
Temporarily restricted - FSP	**20,687,974**	20,459,053
TOTAL NET ASSETS	**22,417,453**	22,257,290
TOTAL LIABILITIES AND NET ASSETS	**$ 23,864,069**	$ 24,015,603

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

COMMUNITY INITIATIVES

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2016 and 2015

	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grants and contribution revenue	$ -	$ 23,681,813	**$ 23,681,813**	$ -	$ 22,134,129	$ 22,134,129
Other income		1,907,965	**1,907,965**		2,445,029	2,445,029
In-kind (Note 11)		345,885	**345,885**		95,185	95,185
Interest income		32,019	**32,019**		28,794	28,794
Net assets released from program restrictions	25,738,761	(25,738,761)	**-**	23,237,210	(23,237,210)	-
TOTAL REVENUE AND SUPPORT	25,738,761	228,921	**25,967,682**	23,237,210	1,465,927	24,703,137
EXPENSES						
Program services	21,062,403		**21,062,403**	19,742,211		19,742,211
Management and general	2,412,414		**2,412,414**	2,046,050		2,046,050
Fundraising	2,332,702		**2,332,702**	1,451,222		1,451,222
TOTAL EXPENSES	25,807,519	-	**25,807,519**	23,239,483	-	23,239,483
CHANGE IN NET ASSETS	(68,758)	228,921	**160,163**	(2,273)	1,465,927	1,463,654
NET ASSETS, BEGINNING OF YEAR	1,798,237	20,459,053	**22,257,290**	1,800,510	18,993,126	20,793,636
NET ASSETS, END OF YEAR	$ 1,729,479	$ 20,687,974	**$ 22,417,453**	$ 1,798,237	$ 20,459,053	$ 22,257,290

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

COMMUNITY INITIATIVES

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2016 and 2015

	June 30, 2016				June 30, 2015			
	FSP Program Services	**CI Management and General**	**Fundraising**	**Total Expenses**	FSP Program Services	CI Management and General	Fundraising	Total Expenses
Salaries and related benefits	$ 8,462,176	$ 1,434,068	$ 940,242	**$ 10,836,486**	$ 9,208,509	$ 1,437,670	$ 678,727	$ 11,324,906
Other professional services	5,386,333	469,326	592,637	**6,448,296**	5,298,998	221,592	331,432	5,852,022
Grants made	3,377,597	2,500	375,289	**3,755,386**	1,871,327			1,871,327
Program activity	897,593		99,599	**997,192**	369,581	769	213,845	584,195
Equipment rental and maintenance	694,712	14,793	77,190	**786,695**	256,703	28,705	18,267	303,675
Occupancy	564,559	127,772	60,933	**753,264**	590,313	107,706	39,847	737,866
Travel	602,574	13,942	66,953	**683,469**	800,396	14,815	53,119	868,330
Conferences, conventions, and meetings	373,956	2,601	40,712	**417,269**	409,180	4,047	26,448	439,675
Office expenses	157,632	137,703	17,601	**312,936**	95,790	34,509	7,253	137,552
Printing and publications	141,667	2,675	15,741	**160,083**	169,830	7,000	11,078	187,908
Insurance	41,688	93,391	4,632	**139,711**	31,599	84,111	7,406	123,116
Telephone	93,939	18,702	10,438	**123,079**	91,808	10,119	6,524	108,451
Legal and accounting fees	34,195	50,409	3,799	**88,403**	10,823	46,942	2,032	59,797
Depreciation and amortization	56,326	15,950	6,258	**78,534**	54,421	20,954	4,824	80,199
Supplies	57,019	13,735	6,336	**77,090**	83,612	16,166	8,509	108,287
Taxes, fees, and licenses	58,420	7,801	6,491	**72,712**	25,580	5,841	26,840	58,261
Special events	23,801		4,230	**28,031**	307,919			307,919
Communications	23,702	110	2,008	**25,820**	48,046		13,358	61,404
Postage and shipping	14,514	6,936	1,613	**23,063**	17,776	5,104	1,713	24,593
TOTAL FUNCTIONAL EXPENSES	**$ 21,062,403**	**$ 2,412,414**	**$ 2,332,702**	**$ 25,807,519**	$ 19,742,211	$ 2,046,050	$ 1,451,222	$ 23,239,483

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

COMMUNITY INITIATIVES

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ 160,163**	$ 1,463,654
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	**78,534**	80,199
Loss on disposal of property and equipment	**-**	4,768
(Increase) decrease in operating assets:		
Accounts receivable	**(20,632)**	96,622
Grants and pledges receivable	**(721,380)**	858,259
Prepaid expenses	**22,699**	(266,515)
Increase (decrease) in operating liabilities:		
Accounts payable	**(202,167)**	(314,538)
Accrued liabilities	**(19,522)**	31,466
Deferred revenue	**(58,703)**	283,310
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	**(761,008)**	2,237,225
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	**(65,655)**	(313,208)
Proceeds received from sale of property and equipment	**-**	2,627
NET CASH (USED) BY INVESTING ACTIVITIES	**(65,655)**	(310,581)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	**(31,305)**	(8,839)
NET CASH (USED) BY INVESTING ACTIVITIES	**(31,305)**	(8,839)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(857,968)**	1,917,805
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,386,779**	18,468,974
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 19,528,811**	$ 20,386,779
SUPPLEMENTAL DISCLOSURE:		
Operating activities reflect interest paid of:	**$ 1,467**	$ 4,587

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

1. Organization

Community Initiatives ("CI") is a California Non-Profit Benefit Corporation, tax exempt under IRS 501(c)(3), established in 1996 by The San Francisco Foundation, to enable emerging charitable and educational projects to happen more quickly and with greater efficiency. Its services to the nonprofit and philanthropic sector focus on fiscal sponsorship and providing programmatic and financial oversight of grants and providing essential organizational, financial, and human resource services to nonprofit projects.

To accept a project for fiscal sponsorship, CI's Board vets each applicant's nonprofit purpose to the IRS 501(c)(3) standard and determines its viability for securing funding. At any given time, CI is sponsoring roughly 100 projects, the majority of which reside in the San Francisco Bay Area. The projects represent nonprofit activities in all areas of the nonprofit sector, e.g., arts and culture, education, environment, health and human services, and public affairs. These include projects of limited duration, start-up nonprofit organizations, public/private partnerships, and multiple funder collaborations.

All the financial activity of CI's fiscally sponsored projects ("FSPs") is aggregated for financial statement purposes. Their funds, however, are kept strictly segregated in individual fund accounts. The majority of its FSP's (those in a comprehensive fiscal sponsorship relationship) are legally a part of CI and all of their employees are employees of CI. A handful are in a "pre-approved grant" fiscal sponsorship relationship and those projects are separate legal entities.

By the nature of the business of fiscal sponsorship, CI's portfolio of fiscally sponsored projects is volatile with time-limited projects completing, with maturing nonprofits spinning off into their own 501(c)(3) organizations, and with new start-ups signing up throughout each year. As a result, individual budget line items may vary considerably from year to year, and typical financial analyses are not always meaningful.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of CI are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

continued

2. Summary of Significant Accounting Policies, continued

Unrestricted. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. CI reports grants and contributions, investments and other income as temporarily restricted support if they are received with donor stipulations that limit the use to a fiscally sponsored project. All funds for a newly sponsored project transferred into CI are temporarily restricted for the sponsored project. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit CI and the fiscally sponsored projects to expend all of the income (or other economic benefits) derived from the donated assets. CI had no permanently restricted net assets at June 30, 2016 and 2015, respectively.

Cash and Cash Equivalents

CI has defined cash and cash equivalents as cash in banks and money market fund accounts.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Concentration of Credit Risks

CI places its temporary cash investments with high-credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. CI has not incurred losses related to these investments.

The primary receivable balance outstanding at June 30, 2016 and 2015 consists of government contract receivables due from county, state, federal granting agencies, and contributions from foundations. Concentrations of credit risks with respect to receivables are limited, as the management believes grants and contributions receivable are collectible.

continued

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets
Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
Level 3 inputs - estimates using the best information available when there is little or no market

CI is required to measure pledged contributions and non-cash contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars.

Donated Materials and Services

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received (see Note 11).

Grants Made

Grant expense for restricted grants is recognized in the period in which the grant recipient meets the terms of the restrictions. In situations where a sponsored project attains status as an independent entity and ends the fiscal sponsorship relationship with CI, the respective project's funds are granted out to a newly created entity.

Functional Allocation of Expenses

Costs of providing fiscal sponsorship by CI have been presented in the Statement of Functional Expenses. All expenses paid on behalf of CI's projects are recorded as program services or fundraising expenses. Expenses incurred by CI's administrative group are recorded as management and general expenses.

continued

2. Summary of Significant Accounting Policies, continued

Income Taxes

CI is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by CI in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. CI's returns are subject to examination by federal and state taxing authorities, generally for three and four years respectively, after they are filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Reclassification

Certain accounts from the June 30, 2015 financial statements have been reclassified for comparative purposes to conform to the June 30, 2016 presentation.

Subsequent Events

Management has evaluated subsequent events through May 4, 2017, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure on the financial statements.

continued

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at the estimated fair present value at June 30, 2016 and 2015 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2016 and 2015. Discount on pledges receivable is immaterial at June 30, 2016, accordingly unamortized discount on pledges receivable is not recorded. A discount rate of .28% to 1.01% have been used to calculate the present value of pledges receivable at June 30, 2015. Total amount of pledges receivable is $2,902,396 and $2,235,381 as of June 30, 2016 and 2015, respectively. Total amount of pledges receivable at June 30, 2016 of $2,902,396 is expected to be collected as follows:

Year ended June 30,	
2017	$2,109,777
2018	682,619
2019	110,000
	$2,902,396

4. Fair Value Measurements

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2016 and 2015:

	Level 1	Level 2	Level 3	Total
June 30, 2016				
Contributed materials	$ -	$345,885	$ -	**$ 345,885**
Contributed services				**-**
Pledged contributions-new			10,835,390	**10,835,390**
Fair value at June 30, 2016	$ -	$345,885	$10,835,390	**$11,181,275**
June 30, 2015				
Contributed materials	$ -	$19,741	$ -	$ 19,741
Contributed services		75,444		75,444
Pledged contributions-new			15,921,359	15,921,359
Fair value at June 30, 2015	$ -	$95,185	$15,921,359	$16,016,544

The fair value of contributed materials and services has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

The fair value of pledged contributions are measured on a non-recurring basis based on the value provided by the donor at the date of pledge (Level 3 inputs).

5. Property and Equipment

Property and equipment at June 30, 2016 and 2015 consist of the following:

	2016	2015
Computer equipment and software	**$ 347,281**	$ 356,876
Leasehold improvements	**250,641**	63,255
Furniture and fixtures	**170,157**	219,889
Construction in progress	**169,229**	241,847
Intangible/other	**55,938**	55,938
Office equipment	**52,804**	60,509
Vehicles	**21,843**	21,843
	1,067,893	1,020,157
Less: accumulated depreciation	**(572,443)**	(511,828)
	$ 495,450	$ 508,329

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 were $78,534 and $80,199, respectively.

6. Accrued Liabilities

Accrued liabilities at June 30, 2016 and 2015 consist of the following:

	2016	2015
Accrued vacation	**$576,649**	$567,958
Other accrued liabilities	**53,866**	82,079
	$630,515	$650,037

7. Deferred Revenue

Deferred revenue for the years ended June 30, 2016 and 2015 were $244,163 and $302,866, respectively, received primarily from participants for future programs offered by one of CI's fiscally sponsored projects.

8. Commitments and Contingencies

Obligations Under Operating Leases

CI leases various facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

Year ended June 30,	
2017	$293,113
2018	63,373
2019	25,993
	$382,479

Rent and equipment lease expenses under operating leases for the years ended June 30, 2016 and 2015 were $656,907 and $669,668, respectively.

Contracts

CI's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, CI has no provisions for the possible disallowance of program costs on its financial statements.

9. Employee Benefit Plan

CI has a 401(k) plan available to all employees who have completed one month of service, as defined under the plan. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. Effective January 1, 2014, CI amended the plan to incorporate a Safe Harbor employer matching contribution of 3% of salary for all plan participants. CI also has a deferred compensation plan under Section 457 of the Internal Revenue Code for select group of management. For the years ended June 30, 2016 and 2015, total expense related to the matching contribution was $241,668 and $221,141, respectively.

10. Project Funds Granted Out

CI granted (paid) out $304,593 and $36,593 for the years ended June 30, 2016 and 2015, respectively, to projects that transferred their fiscal sponsorship relationship to another 501(c)(3) organization.

11. In-Kind Contributions

In-kind contributions at June 30, 2016 and 2015 consist of the following:

	2016	2015
Other goods	**$318,285**	$19,741
Use of facilities	**27,600**	-
Other services	**-**	75,444
	$345,885	$95,185

SUPPLEMENTAL SCHEDULE

COMMUNITY INITIATIVES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the years ended June 30, 2016

Program Name	Contract Number	Federal CFDA No.	Contract Term	Program Award	Pass-through to Sub-Recipients	Federal Program Expenditure
Federal Awards						
Department of Health and Human Services ("DHHS"):						
Direct, Adult Viral Hepatitis Prevention and Control	1U51PS004287-03	93.270	09/29/14 - 09/28/16	$ 300,000	$ -	$ 157,823
Pass-through, Public Health Foundation Enterprises:						
PPHF: Racial and Ethnic Approaches to Community Health Program						
financed solely by Public Prevention and Health Funds		93.738	09/01/15 - 12/31/15	29,135		29,133
Pass-through, City and County of San Francisco Human Services Agency:						
Temporary Assistnace for Needy Families **(a)**	2003-08/09	93.558	03/01/15 - 06/30/18	1,917,321		240,929
Pass-through, County of Alameda:						
Child Abuse and Neglect Discretionary Activities		93.670	02/28/15 - 02/28/16	10,000		10,000
Total DHHS				2,256,456	**-**	**437,885**
Pass-through, State of California, California Volunteers:						
Corporation for National Community Service ("CNCS"):						
AmeriCorps	11AFHY22-F163	94.006	09/10/15 - 12/31/16	514,507		455,467
Total CNCS				514,507	**-**	**455,467**
Department of Housing and Urban Development ("HUD"):						
Pass-through, City of Hayward:						
Community Development Block Grant/Entitlement Grants		14.218	09/10/15 - 12/31/16	27,000		27,000
Total HUD				27,000	**-**	**27,000**
Total Federal Awards				**$ 2,797,963**	**$ -**	**$ 920,352**

(a) Audited as a major program

Note 1. Basis of Presentation

The accompany Schedule of Expenditures of Federal Awards includes the Federal Award activity of CI, under the programs of the federal government for the year ended June 30, 2016 in accordance with requirements of Title 2 U. S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirement, Cost Principles, and Audit requirement for Federal Award* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of CI.

Note 2. Summary of Accounting Significant Polices

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or limited as to reimbursement. CI has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CI is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

ADDITIONAL INFORMATION

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
Community Initiatives

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 Community Initiatives ("CI"), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CI'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 CI's internal control. Accordingly, we do not express an opinion on the effectiveness of CI'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
May 4, 2017

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors
Community Initiatives

Report on Compliance for Each Major Federal Program

We have audited Community Initiatives' ("CI") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CI's major federal programs for the year ended June 30, 2016 CI'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 CI'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 CI'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 CI's compliance.

Opinion on Each Major Federal Program

In our opinion, CI 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item **2016-001**. Our opinion on each major federal program is not modified with respect to these matters.

CI's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CI's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of CI 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 CI's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion of the effectiveness of the CI'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 weaknesses. 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 the Uniform Guidance. Accordingly, the report is not suitable for any other purpose.

Harrington Group

San Francisco, California
May 4, 2017

Section I – Summary of Auditors' Results

<u>Financial Statements:</u>	
Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No
<u>Federal Awards:</u>	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 200.516 Audit Findings of the Uniform Guidance?	No
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes
<u>Identification of Major Programs:</u>	
Department of Health and Human Services	
Temporary Assistance for Needy Families	93.558

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

2016-001 – Timely Submission of Reports to Federal Audit Clearinghouse

Criteria: In accordance with Uniform Guidance (2 CFR 200), section 200.512, "the data collection and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditors' report(s), or nine months after the end of the audit period."

Condition: The auditors' reports were not issued until May 2017 and the data collection form and reporting package were not filed until subsequent to the report issuance date.

Cause: Significant turnover in Finance Department and the performance of various reconciliations and adjustments by management throughout the audit contributed to the delayed completion of the audit.

Recommendation: Management should complete and submit its data collection form and reporting package to the Federal Audit Clearinghouse within the timeframe as prescribed by the Uniform Guidance.

Management Response: CI is in agreement with the finding and will implement controls to ensure compliance moving forward.

Section IV – Summary Schedule of Prior Year Findings

None.