



Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

J. Joseph Harrington
Emeritus

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

COMMUNITY INITIATIVES

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
and
ADDITIONAL INFORMATION**

JUNE 30, 2012 and 2011

CONTENTS

Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6-12
Supplemental Schedule:	
Schedule of Expenditures of Federal Awards	13
Additional Information:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	14
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	15-16
Schedule of Findings and Questioned Costs	17-18



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Initiatives

We have audited the accompanying Statements of Financial Position of Community Initiatives (a nonprofit organization) as of June 30, 2012 and 2011, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of Community Initiatives' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Community Initiatives' internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Initiatives as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013 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 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.

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 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 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Harrington Group

San Francisco, California
January 31, 2013

COMMUNITY INITIATIVES

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	(As restated) 2011
Assets		
Cash and cash equivalents	\$ 15,143,511	\$ 12,378,629
Accounts receivable	56,673	58,659
Government grants receivable	329,220	801,250
Pledges receivable (Note 3)	2,756,560	3,497,065
Prepaid expenses	172,527	165,795
Property and equipment, net (Note 5)	137,478	138,986
Total assets	\$ 18,595,969	\$ 17,040,384
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 620,356	\$ 565,616
Accrued liabilities (Note 6)	429,512	466,248
Deferred revenue (Note 7)	166,997	83,804
Total liabilities	1,216,865	1,115,668
Net assets		
Unrestricted - CI operations	1,418,243	1,318,427
Temporarily restricted - FSP	15,960,861	14,606,289
Total net assets	17,379,104	15,924,716
Total liabilities and net assets	\$ 18,595,969	\$ 17,040,384

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

COMMUNITY INITIATIVES

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2012 and 2011

	Year ended June 30, 2012			(As Restated) Year ended June 30, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
	Revenue and support					
Grants and contribution revenue	\$ -	\$ 16,424,104	\$ 16,424,104	\$ -	\$ 15,707,290	\$ 15,707,290
Other income		1,762,058	1,762,058		1,368,400	1,368,400
In-kind (Note 11)		107,210	107,210		684,456	684,456
Interest income	19,968	3,717	23,685	26,945	4,628	31,573
Net assets released from program restrictions	16,942,517	(16,942,517)	-	17,972,655	(17,972,655)	-
Total revenue and support	16,962,485	1,354,572	18,317,057	17,999,600	(207,881)	17,791,719
Expenses						
Program services	14,479,273		14,479,273	15,695,744		15,695,744
Management and general	1,330,225		1,330,225	1,235,776		1,235,776
Fundraising	1,053,171		1,053,171	1,004,558		1,004,558
Total expenses	16,862,669	-	16,862,669	17,936,078	-	17,936,078
Change in net assets	99,816	1,354,572	1,454,388	63,522	(207,881)	(144,359)
Net assets, beginning of year	1,318,427	14,606,289	15,924,716	1,254,905	14,814,170	16,069,075
Net assets, end of year	\$ 1,418,243	\$ 15,960,861	\$ 17,379,104	\$ 1,318,427	\$ 14,606,289	\$ 15,924,716

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

COMMUNITY INITIATIVES

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2012 and 2011

	Year ended June 30, 2012				Year ended June 30, 2011			
	FSP Program Services	CI Management and General	Fundraising	Total Expenses	FSP Program Services	CI Management and General	Fundraising	Total Expenses
Salaries and related benefits	\$ 5,187,592	\$ 961,715	\$ 559,762	\$ 6,709,069	\$ 4,927,150	\$ 849,585	\$ 462,541	\$ 6,239,276
Other professional services	3,449,551	82,221	211,628	3,743,400	3,353,286	80,329	270,576	3,704,191
Grants made	2,555,005			2,555,005	3,554,820			3,554,820
Travel	785,348	8,946	47,521	841,815	721,647	3,526	23,944	749,117
Occupancy	394,084	124,815	42,869	561,768	582,625	125,572	29,801	737,998
Supplies	316,512	10,653	21,690	348,855	395,389	14,258	22,547	432,194
Communications	329,146	135	4,572	333,853	153,969	10,678	28,672	193,319
Special events	286,932		28,749	315,681	224,159	15	15,211	239,385
Program activity	201,862	170	53,161	255,193	794,983	226	64,129	859,338
Printing and publications	223,399	4,961	18,831	247,191	303,695	7,475	32,579	343,749
Equipment rental and maintenance	185,905	17,256	22,347	225,508	198,983	17,725	15,655	232,363
Telephone	143,714	7,397	15,655	166,766	125,540	8,249	7,979	141,768
Conferences, conventions, and meetings	125,459	8,310	12,514	146,283	138,803	3,245	10,216	152,264
Legal and accounting fees	95,475	37,497	3,293	136,265	18,109	34,303	1,945	54,357
Insurance	79,159	6,244	309	85,712	82,525	8,540		91,065
Depreciation and amortization	23,381	28,824	2,160	54,365	29,209	50,986		80,195
Office expenses	32,244	17,801	3,553	53,598	13,497	8,885	953	23,335
Postage and shipping	42,871	4,609	2,566	50,046	56,681	6,724	9,368	72,773
Taxes, fees, and licenses	21,634	8,671	1,991	32,296	20,674	5,455	8,442	34,571
Total functional expenses	\$ 14,479,273	\$ 1,330,225	\$ 1,053,171	\$ 16,862,669	\$ 15,695,744	\$ 1,235,776	\$ 1,004,558	\$ 17,936,078

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

COMMUNITY INITIATIVES

STATEMENTS OF CASH FLOWS For the years ended June 30, 2012 and 2011

	2012	(As Restated) 2011
Cash flows from operating activities:		
Change in net assets	\$ 1,454,388	\$ (144,359)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	54,365	80,195
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,986	(54,885)
Decrease (increase) in grants and pledges receivable, net	1,212,535	(2,113,945)
(Increase) decrease in prepaid expenses	(6,732)	3,394
Increase in accounts payable	54,740	154,077
(Decrease) increase in accrued liabilities	(36,736)	63,137
Increase in deferred revenue	83,193	83,804
Net cash provided (used) by operating activities	2,817,739	(1,928,582)
Cash flows from investing activities:		
Purchase of property and equipment	(52,857)	(29,206)
Net cash (used) by investing activities	(52,857)	(29,206)
Net increase (decrease) in cash and cash equivalents	2,764,882	(1,957,788)
Cash and cash equivalents, beginning of year	12,378,629	14,336,417
Cash and cash equivalents, end of year	\$ 15,143,511	\$ 12,378,629

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

COMMUNITY INITIATIVES

NOTES TO 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 FSPs (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

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

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, 2012 and 2011, 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, 2012 and 2011 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.

Total revenue and support of \$18,317,057 and \$17,791,719 for the years ended June 30, 2012 and 2011, 35% and 43% was generated for five specific projects, respectively. Two sources accounted for 34% and 50% of the pledges receivable as of June 30, 2012 and 2011, respectively.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

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.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

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.

Subsequent Events

Management has evaluated subsequent events through January 31, 2013, the date which the financial statements were available.

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, 2012 and 2011 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2012 and 2011. Discount rates range from 3% to 5% have been used to calculate the present value of pledges receivable. Total amount of pledges receivable is \$2,756,560 and \$3,497,065 as of June 30, 2012 and 2011, respectively. Total amount of pledges receivable at June 30, 2012 of \$2,756,560 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2013	\$2,631,941
2014	<u>130,000</u>
Pledges receivable, gross	\$2,761,941
Less: unamortized discount	<u>(5,381)</u>
Pledges receivable, net	<u>\$2,756,560</u>

continued

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

4. Fair Value Measurements

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2012 and 2011:

June 30, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed materials	\$ -	\$ 82,990	\$ -	\$ 82,990
Contributed services		24,220		24,220
Pledged contributions-new			14,354,565	14,354,565
Fair value at June 30, 2012	<u>\$ -</u>	<u>\$107,210</u>	<u>\$14,354,565</u>	<u>\$14,461,775</u>

June 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributed facilities	\$ -	\$197,929	\$ -	\$ 197,929
Contributed materials		92,862		92,862
Contributed services		393,665		393,665
Pledged contributions			12,917,806	12,917,806
Fair value at June 30, 2012	<u>\$ -</u>	<u>\$684,456</u>	<u>\$12,917,806</u>	<u>\$13,602,262</u>

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, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Computer equipment and software	\$ 271,681	\$ 245,285
Furniture and fixtures	84,434	83,297
Leasehold improvements	53,965	37,478
Office equipment	35,667	27,961
Intangible/other	<u>12,812</u>	<u>21,599</u>
	458,559	415,620
Less: accumulated depreciation	<u>(321,081)</u>	<u>(276,634)</u>
	<u>\$ 137,478</u>	<u>\$ 138,986</u>

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 were \$54,365 and \$80,195, respectively.

continued

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

6. Accrued Liabilities

Accrued liabilities at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Accrued vacation	\$397,049	\$446,598
Other accrued liabilities	<u>32,463</u>	<u>19,650</u>
	<u>\$429,512</u>	<u>\$466,248</u>

7. Deferred Revenue

Deferred revenue for the year ended June 30, 2012 and 2011 were \$166,997 and \$83,804 received from the California Institute of Regenerative Medicine for Specialty in Stem Cell Biology Project.

8. Commitments and Contingencies

Obligations Under Operating Leases

CI leases various facilities and equipments 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:

<u>Year ended June 30,</u>	
2013	\$271,339
2014	128,514
2015	118,716
2016	52,668
2017	<u>54,252</u>
	<u>\$625,489</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2012 and 2011 were \$552,482 and \$554,074, 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.

COMMUNITY INITIATIVES

NOTES TO 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. Employees may contribute any whole percentage of annual compensation provided that it does not exceed maximum amounts as permitted by law. CI does not make contributions to the plan. CI also has a deferred compensation plan under Section 457 of the Internal Revenue Code for select group of management.

10. Project Funds Granted Out

CI granted (paid) out \$183,147 and \$15,218 for the years ended June 30, 2012 and 2011, respectively, to projects that terminated their fiscal sponsorship agreements.

11. In-Kind Contributions

In-kind contributions at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Other goods	\$ 82,990	\$ 92,862
Other services	24,220	67,800
Program activities	-	325,865
Occupancy	-	197,929
	<u>\$107,210</u>	<u>\$684,456</u>

12. Beginning of Year Net Assets – Restated

Net assets at July 1, 2011 have been restated to correct the recognition of grants and contribution in the prior year. The comparative totals for June 30, 2011 presented in these financial statements have been restated to reflect the corrected balances as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
<u>Statement of Financial Position:</u>			
Accounts receivable	10,380	48,279	58,659
Government grants receivable	711,697	89,553	801,250
Pledges receivable	3,287,730	209,335	3,497,065
Temporarily restricted net assets	14,259,122	347,167	14,606,289
Total net assets	15,577,549	347,167	15,924,716
<u>Statement of Activities:</u>			
Grants and contributions revenue	15,408,402	298,888	15,707,290
Other income	1,320,121	48,279	1,368,400
Change in net assets	(491,526)	347,167	(144,359)

SUPPLEMENTAL SCHEDULE

COMMUNITY INITIATIVES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

<u>Program Name</u>	<u>Contract Number</u>	<u>Federal CFDA No.</u>	<u>Contract Term</u>	<u>Program Award</u>	<u>Federal Program Expenditure</u>
Federal Awards					
Department of Health and Human Services ("DHHS"):					
ARRA - Strengthening Communities Fund (a)	9002I0007/01	93.711	09/30/09 - 09/29/11	\$ 1,000,000	\$ 284,406
Total DHHS				<u>1,000,000</u>	<u>284,406</u>
Department of Housing and Urban Development ("HUD"):					
Pass-through, City and County of San Francisco - Community Development Block Grant ("CDBG")	36967	14.218	07/01/11 - 06/30/12	63,000	62,339
Pass-through, City and County of San Francisco - CDBG	39469	14.218	07/01/11 - 06/30/12	63,000	60,421
Pass-through, City and County of San Francisco - CDBG	DPMO1200015101	14.218	07/01/11 - 06/30/12	65,000	60,237
Subtotal CDBG				<u>191,000</u>	<u>182,997</u>
Pass-through, Local Initiatives Support Corporation ("LISC") - Section 4 Capacity Building for Community Development and Affordable Housing Grants ("CBCDAH"):	43889-0031	14.252	07/01/11 - 06/30/12	20,000	20,000
Pass-through, LISC - CBCDAH Grants	43889-0032	14.252	07/01/11 - 06/30/12	40,000	31,567
Pass-through, LISC - CBCDAH Grants	43889-0033	14.252	07/01/11 - 06/30/12	20,000	17,185
Pass-through, California Arts Council - CBCDAH Grants		14.252	02/01/12 - 01/31/13	25,000	7,050
Sub-total CBCDAH Grants				<u>105,000</u>	<u>75,802</u>
Total HUD				<u>296,000</u>	<u>258,799</u>
Department of State ("DOS")					
Pass-through, Freedom House - International Programs to Support Democracy, Human Rights and Labor: (a)	11-DOS090-R02	19.345	12/05/11 - 12/13/11	111,678	100,200
Total DOS				<u>111,678</u>	<u>100,200</u>
Corporation for National Community Service ("CNCS")					
Directly from CNCS - Nonprofit Capacity Building:	11CBHCA001	94.022	10/01/11 - 09/30/13	200,000	49,071
Pass-through, LISC - Americorps	43889-0034	94.006	10/01/11 - 09/30/13		3,163
Total CNCS				<u>200,000</u>	<u>52,234</u>
Department of Commerce ("DOC"):					
Pass-through, Latino Community Foundation: ARRA - Broadband Technology Opportunities Program	2011-BAA-05	11.557	04/01/11 - 09/30/11	28,334	14,167
Total DOC				<u>28,334</u>	<u>14,167</u>
Total Federal Awards				<u>\$ 1,636,012</u>	<u>\$ 709,806</u>

(a) Audited as a major program

Summary of Significant Accounting Policies:

- 1) Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
- 2) CI is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

ADDITIONAL INFORMATION



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

**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 the financial statements of Community Initiatives (“CI”) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013. 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

Management of CI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered CI’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 CI’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CI’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 CI’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 financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described as **2012-01** in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2012-02**.

We noted certain matters that we reported to management of CI in a separate letter dated January 31, 2013.

This report is intended solely for the information and use of management, the Board of Directors, others within CI, and 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.

Harrington Group

San Francisco, California
January 31, 2013



J. Joseph Harrington
Emeritus

Harrington Group
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Job M. Quesada
Sean E. Cain
Tonetta L. Conner

**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
Community Initiatives

Compliance

We have audited Community Initiatives' ("CI") compliance 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 CI's major federal programs for the year ended June 30, 2012. CI'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 CI's management. Our responsibility is to express an opinion on CI'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 Nonprofit 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 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. Our audit does not provide a legal determination of CI's compliance with those requirements.

As described in item **2012-02** in the accompanying schedule of findings and questioned costs, CI did not comply with the requirements regarding Subrecipient Monitoring that are applicable to its ARRA – Strengthening Communities Fund Program. Compliance with such requirements is necessary, in our opinion, for CI to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, CI complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of CI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

**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**
continued

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 management, the Board of Directors, others within CI, and 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.

Harrington Group

San Francisco, California
January 31, 2013

COMMUNITY INITIATIVES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
Type of auditors’ report issued on compliance for major programs:	Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
--	-----

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee?	No
--	----

Identification of Major Programs:

Department of Health and Human Services:	
ARRA – Strengthening Communities Fund	93.711
Department of State:	
International Programs to Support Democracy, Human Rights and Labor	19.345

Section II – Financial Statements Findings

2012-01 - Intra-organization Transactions. During our review of the FSPs’ contributions, we noted that there were instances where FSPs often made contributions to other FSPs. However, instead of these intercompany transactions being eliminated when preparing financial statements, they were separately recorded as contribution expense for the donor FSP and as contribution revenue for the recipient FSP, thus inflating CI’s total revenues and expenses. We recommend that CI institutes controls so that such transactions can be easily identified and eliminated when preparing financial statements.

Management response: Management concurs with the finding. Community Initiatives will set up separate general ledger accounts for contributions and corresponding grants expense transactions between Community Initiatives’ fiscally sponsored projects. These will be eliminated in the external financial statements going forward.

COMMUNITY INITIATIVES

Schedule of Findings and Questioned Costs

For the year ended June 30, 2012

continued

Section III – Federal Award Findings and Questioned Costs, continued

2012-02 - Sub-recipient Monitoring. Organizations that receive federal funds for disbursement to sub-recipient organizations that will administer the grant funds are required to appropriately monitor the use of these grant funds and also document that it has adequately performed its monitoring role on the use of these federal funds. Our review of the sub-award recipients of the John Burton Foundation Homeless Youth Capacity Building Project revealed that the sub-recipient organizations were not made aware of pertinent information such as the Catalog of Federal Domestic Assistance (“CFDA”) number of the federal grants received. We recommend that CI ensures that it complies with such requirements, in performing its role of monitoring the sub-recipients of federal funds.

Management response: Management concurs with the finding. Community Initiatives works with and through its fiscally sponsored projects in administering grants funds. In the past it was not always clear who would communicate with, monitor, and document the monitoring of sub-recipient grantee organizations in order to comply with the requirements of specific awards. Community Initiatives has subsequently enhanced its grants administration capacity and hired consultants with government monitoring expertise. In addition, we have amended our sponsorship policies to clearly state that the fiscally sponsored projects are jointly responsible for reviewing and tracking the compliance requirements of their grant awards. Going forward we will work more closely with the fiscally sponsored projects to insure that all requirements under specific awards are met.

There are no questioned costs for Federal awards as defined in OMB Circular A-133.

Section IV – Summary Schedule of Prior Year Findings

None.