

COMMUNITY INITIATIVES

**FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION**

JUNE 30, 2018 and 2017

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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, 2018 and 2017, 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 audit. 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 from 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.

INDEPENDENT AUDITORS' REPORT

continued

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, 2018 and 2017, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, 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 solely 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 effectiveness of Community Initiatives' 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

Oakland, California
November 28, 2018

COMMUNITY INITIATIVES

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 23,605,726	\$ 16,750,369
Accounts receivable	291,107	41,804
Government grants receivable	380,198	271,417
Pledges receivable (Note 3)	6,222,512	3,126,601
Prepaid expenses	182,025	257,550
Property and equipment, net (Note 5)	<u>601,568</u>	<u>616,986</u>
TOTAL ASSETS	<u><u>\$ 31,283,136</u></u>	<u><u>\$ 21,064,727</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 852,432	\$ 264,818
Accrued liabilities (Note 6)	793,966	613,290
Deferred revenue (Note 7)	30,002	116,374
Capital leases obligations	<u>1,428</u>	<u>3,306</u>
TOTAL LIABILITIES	<u>1,677,828</u>	<u>997,788</u>
NET ASSETS		
Unrestricted - CI operations	1,899,965	1,993,121
Temporarily restricted - FSP	<u>27,705,343</u>	<u>18,073,818</u>
TOTAL NET ASSETS	<u>29,605,308</u>	<u>20,066,939</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 31,283,136</u></u>	<u><u>\$ 21,064,727</u></u>

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

COMMUNITY INITIATIVES

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2018 and 2017

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grants and contribution revenue	\$ -	\$ 33,347,741	\$ 33,347,741	\$ 653	\$ 22,470,436	\$ 22,471,089
Other income	32,777	3,265,780	3,298,557	7,815	1,995,324	2,003,139
In-kind (Note 11)		252,198	252,198		123,542	123,542
Interest income	86,960		86,960	16,594		16,594
Net assets released from restrictions	27,234,194	(27,234,194)	-	27,171,439	(27,171,439)	-
TOTAL REVENUE AND SUPPORT	27,353,931	9,631,525	36,985,456	27,196,501	(2,582,137)	24,614,364
EXPENSES						
FSP - Program services	22,134,994		22,134,994	22,020,511		22,020,511
FSP - Fundraising	2,459,443		2,459,443	2,437,279		2,437,279
CI - Management and general	2,852,650		2,852,650	2,507,088		2,507,088
TOTAL EXPENSES	27,447,087	-	27,447,087	26,964,878	-	26,964,878
CHANGE IN NET ASSETS	(93,156)	9,631,525	9,538,369	231,623	(2,582,137)	(2,350,514)
NET ASSETS, BEGINNING OF YEAR	1,993,121	18,073,818	20,066,939	1,761,498	20,655,955	22,417,453
NET ASSETS, END OF YEAR	\$ 1,899,965	\$ 27,705,343	\$ 29,605,308	\$ 1,993,121	\$ 18,073,818	\$ 20,066,939

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

COMMUNITY INITIATIVES

STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2018 and 2017

	June 30, 2018				June 30, 2017			
	FSP Program Services	FSP Fundraising	CI Management and General	Total Expenses	FSP Program Services	FSP Fundraising	CI Management and General	Total Expenses
Salaries and related benefits	\$ 9,194,354	\$ 1,021,595	\$ 1,939,430	\$ 12,155,379	\$ 7,936,597	\$ 881,844	\$ 1,687,837	\$ 10,506,278
Grants made	4,976,365	552,929		5,529,294	6,122,753	680,306		6,803,059
Other professional services	4,124,891	458,321	270,063	4,853,275	4,277,896	475,322	333,420	5,086,638
Travel	1,210,954	102,125	9,692	1,322,771	790,826	87,870	16,151	894,847
Occupancy	491,252	54,583	176,821	722,656	501,782	55,754	131,351	688,887
Supplies	600,632	37,057		637,689	893,507	99,279	3,275	996,061
Conferences, conventions, and meetings	419,288	46,587	15,872	481,747	196,528	21,836	3,785	222,149
Equipment rental and maintenance	348,863	38,763	84,577	472,203	551,938	61,327	54,948	668,213
Office expenses	153,053	17,005	108,243	278,301	187,710	11,410	46,853	245,973
Program activity	166,958	80,657		247,615	92,608	10,290	408	103,306
Depreciation and amortization	110,633	12,293	6,971	129,897	160,127	17,792	5,383	183,302
Legal and accounting fees	42,725	4,747	81,313	128,785	13,221	1,469	56,515	71,205
Insurance	3,673	408	121,874	125,955	36,262	4,029	130,583	170,874
Printing and publications	94,060	10,451	7,709	112,220	81,112	9,012	2,409	92,533
Taxes, fees, and licenses	90,904	10,100	11,102	112,106	71,853	7,984	14,426	94,263
Telephone	79,640	8,849	17,712	106,201	81,190	9,021	11,563	101,774
Postage and shipping	14,963	1,663	1,271	17,897	21,712	2,413	8,181	32,306
Communications	11,786	1,310		13,096	2,889	321		3,210
TOTAL FUNCTIONAL EXPENSES	\$ 22,134,994	\$ 2,459,443	\$ 2,852,650	\$ 27,447,087	\$ 22,020,511	\$ 2,437,279	\$ 2,507,088	\$ 26,964,878

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

COMMUNITY INITIATIVES

STATEMENTS OF CASH FLOWS For the years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 9,538,369	\$ (2,350,514)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	129,897	183,302
(Increase) decrease in operating assets:		
Accounts receivable	(249,303)	11,749
Grants and pledges receivable	(3,204,692)	(17,919)
Prepaid expenses	75,525	148,606
Increase (decrease) in operating liabilities:		
Accounts payable	587,614	(302,149)
Accrued liabilities	180,676	(17,225)
Deferred revenue	(86,372)	(127,789)
	6,971,714	(2,471,939)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(114,479)	(304,838)
	(114,479)	(304,838)
NET CASH (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease obligations	(1,878)	(1,665)
	(1,878)	(1,665)
NET CASH (USED) BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,855,357	(2,778,442)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,750,369	19,528,811
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 23,605,726	\$ 16,750,369

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

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

1. Organization

Community Initiatives (“CI”) is a nonprofit fiscal sponsor that enables charitable groups to focus on their missions while unencumbered by administrative burdens. CI not only provides 501(c)(3) status to projects but efficiently offers an extensive suite of back-office services. These services include benefits, payroll, and human resource administration; financial management; tax preparation and compliance; grant support; risk management and insurance; legal counsel; donation management and crowdfunding support; and coaching on various other common nonprofit issues.

The CI Board vets potential applicants for their compliance with the IRS 501(c)(3) standard and determines its viability for securing funding. CI currently sponsors nearly 100 projects. The majority of the projects are based in the San Francisco Bay Area, though many operate programs outside the State of California. The projects represent nonprofit activities in all areas of the nonprofit sector, with current projects active in animals, arts, capacity building, education, environment, health and wellness, networks and alliances, philanthropy, social justice, and youth development. Projects may be of limited duration, incubating nonprofit organizations, public/private partnerships, or 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 their employees are employees of CI. A handful of projects are in a “pre-approved grant” fiscal sponsorship relationship and those projects are separate legal entities.

It is the nature of the business of fiscal sponsorship business to have a variable portfolio. CI’s project roster can fluctuate regularly with time-limited projects completing, maturing nonprofits spinning off into their own 501(c)(3) organizations, and new start-ups signing up throughout each year (see Note 10). As a result, individual financial statement line items may vary considerably from year to year, and typical financial analyses are not always meaningful.

CI is a California Non-profit Benefit Corporation, tax exempt under IRS 501(c)(3), established in 1996 by The San Francisco Foundation.

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.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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:

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 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, 2018 and 2017, respectively.

Cash and Cash Equivalents

CI has defined cash and cash equivalents as cash and all highly liquid investments with maturities of three months or less at date of acquisition, except those that are held for investment purposes.

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.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2018 and 2017 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.

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 4).

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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.

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 November 28, 2018, 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.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017 and are deemed fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded as of June 30, 2018 and 2017. Discount on pledges receivable is immaterial at June 30, 2018, accordingly unamortized discount on pledges receivable is not recorded. Total amount of pledges receivable is \$6,222,512 and \$3,126,601 as of June 30, 2018 and 2017, respectively. Total amount of pledges receivable at June 30, 2018 of \$6,222,512 is expected to be collected as follows:

<u>Year ended June 30,</u>	
2019	\$3,877,359
2020	2,285,654
2021	<u>59,499</u>
	<u>\$6,222,512</u>

4. Fair Value Measurements

The table below present transactions measured at fair value on a non-recurring basis during the year ended June 30, 2018 and 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2018</u>				
Contributed materials	\$ -	\$252,198	\$ -	\$ 252,198
Pledged contributions-new			<u>8,430,770</u>	<u>8,430,770</u>
Fair value at June 30, 2018	<u>\$ -</u>	<u>\$252,198</u>	<u>\$8,430,770</u>	<u>\$8,682,968</u>
 <u>June 30, 2017</u>				
Contributed materials	\$ -	\$123,542	\$ -	\$ 123,542
Pledged contributions-new			<u>3,393,482</u>	<u>3,393,482</u>
Fair value at June 30, 2017	<u>\$ -</u>	<u>\$123,542</u>	<u>\$3,393,482</u>	<u>\$3,517,024</u>

The fair value of contributed materials 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).

continued

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

5. Property and Equipment

Property and equipment at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 775,268	\$ 740,668
Computer equipment and software	213,642	216,632
Furniture and fixtures	197,345	130,765
Intangible/other	46,827	46,827
Office equipment	44,973	31,673
Vehicles	<u>21,843</u>	<u>21,843</u>
	1,299,898	1,188,408
Less: accumulated depreciation	<u>(698,330)</u>	<u>(571,422)</u>
	<u>\$ 601,568</u>	<u>\$ 616,986</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 were \$127,849 and \$183,302, respectively.

6. Accrued Liabilities

Accrued liabilities at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Accrued vacation	\$587,621	\$506,906
Other accrued liabilities	<u>206,345</u>	<u>106,384</u>
	<u>\$793,966</u>	<u>\$613,290</u>

7. Deferred Revenue

Deferred revenue for the years ended June 30, 2018 and 2017 were \$30,002 and \$116,374, respectively, received primarily from participants for future programs offered by one of CI's fiscally sponsored projects.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

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:

<u>Year ended June 30,</u>	
2019	\$ 220,583
2020	211,242
2021	236,107
2022	241,271
2023	<u>215,475</u>
	<u>\$1,124,678</u>

Rent and equipment lease expenses under operating leases for the years ended June 30, 2018 and 2017 were \$609,457 and \$550,511, 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 that provides a 100% match of employee contributions up to 3% of salary, and an additional 50% match of employee contributions between 3% and 5% 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, 2018 and 2017, total expense related to the matching contribution was \$285,360 and \$237,769, respectively.

COMMUNITY INITIATIVES

NOTES TO FINANCIAL STATEMENTS

10. New and Departing Projects

The net assets of new projects coming to CI for fiscal sponsorship are recorded as grants and contributions revenue. The net assets of projects that are departing CI or are otherwise discontinued are recorded as program services expenses. Following is a schedule of the net assets of new and departing projects for the years ended June 30, 2018 and 2017:

	<u>2018</u>		<u>2017</u>	
	<u>Number of Projects</u>	<u>Amount</u>	<u>Number of Projects</u>	<u>Amount</u>
New projects	12	\$912,535	4	\$259,693
Departing or discontinued projects	4	\$1,798,505	18	\$3,558,768

11. In-kind Contributions

In-kind contributions at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Other goods	<u>\$252,198</u>	<u>\$123,542</u>

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 Statements of Financial Position as of June 30, 2018, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2018.

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 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*.

**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***
continued

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

Pasadena, California
November 28, 2018