**Audited Financial Statements**
**and Other Supplementary Information**
**Communities for a Better Environment**
**(A California Nonprofit Public Benefit Corporation)**
***Years ended December 31, 2010 and 2009***
***with Report of Independent Auditors***

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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## Report of Independent Auditors

**Board of Directors**
**Communities for a Better Environment**

We have audited the accompanying statements of financial position of Communities for a Better Environment, a California nonprofit public benefit corporation, as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Communities for a Better Environment's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Communities for a Better Environment's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities for a Better Environment as of December 31, 2010 and 2009, 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 a report dated February 24, 2012, on our consideration of Communities for a Better Environment's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Communities for a Better Environment taken as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analyses and are not required part of the basic financial statements of Communities for a Better Environment. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vasquez + Company LLP

**Los Angeles, California**
**February 24, 2012**

| | December 31 | |
|---|---|---|
| **ASSETS** | **2010** | 2009 |
| **Current assets** | | |
| Cash and cash equivalents | **$ 862,795** | $ 1,268,455 |
| Receivables | | |
| Contributions and grants receivable | **158,174** | 646,274 |
| Others | **37,653** | 12,553 |
| Prepaid expenses and other current assets | **13,717** | 9,638 |
| **Total current assets** | **1,072,339** | 1,936,920 |
| **Property and equipment - net** | **49,293** | 41,556 |
| **Deposits** | **14,749** | 10,869 |
| **Total assets** | **$ 1,136,381** | $ 1,989,345 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | **$ 66,389** | $ 81,857 |
| Employee compensation | **108,289** | 81,711 |
| Short-term loans payable | **6,000** | 12,000 |
| Obligations under capital leases - current portion | **7,157** | 6,740 |
| **Total current liabilities** | **187,834** | 182,308 |
| Obligations under capital leases - less current portion | **24,427** | 8,601 |
| **Total liabilities** | **212,261** | 190,909 |
| **Net assets** | | |
| Unrestricted | **300,991** | 401,438 |
| Temporarily restricted | **623,129** | 1,396,998 |
| **Total net assets** | **924,120** | 1,798,436 |
| **Total liabilities and net assets** | **$ 1,136,381** | $ 1,989,345 |

*See notes to financial statements.*

| | Years ended December 31 | |
|---|---|---|
| | **2010** | 2009 |
| **Changes in unrestricted net assets** | | |
| **Unrestricted revenues and support** | | |
| Contributions | **$ 421,696** | $ 575,920 |
| Litigation income | **51,834** | 211,076 |
| Federal contracts | **-** | 6,864 |
| Special events (net of cost of direct benefits to donors of $0 in 2009) | **-** | 1,025 |
| Investment and other income | **55,705** | 24,073 |
| **Total unrestricted revenues and support before net assets released from restrictions** | **529,235** | 818,958 |
| Net assets released from restrictions | **1,183,633** | 1,283,361 |
| **Total unrestricted revenues and support** | **1,712,868** | 2,102,319 |
| **Expenses** | | |
| Program services | | |
| Research analysis advocacy | **747,063** | 727,280 |
| Community education and publication | **528,942** | 544,763 |
| Supporting services | | |
| Management and general | **304,624** | 195,687 |
| Fundraising | **232,686** | 270,566 |
| **Total expenses** | **1,813,315** | 1,738,296 |
| **Change in unrestricted net assets** | **(100,447)** | 364,023 |
| **Changes in temporarily restricted net assets** | | |
| Contributions and other support | **409,764** | 1,706,192 |
| Net assets released from restrictions | **(1,183,633)** | (1,283,361) |
| **Change in temporarily restricted net assets** | **(773,869)** | 422,831 |
| **Change in net assets** | **(874,316)** | 786,854 |
| **Net assets at beginning of year** | **1,798,436** | 1,011,582 |
| **Net assets at end of year** | **$ 924,120** | $ 1,798,436 |

*See notes to financial statements.*

| | | Years ended December 31 | |
|---|---|---|---|
| | | **2010** | 2009 |
| **Cash flows from operating activities** | | | |
| Change in net assets | **$** | **(874,316)** | $ 786,854 |
| Adjustments to reconcile change in net assets | | | |
| to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | | **26,471** | 28,650 |
| Loss on cancelled leased equipment | | **1,895** | - |
| (Increase) decrease in assets: | | | |
| Contributions and grants receivables | | **488,100** | (279,476) |
| Other receivables | | **(25,100)** | 4,536 |
| Prepaid expenses and other current assets | | **(4,079)** | 21,072 |
| Deposit | | **(3,880)** | (600) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable and accrued expenses | | **(15,468)** | (6,379) |
| Employee compensation | | **26,578** | (3,934) |
| **Net cash provided by (used in) operating activities** | | **(379,799)** | 550,723 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investments | | **-** | - |
| Acquisition of property and equipment | | **(36,104)** | (13,551) |
| **Net cash used in investing activities** | | **(36,104)** | (13,551) |
| **Cash flows from financing activities** | | | |
| Principal payments on lease obligations | | **16,243** | (10,664) |
| Payment of loan | | **(6,000)** | (12,000) |
| **Net cash provided by (used in) financing activities** | | **10,243** | (22,664) |
| **Net change in cash and cash equivalents** | | **(405,660)** | 514,508 |
| **Cash and cash equivalents at beginning of year** | | **1,268,455** | 753,947 |
| **Cash and cash equivalents at end of year** | **$** | **862,795** | $ 1,268,455 |
| **Supplemental Information** | | | |
| Cash paid for interest during the year | **$** | **1,802** | $ 1,809 |

*See notes to financial statements.*

## NOTE 1 ORGANIZATION PROFILE

Communities for a Better Environment (CBE), a California nonprofit public benefit corporation, was incorporated and commenced operations on January 1, 1987. CBE operated from 1978 to 1987 as the California branch of Citizens for a Better Environment, an Illinois nonprofit corporation. CBE's primary purpose is to promote clean air, clean water and the development of toxin-free communities. It seeks to achieve this goal through technical research, litigation, policy advocacy and public education.

CBE provides grassroots activism, environmental research and legal assistance within underserved urban communities and equips residents impacted by industrial pollution with the tools to inform, monitor, and transform their immediate environment.

CBE is especially vulnerable to the inherent risks associated to revenue that is substantially dependent on government funding, public support and contributions. The continued growth and well-being of CBE is contingent upon successful achievement of its long-term revenue-raising goals.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**
CBE reports information regarding its financial position and activities according to three classes of net assets – *unrestricted, temporarily restricted, and permanently restricted net assets*. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. CBE does not have any permanently restricted net assets at December 31, 2010 and 2009.

**Accounting Method**
CBE uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of timing of payments. Litigation income generally is recognized as revenue when binding contracts are signed or court orders are issued, and all appeal options have been exhausted. Litigation costs consist primarily of contingent attorney's fees that are paid only when CBE receives a settlement, and are accrued when the corresponding settlements are recognized as revenue. Effective 2002, to the extent possible, the substantial amount of contingent attorney's fees was no longer being passed through CBE.

**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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

### Concentration of Credit Risk

CBE maintains cash on deposit at a bank which exceeds the Federal Deposit Insurance Corporation (FDIC) limit from time to time.

There were changes to FDIC limits and money market account balance guarantees when the Troubled Asset Relief Program (TARP) became law on October 3, 2008. With the new law, the insured limit on deposits at each FDIC-insured bank increased from $100,000 to $250,000. The coverage has also been expanded to provide unlimited insurance for a period of time on deposits in transaction accounts. On any account that does not pay interest, including most checking accounts, the FDIC provides unlimited insurance. These changes to deposit insurance were to expire December 31, 2010. On July 21, 2010, the Dodd-Frank financial reform legislation was signed into law making all noninterest-bearing transaction accounts fully insured without limit effective December 31, 2010 until January 1, 2013. In addition, the regulatory reform made the standard maximum deposit insurance amount of $250,000 permanent. CBE's cash balance exceeded the insured limits by $0 and $193,206 at December 31, 2010 and 2009, respectively. CBE has not experienced any losses in such accounts. Management believes that it is not exposed to any significant credit risk at December 31, 2010 and 2009.

### Cash and Cash Equivalents

CBE considers highly liquid investments with maturity of three months or less when acquired to be cash equivalents.

### Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. CBE provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is CBE's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. All receivables as of December 31, 2010 and 2009 are expected to be collectible.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at date of donation. Major improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. Provision for depreciation and amortization is computed on the straight-line method over the estimated useful lives of the related assets, which range from three to seven years.

### Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statement of activities. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employee' time incurred and on usage of resources.

### Income Taxes

CBE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the related California code sections. In addition, contributions to CBE qualify for the charitable contribution deduction and CBE has filed an election under IRC Section 501(h) that permits CBE to make limited expenditures to influence legislation.

Generally accepted accounting principles prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the years ended December 31, 2010 and 2009, the CBE had no unrecognized tax benefits or tax penalties or interest.

## NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment as of December 31 is composed of:

| | **2010** | 2009 |
|---|---|---|
| Computers | **$ 139,684** | $ 130,529 |
| Office equipment/furniture | **191,394** | 199,456 |
| Leasehold improvements | **41,671** | 41,671 |
| | **372,749** | 371,656 |
| Less accumulated depreciation and amortization | **(323,456)** | (330,100) |
| Property and equipment - net | **$ 49,293** | $ 41,556 |

## NOTE 4 SHORT-TERM LOANS PAYABLE

In prior years, CBE was loaned money to assist in funding certain litigation. The outstanding balance as of December 31, 2010 and 2009 consist of non-interest bearing loans amounting to $6,000 and $12,000, respectively.

## NOTE 5 OBLIGATIONS UNDER LEASES

CBE leases certain equipment under capital leases secured by equipment. Future minimum lease payments are as follows:

| | | |
|---|---|---|
| 2011 | $ | 9,020 |
| 2012 | | 9,567 |
| 2013 | | 9,567 |
| 2014 | | 6,285 |
| 2015 | | 1,569 |
| | | 36,008 |
| Less amount representing interest | | (4,424) |
| Future minimum principal payments | | 31,584 |
| Less current portion | | (7,157) |
| Long-term portion | $ | 24,427 |

CBE is obligated under operating leases for its facilities, which expires in 2015. Future minimum base lease payments are as follows.

| | | |
|---|---|---|
| 2011 | $ | 63,789 |
| 2012 | | 65,705 |
| 2013 | | 67,676 |
| 2014 | | 69,707 |
| 2015 | | 47,158 |
| Total | $ | 314,036 |

## NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets as of December 31 are for the following purposes:

| | | **2010** | | 2009 |
|---|---|---|---|---|
| Northern California Programs | **$** | **144,375** | $ | 245,396 |
| Southern California (La Causa) Programs | | **209,379** | | 612,852 |
| Statewide Support Programs | | **269,375** | | 538,750 |
| | **$** | **623,129** | $ | 1,396,998 |

## NOTE 7 RELATED PARTY TRANSACTIONS

CBE entered into contracts with the same law firm that provided CBE with an interest-free $50,000 loan (see Note 4) for representation on two cases in which CBE brought legal action. The law firm has agreed to provide representation on a contingent fee basis. The firm received $6,000 and $12,000 from CBE for 2010 and 2009, respectively.

## NOTE 8 COMMITMENT AND CONTINGENCIES

**Grants**
Grant awards require the fulfillment of certain conditions as set forth in the grant instruments. Failure to fulfill the conditions could result in the return of the funds to the grantors. CBE deems this contingency remote. Management is of the opinion that CBE has complied with the terms of all grants.

**Unemployment Claims**
CBE has elected the reimburseable method of financing unemployment claims in which CBE reimburses the State of California's Unemployment Insurance Fund on a dollar-for-dollar basis for all benefits paid to its former employees. As of December 31, 2010 and 2009, CBE has no outstanding claims.

**Others**
In October 2011, CBE received a claim for litigation costs amounting to $54,000 for a motion it won. After consultation with its' legal department, CBE estimates that this matter will be resolved without material effect on CBE's financial position.

## NOTE 9 SUBSEQUENT EVENTS

CBE has evaluated events or transactions that occurred subsequent to the balance sheet date through February 24, 2012, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no other subsequent matters required disclosure or adjustment to the accompanying financial statements.

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| Description | Research Analysis Advocacy | Community Education and Publication | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
| Payroll costs | $ 534,728 | $ 379,857 | $ 914,585 | $ 144,344 | $ 181,873 | $ 326,217 | $ 1,240,802 |
| Professional fees and training | 28,883 | 26,467 | 55,350 | - | 1,830 | 1,830 | 57,180 |
| Consultants | 30,212 | 21,533 | 51,745 | 29,319 | 2,230 | 31,549 | 83,294 |
| Travel and meetings | 17,247 | 13,307 | 30,554 | 19,048 | 432 | 19,480 | 50,034 |
| Office expenses | 20,162 | 15,103 | 35,265 | 2,630 | 5,213 | 7,843 | 43,108 |
| Litigation costs | 12,957 | - | 12,957 | - | - | - | 12,957 |
| Direct mail | - | - | - | - | 8,650 | 8,650 | 8,650 |
| Rent and occupancy | 68,030 | 53,423 | 121,453 | 29,564 | 18,898 | 48,462 | 169,915 |
| Printing and postage | 4,491 | 2,252 | 6,743 | - | 3,633 | 3,633 | 10,376 |
| Accounting | - | - | - | 25,360 | - | 25,360 | 25,360 |
| Interest | - | - | - | 1,802 | - | 1,802 | 1,802 |
| Insurance | 3,664 | 2,937 | 6,601 | 2,349 | 1,460 | 3,809 | 10,410 |
| Campaign/ research materials | 10,697 | 10,199 | 20,896 | 1,821 | 689 | 2,510 | 23,406 |
| Other program costs | 12,739 | 816 | 13,555 | 5,782 | 1,917 | 7,699 | 21,254 |
| Earthshare/ special events | 1,571 | 1,571 | 3,142 | 223 | 4,886 | 5,109 | 8,251 |
| Depreciation and amortization | - | - | - | 26,471 | - | 26,471 | 26,471 |
| Miscellaneous | 1,682 | 1,477 | 3,159 | 15,911 | 975 | 16,886 | 20,045 |
| Total | $ 747,063 | $ 528,942 | $ 1,276,005 | $ 304,624 | $ 232,686 | $ 537,310 | $ 1,813,315 |

## Communities for a Better Environment
## Schedule of Functional Expenses
## Year ended December 31, 2009

| | Program Services | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|
| Description | Research Analysis Advocacy | Community Education and Publication | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
| Payroll costs | $ 529,425 | $ 408,028 | $ 937,453 | $ 108,303 | $ 192,744 | $ 301,047 | $ 1,238,500 |
| Professional fees and training | 25,983 | 17,508 | 43,491 | 2,218 | 1,351 | 3,569 | 47,060 |
| Consultants | 21,687 | 16,592 | 38,279 | 20,410 | 9,969 | 30,379 | 68,658 |
| Travel and meetings | 12,502 | 9,657 | 22,159 | 243 | 1,951 | 2,194 | 24,353 |
| Office expenses | 23,087 | 16,575 | 39,662 | 2,614 | 9,276 | 11,890 | 51,552 |
| Litigation costs | 8,529 | - | 8,529 | - | - | - | 8,529 |
| Direct mail | 177 | 178 | 355 | - | 5,955 | 5,955 | 6,310 |
| Rent and occupancy | 59,442 | 46,995 | 106,437 | 19,750 | 32,628 | 52,378 | 158,815 |
| Printing and postage | 8,873 | 7,955 | 16,828 | - | 1,308 | 1,308 | 18,136 |
| Accounting | 411 | 337 | 748 | 16,530 | 162 | 16,692 | 17,440 |
| Insurance | 5,390 | 4,357 | 9,747 | 6,690 | 2,259 | 8,949 | 18,696 |
| Campaign/ research materials | 5,231 | 5,109 | 10,340 | - | - | - | 10,340 |
| Other program costs | 14,769 | 710 | 15,479 | 598 | 274 | 872 | 16,351 |
| Earthshare/ special events | 644 | 644 | 1,288 | - | 10,255 | 10,255 | 11,543 |
| Depreciation and amortization | 6,997 | 6,692 | 13,689 | 14,531 | 430 | 14,961 | 28,650 |
| Miscellaneous | 4,133 | 3,426 | 7,559 | 3,800 | 2,004 | 5,804 | 13,363 |
| Total | $ 727,280 | $ 544,763 | $ 1,272,043 | $ 195,687 | $ 270,566 | $ 466,253 | $ 1,738,296 |

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# Report of Independent Auditors 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*

**Board of Directors**
**Communities for a Better Environment**

We have audited the financial statements of Communities for a Better Environment as of and for the year ended December 31, 2010, and have issued our report thereon dated February 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Communities for a Better Environment is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Communities for a Better Environment'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 Communities for a Better Environment's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Communities for a Better Environment's internal control over financial reporting.

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

Our consideration of 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 over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Vasquez + Company LLP

**Los Angeles, California**
**February 24, 2012**