Audited Financial Statements
and Supplementary Information
Communities for a Better Environment
(A California Nonprofit Public Benefit Corporation)
Years ended December 31, 2012 and 2011
with Report of Independent Auditors

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Report of Independent Auditors

Board of Directors
Communities for a Better Environment

We have audited the accompanying financial statements of Communities for a Better Environment, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Communities for a Better Environment as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2014 on our consideration of Communities for a Better Environment's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Communities for a Better Environment's internal control over financial reporting and compliance.

Vasquez + Company LLP

Los Angeles, California
June 5, 2014

		December 31		
ASSETS		**2012**		2011
Current assets				
Cash and cash equivalents	**$**	**847,422**	$	1,044,346
Receivables				
Contributions and grants receivable		**114,035**		230,034
Others		**28,370**		11,975
Prepaid expenses and other current assets		**1,091**		1,919
Total current assets		**990,918**		1,288,274
Property and equipment - net		**23,717**		42,646
Deposits		**11,014**		11,014
Total assets	**$**	**1,025,649**	$	1,341,934
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	**$**	**21,026**	$	38,049
Employee compensation		**113,950**		114,033
Obligations under capital leases - current portion		**9,412**		8,141
Total current liabilities		**144,388**		160,223
Obligations under capital leases - less current portion		**6,876**		16,288
Total liabilities		**151,264**		176,511
Net assets				
Unrestricted		**401,774**		414,974
Temporarily restricted		**472,611**		750,449
Total net assets		**874,385**		1,165,423
Total liabilities and net assets	**$**	**1,025,649**	$	1,341,934

See notes to financial statements.

	Years ended December 31	
	2012	2011
Changes in unrestricted net assets		
Unrestricted revenues and support		
Contributions	**$ 238,692**	$ 407,966
Litigation income	**455,547**	504,002
Federal contracts	**76,019**	121,958
Investment and other income	**30,758**	70,166
Total unrestricted revenues and support before net assets released from restrictions	**801,016**	1,104,092
Net assets released from restrictions	**1,069,092**	1,178,502
Total unrestricted revenues and support	**1,870,108**	2,282,594
Expenses		
Program services		
Research analysis advocacy	**885,765**	946,001
Community education and publication	**570,814**	664,479
Supporting services		
Management and general	**320,075**	401,190
Fundraising	**106,654**	133,005
Total expenses	**1,883,308**	2,144,675
Change in unrestricted net assets	**(13,200)**	137,919
Unrestricted net assets - beginning of year	**414,974**	277,055
Unrestricted net assets - end of year	**401,774**	414,974
Changes in temporarily restricted net assets		
Contributions from donors	**791,254**	1,281,886
Net assets released from restrictions	**(1,069,092)**	(1,178,502)
Change in temporarily restricted net assets	**(277,838)**	103,384
Change in net assets	**(291,038)**	241,303
Net assets at beginning of year	**1,165,423**	924,120
Net assets at end of year	**$ 874,385**	$ 1,165,423

See notes to financial statements.

Description	Program Services: Research Analysis Advocacy	Program Services: Community Education and Publication	Program Services: Total Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total Expenses
Payroll costs	$ 643,042	$ 384,653	$ 1,027,695	$ 228,425	$ 73,136	$ 301,561	$ 1,329,256
Professional fees and training	36,721	36,721	73,442	-	3,330	3,330	76,772
Consultants	18,733	13,533	32,266	-	24,076	24,076	56,342
Travel and meetings	13,116	13,157	26,273	15,705	372	16,077	42,350
Office expenses	30,197	27,554	57,751	11,269		11,269	69,020
Litigation costs	2,017	-	2,017	-	-	-	2,017
Direct mail	-	-	-	-	627	627	627
Rent and occupancy	94,809	62,261	157,070	17,451	-	17,451	174,521
Printing and postage	7,964	6,979	14,943	-	30	30	14,973
Accounting	4,643	4,643	9,286	15,980	-	15,980	25,266
Interest	-	-	-	-	-	-	-
Insurance	4,549	4,549	9,098	2,600	-	2,600	11,698
Campaign/research materials	3,210	3,210	6,420	-	-	-	6,420
Other program costs	12,221	1,957	14,178	6,966	70	7,036	21,214
Earthshare/special events	-	-	-	-	4,091	4,091	4,091
Depreciation and amortization	-	-	-	18,929	-	18,929	18,929
Miscellaneous	14,543	11,597	26,140	2,750	922	3,672	29,812
Total	$ 885,765	$ 570,814	$ 1,456,579	$ 320,075	$ 106,654	$ 426,729	$ 1,883,308

See notes to financial statements.

Communities for a Better Environment
Statement of Functional Expenses
Year ended December 31, 2011

	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	$ 645,442	$ 436,165	$ 1,081,607	$ 238,082	$ 122,860	$ 360,942	$ 1,442,549
Professional fees and training	31,066	30,490	61,556	4,833	125	4,958	66,514
Consultants	46,812	28,781	75,593	13,290	7,710	21,000	96,593
Travel and meetings	31,108	24,236	55,344	26,042	1,176	27,218	82,562
Office expenses	30,619	28,082	58,701	11,034	-	11,034	69,735
Litigation costs	6,220	-	6,220	-	-	-	6,220
Direct mail	385	385	770	1,686	430	2,116	2,886
Rent and occupancy	83,910	65,410	149,320	15,049	-	15,049	164,369
Printing and postage	10,466	9,742	20,208	3,990	-	3,990	24,198
Accounting	14,658	14,258	28,916	14,736	-	14,736	43,652
Interest	-	-	-	1,990	-	1,990	1,990
Insurance	5,940	5,940	11,880	2,674	-	2,674	14,554
Campaign/research materials	13,499	13,499	26,998	858	36	894	27,892
Other program costs	15,902	328	16,230	1,075	-	1,075	17,305
Earthshare/special events	821	821	1,642	-	591	591	2,233
Depreciation and amortization	-	-	-	21,081	-	21,081	21,081
Miscellaneous	9,153	6,342	15,495	44,770	77	44,847	60,342
Total	$ 946,001	$ 664,479	$ 1,610,480	$ 401,190	$ 133,005	$ 534,195	$ 2,144,675

See notes to financial statements.

	Years ended December 31	
	2012	2011
Cash flows from operating activities		
Change in net assets	**$ (291,038)**	$ 241,303
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**18,929**	21,081
(Increase) decrease in assets:		
Contributions and grants receivables	**115,999**	(71,860)
Other receivables	**(16,395)**	25,678
Prepaid expenses and other current assets	**828**	11,798
Deposits	**-**	3,735
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**(17,023)**	(28,339)
Employee compensation	**(83)**	5,744
Net cash provided by (used in) operating activities	**(188,783)**	209,140
Cash flows from investing activities		
Acquisition of property and equipment	**-**	(14,434)
Cash used in investing activities	**-**	(14,434)
Cash flows from financing activities		
Principal payments on lease obligations - net	**(8,141)**	(7,155)
Payment of loan	**-**	(6,000)
Net cash used in financing activities	**(8,141)**	(13,155)
Net change in cash and cash equivalents	**(196,924)**	181,551
Cash and cash equivalents at beginning of year	**1,044,346**	862,795
Cash and cash equivalents at end of year	**$ 847,422**	$ 1,044,346
Supplementary Information		
Cash paid for interest during the year	**$ 3,712**	$ 1,990

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
Accounting principles generally accepted in the United States of America (U.S. GAAP) require classification of CBE's net assets, revenues as well as expenses based on the existence or absence of donor-imposed restrictions. U.S. GAAP requires presentation of the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – in the statements of financial position and the amounts of change in each of those classes of net assets in the statements of activities.

- *Unrestricted Net Assets.* These include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Unrestricted net assets 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 Net Assets.* CBE reports gifts of cash and other assets as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 program or capital restrictions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Permanently Restricted Net Assets.* These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit CBE to expend all of the income (or other economic benefits) derived from the donated assets. CBE has no permanently restricted net assets at December 31, 2012 and 2011.

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 U.S. GAAP 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.

Revenue Recognition
Contributions and pledges 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 and pledges 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $360,826 and $393,703 at December 31, 2012 and 2011, 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, 2012 and 2011.

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, 2012 and 2011 are expected to be collectible.

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 statements of activities. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. CBE reports its assets and liabilities that are measured at fair value using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, we perform a detailed analysis of our assets and liabilities that are measured at fair value. All assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

CBE's financial instruments include primarily cash, receivables, and accounts payable and accrued expenses. CBE uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash - The carrying amount approximates fair value because of the short maturity of those instruments.

Contributions and grants receivable - The carrying amount of contributions and grants receivable approximates fair value because of their short-term nature and historical collectibility.

Accounts payable and accrued expenses - The carrying amount of accounts payable and accrued expenses approximates fair value because of the short-term nature of the obligations.

Income Taxes
CBE is a public organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). Accordingly, no provision for income taxes has been made in these financial statements. However, CBE is subject to income taxes on any net income that is derived from a trade or business not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business in the opinion of management, is not material to the financial statements taken as a whole.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U.S. GAAP requires that an organization recognize in the financial statements the impact of a 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 year ended December 31, 2012, CBE had no material unrecognized tax benefits, tax penalties or interest. As of December 31, 2012, information returns subsequent to 2008 filed by CBE are subject to examination by the authorities.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment as of December 31 is composed of:

	2012	2011
Computers	**$ 151,865**	$ 151,865
Office equipment/furniture	**191,394**	191,394
Leasehold improvements	**2,252**	2,252
	345,511	345,511
Less accumulated depreciation and amortization	**(321,794)**	(302,865)
Property and equipment - net	**$ 23,717**	$ 42,646

Depreciation expense for the year ended December 31, 2012 and 2011 was $18,929 and $21,081, respectively.

NOTE 4 OBLIGATIONS UNDER LEASES

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

2013	$ 9,412
2014	6,285
2015	1,573
	17,269
Less amount representing interest	(981)
Future minimum principal payments	16,288
Less current portion	(9,412)
Long-term portion	$ 6,876

CBE is obligated under operating leases for its facilities which expire in 2016. Future minimum base lease payments are as follows:

NOTE 4 OBLIGATIONS UNDER LEASES (CONTINUED)

2013	$	125,883
2014		127,650
2015		118,049
2016		24,707
Total	$	396,289

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

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

		2012		2011
Northern California Programs	**$**	**23,420**	$	226,510
Southern California Programs		**167,231**		285,536
Statewide Support Programs		**281,960**		238,403
	$	**472,611**	$	750,449

NOTE 6 RELATED PARTY TRANSACTIONS

CBE entered into contracts with a law firm that provided CBE with an interest-free $50,000 loan 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 $0 and $12,000 from CBE for 2012 and 2011, respectively.

NOTE 7 COMMITMENTS 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, 2012 and 2011, CBE has no outstanding claims.

NOTE 8 SUBSEQUENT EVENTS

CBE has evaluated events or transactions that occurred subsequent to December 31, 2012 through June 5, 2014, 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.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Communities for a Better Environment (CBE) (a California nonprofit public benefit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and responses as items FS-01 to FS-05 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CBE'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*.

CBE's Response to Findings

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

Purpose of this Report

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

Vasquez + Company LLP

Los Angeles, California
June 5, 2014

FS-01: Cash disbursements

Condition
There is only one signatory which is required for check disbursements regardless of amount paid.

Cause and Effect
This policy was established by the organization due to the fact that signatories have not been readily available. Requiring only one signatory, with the Finance Director being one of the signatories, might not be adequate segregation of duties in the control over cash disbursements.

Recommendation
To improve control over disbursements, we recommend that checks be manually signed by at least two authorized signatories. Each of the signatories should review the supporting documentation for the disbursements prior to signing checks.

Management Response

CBE ordered new checks that include a second signature line. We are currently using the checks with two signature lines and two signatories are required for all checks regardless of the amount.

FS-02: Bank reconciliations

Condition
During our review of the bank statement reconciliations, we noted there was no indication that the reconciliations were reviewed and approved by another responsible person.

Cause and Effect
While no errors were noted during our review of the bank statement reconciliations, lack of management review of the bank reconciliations may result in errors not being detected and corrected on a timely basis.

Recommendation
We recommend the bank reconciliations be reviewed for accuracy and completeness and approved, on a timely basis, by other responsible personnel. The review should include tests of mathematical accuracy and tracing of items on the reconciliation to relevant supporting documents. The composition of unreconciled differences should be determined and followed up on. Any resulting journal entries deemed necessary should be reviewed, approved and recorded in the accounting software.

As guidance to the review and approval process, we recommend that the preparer, reviewer and approver signs off on the bank reconciliation. Reconciliation forms should include a signature line for the review and approval process.

Management Response

CBE's Board Treasurer, Gideon Kracov, has reviewed and approved all bank reconciliations for 2012.

FS-03: Timesheets

Condition
Our audit procedures included testing the payroll system controls. Our tests indicated that employees' time cards do not always contain documentation of approval by supervisors or managers. Also, the timesheets do not indicate the program(s) worked on by each of the employees.

Cause and Effect
Timesheets are the source document supporting the organization's labor expenses. Not having accurate timesheets makes it difficult for accounting to make proper allocation of expenses to the various programs. In addition, federal grants require the preparation of timesheets as proper supporting documentation of payroll expenses billed to their programs. Inadequate timesheets might lead to disallowances and the organization may be required to return funds that were received.

Recommendation
We recommend that timesheets be prepared timely, reviewed and signed by the supervisor or manager and indicate the program where the time should allocated. Requiring signatures can help impress on employees the need for accuracy and honesty in filling out the timesheets and that by signing it they are making a representation about those matters. Knowledge that the timesheets will be reviewed by the supervisor or manager will also encourage employees to fill out the cards accurately and honestly.

The supervisors or managers, who will be generally knowledgeable about employees' attendance, hours, and work assignments during the pay period, should sign each timesheet indicating review and approval of hours worked by program. The review would determine that the employees have recorded time only when it had actually been worked and that the allocation of time by program was appropriate and reasonable. The supervisors or managers should be responsible for obtaining the timesheets from employees and submitting them on time.

Management Response

CBE has implemented new employee timesheets that capture information about program(s) that employees are working under. In addition, the timesheets also track grassroots and lobbying hours by each employee. Human Resources is reviewing each timesheet for proper approval by a supervisor.

FS-04: Functional Allocation of Expenses

Condition
During our examination, we noted that certain reallocations of payroll expenses along functional lines were based on the budget prepared at the beginning of the year.

Cause and Effect
Allocation of expenses based on budget is not allowed under OMB A-122, Cost Principles for Nonprofits and generally accepted accounting principles.

Recommendation
CBE should, on a regular basis, perform analyses to assure that allocated expenses conform as closely as possible with the purposes for which CBE's efforts and resources are expended.

Management Response

CBE has made an effort to allocate expenses according to CBE's efforts, not based on the approved budget. The allocation policy has been implemented in 2013.

FS-05: Recordkeeping System

Condition
We noted that CBE was unable to locate certain records that were requested as part of the audit process. Of thirty-nine invoices that were selected for testing, seven were not able to be located by CBE staff.

Cause and Effect
The availability of records and documentation can be critical to an organization in the event of an audit by federal agencies, a lawsuit, an insurance claim, or any number of other circumstances.

Recommendation
We strongly recommend that CBE maintain a better recordkeeping system. A clear, written record-retention policy can help ensure that the appropriate records are available when they are needed.

Management Response
Systems and processes have been reviewed and implemented in order to ensure that records are readily available. We have also implemented a clear retention policy.

V&C