

SUSTAINABLE COMMUNITIES FUND

FINANCIAL STATEMENTS

December 31, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sustainable Communities Fund
Los Angeles, CA

Opinion

We have audited the accompanying financial statements of Sustainable Communities Fund (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sustainable Communities Fund (SCF) as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SCF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SCF's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SCF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SCF's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2023, on our consideration of SCF'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 the effectiveness of SCF's 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 SCF's internal control over financial reporting and compliance.

Winder, Inc.

Long Beach, California
June 15, 2023

SUSTAINABLE COMMUNITIES FUND

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2022

ASSETS

ASSETS

Cash and cash equivalents	\$ 3,725,035
Contributions receivable, net	227,623
Program-related investment assets, net, including interest receivable of \$25,478	1,484,478
Mission-related investment assets, net, including interest receivable of \$810	1,209,602
Prepays	<u>1,219</u>

TOTAL ASSETS	<u>\$ 6,647,957</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 34,650
Refundable advances	<u>331,744</u>
TOTAL LIABILITIES	<u>366,394</u>

NET ASSETS

Without donor restrictions	
Operating reserve	163,550
Designated for future funding commitments (Note 6)	151,320
General	<u>5,739,070</u>
Total without donor restrictions	6,053,940
With donor restrictions	227,623
TOTAL NET ASSETS	<u>6,281,563</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,647,957</u>
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The accompanying notes are an integral part of these financial statements.

SUSTAINABLE COMMUNITIES FUND

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants	\$ 747,414	\$ -	\$ 747,414
Discounts on contributions	(13,227)	-	(13,227)
Net assets released from restriction	<u>141,977</u>	<u>(141,977)</u>	<u>-</u>
Total contributions	876,164	(141,977)	734,187
 Interest income	 <u>79,390</u>	 <u>-</u>	 <u>79,390</u>
Total revenue and support	<u>955,554</u>	<u>(141,977)</u>	<u>813,577</u>
 EXPENSES			
Program services	179,546	-	179,546
Support services			
Management and general	161,382	-	161,382
Fundraising	<u>5,108</u>	<u>-</u>	<u>5,108</u>
 TOTAL EXPENSES	 <u>346,036</u>	 <u>-</u>	 <u>346,036</u>
 CHANGE IN NET ASSETS	 609,518	 (141,977)	 467,541
 NET ASSETS, BEGINNING OF YEAR	 <u>5,444,422</u>	 <u>369,600</u>	 <u>5,814,022</u>
 NET ASSETS, END OF YEAR	 <u>\$ 6,053,940</u>	 <u>\$ 227,623</u>	 <u>\$ 6,281,563</u>

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

SUSTAINABLE COMMUNITIES FUND

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Program Services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total Expenses</u>
EXPENSES				
Accounting	\$ 3,101	\$ 47,327	\$ -	\$ 50,428
Business taxes and fees	-	100	-	100
Insurance	816	849	-	1,665
Allowance for loan losses	41,262	-	-	41,262
Legal fees	1,150	960	-	2,110
Miscellaneous	105	-	-	105
Overhead fees	630	452	356	1,438
Other consulting	2,000	1,200	-	3,200
Payroll benefits and fees	16,997	15,073	-	32,070
Payroll salaries	99,076	87,860	-	186,936
Staff consulting	8,397	6,028	4,752	19,177
Software	1,045	1,000	-	2,045
Supplies	117	261	-	378
Telephone, telecommunications, and website	72	172	-	244
Travel, conferences, and meetings	<u>4,778</u>	<u>100</u>	<u>-</u>	<u>4,878</u>
TOTAL EXPENSES	<u><u>\$ 179,546</u></u>	<u><u>\$ 161,382</u></u>	<u><u>\$ 5,108</u></u>	<u><u>\$ 346,036</u></u>

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

SUSTAINABLE COMMUNITIES FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 467,541
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in discounts on contributions receivable	13,227
Decrease in allowance for doubtful program-related investments	(21,650)
Increase in allowance for doubtful mission-related investments	62,912
Changes in operating assets and liabilities	
Contributions receivable	128,750
Program-related investment assets	499,205
Mission-related investment assets	(778,807)
Prepaid insurance	(1,219)
Accounts payable	7,732
Refundable advances	<u>178,850</u>
Net Cash Provided By Operating Activities	<u>556,541</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>556,541</u>
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,168,494</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 3,725,035</u></u>
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The accompanying notes are an integral part of these financial statements.

SUSTAINABLE COMMUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies

Description of Organization

Sustainable Communities Fund ("SCF") has been established to alleviate poverty by supporting financial, economic and social inclusion strategies that empower people and strengthen low-income communities.

SCF is a private operating foundation which operates as a revolving investment fund capitalized by funds originating from investment activities generated primarily by National New Markets Fund ("NNMF"), a joint venture partnership between Strategic Development Solutions, LLC ("SDS") and Economic Innovations International ("EII"). SCF was created to revolve donations coming from NNMF's investment projects as well as other sources, into a new generation of investments benefiting very high-poverty communities or individuals. SCF achieves its mission by investing in organizations with innovative prototype lending or investing models that create significant social and environmental impacts. SCF particularly seeks organizations with new financing models that may need early-stage seed funding where its investment can help them "prove" their model - and thus spur follow-on investors to bring additional resources to the effort.

SCF filed to terminate its foundation status and transition to a public charity on December 23, 2019, triggering the start of a five-year transition process. SCF will continue to be a private operating foundation through 2024. SCF has also filed for and received an advance ruling letter from the Internal Revenue Service ("IRS") to allow SCF to fundraise as a public charity during the five-year transition period.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

SCF reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions.

SUSTAINABLE COMMUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of SCF or the passage of time. As the restrictions are satisfied, net assets are reclassified as Without Donor Restrictions and reported in the accompanying statement of activities as net assets released from restrictions. As of December 31, 2022, there were no net assets restricted in perpetuity.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Grant revenue is recognized consistent with the terms of the grant agreement. Refundable advances represent cash received in excess of costs incurred on cost reimbursement grants.

Program-related Investment Assets (PRIs)

SCF makes PRIs in other organizations to achieve its charitable purposes in alignment with SCF's strategies. At December 31, 2022, SCF had five outstanding PRIs: all of which are loans. All the PRI investments have been made with not-for-profit entities. PRIs are evaluated annually for impairment and no impairment losses were recorded during the year ended December 31, 2022. However, an allowance for investment losses was established given the general economic conditions.

SUSTAINABLE COMMUNITIES FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Mission-related Investment Assets (MRIs)

SCF makes MRIs in other organizations to achieve its charitable purposes in alignment with SCF's strategies. MRIs are market-rate investments and, unlike PRIs, are not considered to be qualified distributions for tax purposes. At December 31, 2022, SCF had four outstanding MRIs in the form of two certificates of deposit and two equity investments. Two of the MRI investments have been made with not-for-profit entities and two with a for-profit entity. MRIs are evaluated semi-annually for impairment and no impairment losses were recorded during the year ended December 31, 2022. However, an allowance for investment losses was established given the general economic conditions.

PRI and MRI Allowance for Investment Losses

SCF has the following process in determining its allowance for loan losses: SCF assesses each individual investment on its own to determine its individual contribution to the overall PRI or MRI allowance for investment losses.

Initial investment - At the time of reviewing a prospective investment, SCF underwriters assess organizational and project-level risks and assign a risk rating score of 1-5 (1 = lowest risk). Each of these risk-rating scores has been assigned a percentage range of the dollar amount of the loan to be allocated to the allowance for investment losses. Underwriters assign this dollar amount for the allowance for investment losses as is deemed appropriate based on the specific perceived investment risk rating, and SCF will set aside this dollar amount into its respective PRI or MRI allowance for investment losses account as the investment funds deploy.

Annual re-assessment - Each investment is assessed annually for its level of risk during its annual asset management review or during an interim assessment if SCF learns of additional investment risks during the course of on-going borrower communications. Based on the new risk assessment, the allowance for investment losses may be increased or decreased as appropriate.

At the end of 2022, there was \$41,000 in the PRI allowance for investment losses. Five of the PRI investments have been rated as Risk Level 1 and SCF has provided allowances between 2 - 3 % of capital deployed.

SUSTAINABLE COMMUNITIES FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

PRI and MRI Allowance for Investment Losses (Continued)

At the end of 2022, there was \$87,302 in the MRI allowance for loan losses. Two of the MRI investments have been rated as Risk Level 1 and have 100% payment guarantees and, therefore, SCF has not provided an allowance for the two Risk Level 1 investments. The other two MRI investments have been rated as Risk Level 2 and SCF has provided allowances between 10-15% of capital deployed.

SCF reports investments in equity and debt securities at fair value in the statement of financial position.

Fair Value of Financial Instruments

Investment assets are reported at fair value. The carrying amount of cash and payables approximates fair value because of the relatively short-term nature of these financial instruments.

Current accounting standards define fair market value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. These standards categorize the method for determining the fair market value into three levels.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that SCF has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

SCF's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

SCF's investment assets are measured using level 3 inputs.

SUSTAINABLE COMMUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, SCF considers all demand deposits, money market funds, and unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

Contributions Receivable

SCF records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are recorded as contributions receivable and are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. At December 31, 2022, SCF uses 4.22% as its present value discount factor which is based on an average of 3-year U.S. Treasury rates. The discount on contributions receivable is \$22,377 at December 31, 2022. SCF determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. At December 31, 2022, management considers all contributions receivable balances to be fully collectible.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Accordingly, SCF recognizes government grant funds as support and revenue when eligible costs are incurred or when eligible services have been rendered. A receivable is recognized to the extent contract support earned exceeds cash advances. Conversely, a liability titled refundable advances is recorded when grant cash advances exceed support earned. At December 31, 2022, SCF has \$331,744 in refundable advances that are expected to be recognized in 2023.

Excise Taxes

The Internal Revenue Code imposes an excise tax on Section 501(c)(3) private foundations at the rate of 1.39% on the net investment income. Management records excise tax expense on the cash basis as the amount due is estimated to be de minimis.

SUSTAINABLE COMMUNITIES FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Federal Tax Status

SCF has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively. SCF recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. SCF is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal purposes is three years and for California purposes is four years.

Concentration of Credit Risk

Financial instruments can potentially subject SCF to concentrations of credit risk. SCF maintains funds in cash deposits and money market accounts with a brokerage firm. Balances in FDIC-insured depository institutions are insured up to a combined total of \$250,000 per financial institution. Investments in money market accounts, mutual funds and equity securities are placed with high-credit quality financial institutions which are members of the Securities Investor Protection Corporation (SIPC). SIPC funds are available for losses up to \$500,000 for securities, inclusive of up to \$250,000 for cash. At times, the balance of SCF's accounts may exceed the federally insured limits. SCF has not experienced any losses in its cash accounts.

At December 31, 2022, two donors represent 100% of outstanding contributions receivable.

SCF's primary source of funding is its grant with Community Development Financial Institutions Fund (CDFI). For the year ended December 31, 2022, 100% of grant revenue was received from a single CDFI grant.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

Subsequent events have been evaluated through June 15, 2023, which is the date the financial statements were available to be issued.

SUSTAINABLE COMMUNITIES FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 – Contributions Receivable

At December 31, 2022, net contributions receivable are due in amounts as follows:

Less than one year	\$ 85,000
One to four years	<u>165,000</u>
	250,000
Less present value discount	<u>(22,377)</u>
	<u>\$ 227,623</u>

NOTE 3 – Investment Assets

PRIs and MRIs are strategic investments, beyond grants, made by SCF for the specific objective of furthering SCF's charitable purpose. The production of income is not the primary objective of a PRI or an MRI.

Deployed

SCF's portfolio consists of nine investments at December 31, 2022, the majority of which are in support of economic development activities in low-income communities in the United States. They enable partner organizations to invest in small business development and entrepreneurship in select communities. Interest payments are due on the outstanding loan and certificate of deposit amounts at interest rates ranging between 0.1% and 4%. Two of the MRI investments represent equity investments.

At December 31, 2022, \$748,680 is deployed in equity investments that have maturity dates through 2029. Included in equity investments is \$248,680 invested in a limited partnership. The limited partnership's primary purpose is to make growth equity investments in rural and other underserved sectors in the United States. The limited partnership is to expire in 2029, with distributions of the dissolution to be made to the limited partners. SCF has \$500,000 invested in preferred stock of an entity. SCF is to receive preferred distributions during the period of investment. At the end of the period, in 2027, the entity is to buy-back the preferred shares.

SUSTAINABLE COMMUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 3 – Investment Assets (Continued)

Deployed investment assets are summarized in the table below as follows:

	<u>PRI</u> s	<u>MRI</u> s	<u>Total</u>
Beginning of year	\$ 2,000,000	\$ 518,097	\$ 2,518,097
Additional investments	-	1,133,494	1,133,494
Maturities	<u>(500,000)</u>	<u>(355,497)</u>	<u>(855,497)</u>
	1,500,000	1,296,094	2,796,094
Less allowance for investment losses	<u>(41,000)</u>	<u>(87,302)</u>	<u>(128,302)</u>
Add interest receivable	<u>25,478</u>	<u>810</u>	<u>26,288</u>
End of year, net	<u>\$ 1,484,478</u>	<u>\$ 1,209,602</u>	<u>\$ 2,694,080</u>

Committed/Undeployed

SCF has one unfunded commitment at December 31, 2022, totaling \$151,320. This unfunded commitment consists of one MRI in the amount of \$400,000. Funding for the MRI requires formal capital calls from the investee. During 2022, the investee submitted capital calls totaling \$86,080 which SCF funded.

The future repayment of the program-related and mission-related investments are as follows:

Year Ending December 31,

2023	\$ 847,414
2024	-
2025	700,000
2026	500,000
2027	500,000
Thereafter	<u>248,680</u>
	<u>\$ 2,796,094</u>

SUSTAINABLE COMMUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 4 – Related-Party Transaction

SCF has entered into a shared services agreement with SDS. SDS is owned by individuals that serve on the Board of Directors of SCF and are, therefore, considered disqualified persons under the Internal Revenue Code. SCF has determined that this arrangement qualifies as reimbursement for reasonable and necessary costs. Under the agreement, SCF will reimburse SDS for direct costs of services provided by SDS personnel (which includes a 7.5% overhead charge applied to this total). Any services provided directly by disqualified persons are not charged to SCF. During 2022, costs reimbursable to SDS totaled \$20,615, of which \$3,097 was included in accounts payable at December 31, 2022.

NOTE 5 – Financial Assets and Liquidity Resources

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position, comprise the following:

Financial Assets:	
Cash and cash equivalents	\$ 3,725,035
Contributions receivable, net	<u>227,623</u>
Less assets unavailable for general use:	
Contributions receivable due past one year	165,000
Operating reserve	163,550
Designated for future funding commitments	<u>151,320</u>
Total financial assets available within one year	<u>\$ 3,472,788</u>

SCF maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations as they come due. SCF is also scheduled to receive investment repayments totaling \$847,414 in 2023. (See Note 3)

SUSTAINABLE COMMUNITIES FUND

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022

NOTE 6 – Net Assets

Net Assets Without Donor Restrictions

At December 31, 2022, SCF maintained \$163,550 as an operating reserve for the purpose of maintaining an adequate level of unrestricted net assets to support the Organization's day to day operations in the event of unforeseen shortfalls.

At December 31, 2022, SCF's Board of Directors designated \$151,320 for the purpose of funding future commitments. (See Note 3)

Net Assets With Donor Restrictions

At December 31, 2022, net assets with donor restrictions consisted of \$227,623 of contributions receivable, net of a present value discount, that are time restricted.

NOTE 7 – Commitments and Contingencies

SCF's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, which may result from these governmental audits, cannot be reasonably estimated and, accordingly, SCF has no provision for the possible disallowance of program costs in its financial statements. SCF is not currently undergoing any such audits and believes its risk of disallowed costs as a result of audits is minimal.

**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
Sustainable Communities Fund
Los Angeles, CA

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 Sustainable Communities Fund (a California nonprofit corporation) ("SCF"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 15, 2023.

Internal Control Over Financial Reporting

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

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 SCF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Windes, Inc." in a cursive script.

Long Beach, California
June 15, 2023