

TOWNSPEOPLE®

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016



Leaf & Cole, LLP
Certified Public Accountants

**TOWNSPEOPLE
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5 - 6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 20
Supplementary Information:	
Consolidating Schedule of Financial Position - 2017	21
Consolidating Schedule of Financial Position - 2016	22
Consolidating Schedule of Activities - 2017	23
Consolidating Schedule of Activities - 2016	24
Schedule of Expenditures of Federal Awards	25 - 26
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	27 - 28
Independent Auditor's Report on Compliance for The Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	29 - 30
Schedule of Findings and Questioned Costs	31



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Townspeople

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Townspeople, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Townspeople as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 21 to 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 April 18, 2018, on our consideration of Townspeople'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 Townspeople'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 Townspeople's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
April 18, 2018

TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<u>Current Assets:</u> (Note 2)		
Cash and cash equivalents	\$ 315,803	\$ 73,070
Accounts receivable	84,973	458,336
Tenant security deposits	53,075	42,364
Prepaid expenses and other assets	21,127	16,328
Total Current Assets	<u>474,978</u>	<u>590,098</u>
<u>Restricted Reserves:</u> (Note 3)		
Replacement reserves	211,991	187,919
Operating reserves	145,345	144,953
Total Restricted Reserves	<u>357,336</u>	<u>332,872</u>
<u>Noncurrent Assets:</u> (Notes 2, 4, 5 and 7)		
Property and equipment, net	8,193,140	9,928,748
Note receivable	300,000	-
Total Noncurrent Assets	<u>8,493,140</u>	<u>9,928,748</u>
TOTAL ASSETS	<u>\$ 9,325,454</u>	<u>\$ 10,851,718</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2, 6 and 7)		
Accounts payable and accrued expenses	\$ 29,059	\$ 152,567
Interest payable	48,662	13,973
Accrued compensated absences	42,215	48,102
Line-of-credit	-	16,187
Deferred revenue	1,064	303,343
Tenant security deposits	50,030	40,205
Total Current Liabilities	<u>171,030</u>	<u>574,377</u>
<u>Noncurrent Liabilities:</u> (Note 7)		
Notes payable, net	9,031,835	10,282,878
Interest payable	2,068,158	1,953,015
Total Noncurrent Liabilities	<u>11,099,993</u>	<u>12,235,893</u>
Total Liabilities	<u>11,271,023</u>	<u>12,810,270</u>
<u>Commitments</u> (Note 8)		
<u>Unrestricted Net Assets (Deficit)</u> (Note 2)	<u>(1,945,569)</u>	<u>(1,958,552)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,325,454</u>	<u>\$ 10,851,718</u>

The accompanying notes are an integral part of the consolidated financial statements.

**TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>Revenue and Support:</u>		
Grants and contracts	\$ 685,289	\$ 732,642
Rental income	606,193	591,774
Developer fee	267,616	-
Gain on disposal of property and equipment	180,925	-
Contributions	18,984	29,541
Miscellaneous income	11,104	14,274
Interest income	518	301
Total Revenue and Support	<u>1,770,629</u>	<u>1,368,532</u>
<u>Expenses:</u>		
Program Services:		
Housing services	703,873	770,781
34th Street Apartments	593,457	581,913
51st Street Apartments	302,756	309,315
Housing development	69,927	33,250
Wilson Avenue Apartments	53,613	53,701
Total Program Services	<u>1,723,626</u>	<u>1,748,960</u>
Supporting Services:		
General and administrative	30,651	24,918
Fundraising	3,369	1,177
Total Supporting Services	<u>34,020</u>	<u>26,095</u>
Total Program and Supporting Services Expenses	<u>1,757,646</u>	<u>1,775,055</u>
Change in Unrestricted Net Assets	12,983	(406,523)
Unrestricted Net Assets (Deficit) at Beginning of Year	<u>(1,958,552)</u>	<u>(1,552,029)</u>
UNRESTRICTED NET ASSETS (DEFICIT) AT END OF YEAR	<u><u>\$ (1,945,569)</u></u>	<u><u>\$ (1,958,552)</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

TOWNSPEOPLE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services						Supporting Services			Total Expenses
	Housing Services	Wilson Avenue Apartments	51st Street Apartments	34th Street Apartments	Housing Development	Total	General and Administrative	Fundraising	Total	
Salaries and Related Expenses:										
Salaries and wages	\$ 230,884	\$ 5,504	\$ 26,218	\$ 95,746	\$ 26,223	\$ 384,575	\$ 8,203	\$ 393	\$ 8,596	\$ 393,171
Payroll taxes	14,856	853	4,661	9,061	1,851	31,282	916	19	935	32,217
Employee benefits	17,102	803	6,674	15,603	1,092	41,274	341	17	358	41,632
Total Salaries and Related Expenses	<u>262,842</u>	<u>7,160</u>	<u>37,553</u>	<u>120,410</u>	<u>29,166</u>	<u>457,131</u>	<u>9,460</u>	<u>429</u>	<u>9,889</u>	<u>467,020</u>
Nonsalary Related Expenses:										
Asset management fee	-	-	12,000	30,000	-	42,000	-	-	-	42,000
Bad debt expense	6,918	-	1,516	-	-	8,434	-	-	-	8,434
Board of Directors	-	-	-	16	-	16	60	-	60	76
Contract labor	5,000	-	2,807	773	40,670	49,250	-	-	-	49,250
Depreciation	-	15,837	106,810	164,782	-	287,429	474	-	474	287,903
Development	-	-	-	-	-	-	-	2,940	2,940	2,940
Fees and licenses	47	337	1,457	736	45	2,622	2,270	-	2,270	4,892
Insurance	5,413	600	4,443	13,600	-	24,056	-	-	-	24,056
Interest	-	7,710	93,730	152,100	-	253,540	971	-	971	254,511
Legal/accounting fees	45,774	6,557	8,968	11,186	-	72,485	5,564	-	5,564	78,049
Manager rent free unit	-	4,812	6,960	12,444	-	24,216	-	-	-	24,216
Mileage	1,292	33	-	641	-	1,966	72	-	72	2,038
Miscellaneous	-	50	85	2,650	-	2,785	482	-	482	3,267
Office supplies/printing	5,390	281	2,109	3,955	46	11,781	4,274	-	4,274	16,055
Postage	5	32	90	161	-	288	136	-	136	424
Property management fees	-	-	20,330	26,993	-	47,323	-	-	-	47,323
Rent/lease	48,290	1,278	-	-	-	49,568	3,757	-	3,757	53,325
Rental assistance	299,604	16	1,094	-	-	300,714	-	-	-	300,714
Repairs and maintenance	6,326	8,064	21,327	44,285	-	80,002	673	-	673	80,675
Security	1,398	45	595	30,065	-	32,103	135	-	135	32,238
Telephone	3,291	292	890	2,947	-	7,420	1,570	-	1,570	8,990
Tenant engagement	-	-	-	1,259	-	1,259	-	-	-	1,259
Training	1,870	-	400	275	-	2,545	225	-	225	2,770
Utilities	10,413	509	11,922	31,172	-	54,016	528	-	528	54,544
Total Nonsalary Related Expenses	<u>441,031</u>	<u>46,453</u>	<u>297,533</u>	<u>530,040</u>	<u>40,761</u>	<u>1,355,818</u>	<u>21,191</u>	<u>2,940</u>	<u>24,131</u>	<u>1,379,949</u>
Less: Eliminations	-	-	(32,330)	(56,993)	-	(89,323)	-	-	-	(89,323)
TOTAL EXPENSES	<u>\$ 703,873</u>	<u>\$ 53,613</u>	<u>\$ 302,756</u>	<u>\$ 593,457</u>	<u>\$ 69,927</u>	<u>\$ 1,723,626</u>	<u>\$ 30,651</u>	<u>\$ 3,369</u>	<u>\$ 34,020</u>	<u>\$ 1,757,646</u>

The accompanying notes are an integral part of the consolidated financial statements.

**TOWNSPEOPLE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Housing Services	Wilson Avenue Apartments	51st Street Apartments	34th Street Apartments	Housing Development	Total	General and Administrative	Fundraising	Total	Total Expenses
Salaries and Related Expenses:										
Salaries and wages	\$ 250,400	\$ 6,211	\$ 29,903	\$ 94,394	\$ 29,855	\$ 410,763	\$ 4,798	\$ 191	\$ 4,989	\$ 415,752
Payroll taxes	14,340	524	2,725	7,698	2,148	27,435	471	19	490	27,925
Employee benefits	20,577	1,012	6,640	12,356	1,244	41,829	429	17	446	42,275
Total Salaries and Related Expenses	<u>285,317</u>	<u>7,747</u>	<u>39,268</u>	<u>114,448</u>	<u>33,247</u>	<u>480,027</u>	<u>5,698</u>	<u>227</u>	<u>5,925</u>	<u>485,952</u>
Nonsalary Related Expenses:										
Asset management fee	-	-	12,000	30,000	-	42,000	-	-	-	42,000
Board of Directors	-	-	-	-	-	-	45	-	45	45
Contract labor	-	-	-	1,143	-	1,143	-	-	-	1,143
Contribution	-	-	-	-	300,000	300,000	-	-	-	300,000
Depreciation	-	18,744	106,834	164,604	-	290,182	1,903	-	1,903	292,085
Development	-	-	-	-	-	-	-	950	950	950
Drug testing	-	-	-	31	-	31	-	-	-	31
Fees and licenses	35	340	1,958	102	-	2,435	1,627	-	1,627	4,062
Insurance	5,630	2,795	7,796	16,815	-	33,036	-	-	-	33,036
Interest	-	7,710	93,730	152,100	-	253,540	2,058	-	2,058	255,598
Legal/accounting fees	39,436	7,536	17,873	29,479	-	94,324	4,535	-	4,535	98,859
Manager rent free unit	-	4,812	6,960	12,444	-	24,216	-	-	-	24,216
Mileage	201	47	796	1,030	-	2,074	27	-	27	2,101
Miscellaneous	-	11	29	3,016	3	3,059	449	-	449	3,508
Office supplies/printing	16,550	302	1,686	3,783	-	22,321	1,631	-	1,631	23,952
Postage	150	22	62	120	-	354	89	-	89	443
Rent/lease	33,607	1,023	3,589	8,089	-	46,308	3,640	-	3,640	49,948
Rental assistance	348,946	128	229	-	-	349,303	-	-	-	349,303
Repairs and maintenance	10,753	1,694	13,445	42,689	-	68,581	714	-	714	69,295
Security	17,395	68	1,062	455	-	18,980	148	-	148	19,128
Telephone	3,390	202	904	2,533	-	7,029	1,419	-	1,419	8,448
Tenant engagement	-	-	-	583	-	583	-	-	-	583
Training	-	-	-	275	-	275	50	-	50	325
Utilities	9,371	520	13,094	28,174	-	51,159	885	-	885	52,044
Total Nonsalary Related Expenses	<u>485,464</u>	<u>45,954</u>	<u>282,047</u>	<u>497,465</u>	<u>300,003</u>	<u>1,610,933</u>	<u>19,220</u>	<u>950</u>	<u>20,170</u>	<u>1,631,103</u>
Less: Eliminations	<u>-</u>	<u>-</u>	<u>(12,000)</u>	<u>(30,000)</u>	<u>(300,000)</u>	<u>(342,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(342,000)</u>
TOTAL EXPENSES	<u>\$ 770,781</u>	<u>\$ 53,701</u>	<u>\$ 309,315</u>	<u>\$ 581,913</u>	<u>\$ 33,250</u>	<u>\$ 1,748,960</u>	<u>\$ 24,918</u>	<u>\$ 1,177</u>	<u>\$ 26,095</u>	<u>\$ 1,775,055</u>

The accompanying notes are an integral part of the consolidated financial statements.

**TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<u>Cash Flows From Operating Activities:</u>		
Change in unrestricted net assets	\$ 12,983	\$ (406,523)
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	287,903	292,085
Amortization of debt issuance costs	207	207
Gain on disposal of property and equipment	(180,925)	-
(Increase) Decrease in:		
Accounts receivable	373,363	(305,381)
Tenant security deposits	(10,711)	(724)
Prepaid expenses and other assets	(4,799)	3,318
Increase (Decrease) in:		
Accounts payable and accrued expenses	(123,508)	78,915
Accrued compensated absences	(5,887)	11,100
Deferred revenue	(2,279)	299,508
Tenant security deposits	9,825	1,850
Interest payable	232,831	245,889
Net Cash Provided by Operating Activities	<u>589,003</u>	<u>220,244</u>
<u>Cash Flows From Investing Activities:</u>		
Net deposits to replacement reserves	(24,072)	(29,944)
Net deposits to operating reserves	(392)	(229)
Purchase of property and equipment	(5,619)	(140,988)
Note receivable advance	(300,000)	-
Net Cash Used in Investing Activities	<u>(330,083)</u>	<u>(171,161)</u>
<u>Cash Flows From Financing Activities:</u>		
Line-of-credit payments, net	(16,187)	(4,911)
Net Cash Used in Financing Activities	<u>(16,187)</u>	<u>(4,911)</u>
Net Increase in Cash and Cash Equivalents	242,733	44,172
Cash and Cash Equivalents at Beginning of Year	<u>73,070</u>	<u>28,898</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 315,803</u>	<u>\$ 73,070</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash paid for interest, net of capitalized interest (Note 2)	<u>\$ 21,473</u>	<u>\$ 9,502</u>

The accompanying notes are an integral part of the consolidated financial statements.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 1 - Organization:

The consolidated financial statements include the accounts of the following entities which are collectively referred to as the “Organization”.

Townspeople

Townspeople (“Townspeople”) was established in 1984 and was incorporated as a nonprofit corporation in July 1994. Townspeople’s mission is to consistently provide access for low income people and especially those living with HIV/AIDS to affordable housing and other services to enable self-sufficiency. Townspeople is the only HIV/AIDS specific agency in San Diego County that develops, owns, and manages affordable supportive housing, as well as coordinates supportive services for its tenants. The work of the organization is based upon the principle that men, women, and children living with HIV/AIDS deserve the best possible housing and supportive services. Townspeople is funded in part through private donations as well as corporate, foundation and government grants. Townspeople provides emergency housing, affordable rental housing and supportive services to its residents.

34th Street Project, LLC

34th Street Project, LLC (“34th Street”) was formed as a limited liability company under the laws of the State of California on December 4, 2009. 34th Street was established for the purpose and intent of acquiring, renovating and operating a rental housing project. The rental housing project consists of 34 units which was acquired on March 1, 2010 and is operating as 34th Street Apartments. Townspeople is the sole member of 34th Street.

Vista Del Puente, LLC

Vista Del Puente, LLC (“VDLP”) was formed as a limited liability company under the laws of the State of California on March 2, 2015. VDLP was established for the purpose and intent on constructing a 52 unit affordable housing project. Townspeople is the sole member of VDLP. Townspeople acquired the land and incurred predevelopment costs. Effective June 2017, the land, predevelopment costs and the associated debt were acquired by Vista Del Puente, L.P., a California limited partnership. VDLP is the managing general partner of Vista Del Puente, L.P. and has a 0.008% interest in the partnership.

The following is a brief description of the Organization’s programs:

Housing Development

Townspeople is in the predevelopment phase of the development of Vista Del Puente, a 52 unit affordable housing project.

Housing Services

Townspeople is a Community Housing Development Organization (CHDO) and a community-based HIV/AIDS service provider Organization. The Organization is considered San Diego’s premier information Organization assisting homeless and at-risk individuals and families living with HIV/AIDS secure, clean, safe, affordable housing and other vital human services and entitlements.

Townspeople’s develops, owns, manages, and operates affordable permanent supportive multifamily residences. In addition, Townspeople provides funding for short stay emergency housing.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 1 - Organization: (Continued)

51st Street Apartments

51st Street Apartments consist of 24 units available for low-income persons living with HIV/AIDS. In addition, under the terms of the regulatory agreements the units are rent and occupancy restricted for 55 years.

Wilson Avenue Apartments

Wilson Avenue Apartments consist of 8 units available for low-income persons living with HIV/AIDS.

34th Street Apartments

34th Street Apartments consist of 34 units available for low and very low-income persons living with HIV/AIDS and other health issues including mental health. In addition, under the terms of the regulatory agreements, the units are rent and occupancy restricted for up to 65 years.

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

The consolidated financial statements include the accounts of Townspeople, 34th Street Project, LLC and Vista Del Puente, LLC, which are collectively referred to as the “Organization”. All material intercompany transactions have been eliminated in consolidation.

Accounting Method

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The consolidated financial statements present information regarding the consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participation assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at December 31, 2017 and 2016.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on management's evaluation of outstanding accounts receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for doubtful receivables was recorded at December 31, 2017 and 2016.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Maintenance, repairs and minor renewals are charged to operations as incurred. Property and equipment is depreciated using the straight-line method over the estimated useful lives as follows:

Land improvements	15 years
Buildings and improvements	3 - 40 years
Equipment and furnishings	5 - 10 years

Depreciation totaled \$287,903 and \$292,085 for the years ended December 31, 2017 and 2016, respectively.

Interest totaling \$24,991 and \$51,530 has been capitalized for the years ended December 31, 2017 and 2016, respectively

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Impairment of Real Estate

The Organization reviews its investment in real estate for impairment whenever events and changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted net cash flows expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 and 2016.

Compensated Absences

Accumulated unpaid vacation totaling \$42,215 and \$48,102 at December 31, 2017 and 2016, respectively, is accrued when incurred and included as a current liability.

Tenant Security Deposits

Tenant security deposits are restricted to the extent of the tenant security deposit liability totaling \$50,030 and \$40,205 at December 31, 2017 and 2016, respectively.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain permanent financing. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and totaled \$207 and \$207 for the years ended December 31, 2017 and 2016, respectively.

Revenue Recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of rental income are deferred or classified as liabilities until earned.

Grants and contracts revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned. Deferred revenue totaled \$1,064 and \$303,343 at December 31, 2017 and 2016, respectively.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition (Continued)

Contributions are recognized when the donor makes a promise to give in writing to the Organization that is in substance, unconditional. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily restricted net assets. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Donated Services and Materials

Valuable assistance was given by many HIV/AIDS community volunteers whose donated hours helped the Organization respond to more than 6,000 requests for assistance from individuals and families living with HIV/AIDS in San Diego County. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2017 and 2016, did not meet the requirements above, therefore no amounts were recognized in the consolidated financial statements.

The Organization received donated computer supplies. The supplies are recorded at fair value and totaled \$2,400 and \$-0- for the years ended December 31, 2017 and 2016, respectively, and have been included in revenue and expenses.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of internal records and estimates made by the Organization's management.

Income Taxes

Townspeople is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Townspeople believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Townspeople is not a private foundation.

Townspeople's Return of Organization Exempt from Income Tax for the years ended December 31, 2017, 2016, 2015 and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 2 - Significant Accounting Policies: (Continued)

Concentrations

The Organization's operations are concentrated in the multi-family real estate market. In addition, the Organization operates in a heavily regulated environment. The operations of the Organization are subject to the administrative directives, rules and regulations of its lenders and granting agencies in accordance with the contracts and regulatory agreements.

The Organization maintains its cash in bank deposit accounts and money market funds which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 18, 2018, the date the consolidated financial statements were available to be issued.

Note 3 - Restricted Reserves:

According to the loan and regulatory agreements, certain reserves are required to be maintained.

51st Street Apartments

Replacement Reserve

51st Street Apartments is required to fund a replacement reserve in an annual amount of \$13,512.

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 74,488	\$ 65,548
Add: Deposits	13,512	13,512
Interest income	23	21
Less: Authorized withdrawals	<u>(6,992)</u>	<u>(4,593)</u>
Balance, End of Year	<u>\$ 81,031</u>	<u>\$ 74,488</u>

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 3 - Restricted Reserves: (Continued)

51st Street Apartments (Continued)

Operating Reserve

51st Street Apartments was required to fund an operating reserve in an initial amount of \$36,283.

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 37,427	\$ 37,416
Add: Interest income	12	11
Balance, End of Year	<u>\$ 37,439</u>	<u>\$ 37,427</u>

Operating Reserve II

51st Street Apartments is required to fund Operating Reserve II from all remaining operating cash flow. The required deposits total \$29,767 and \$26,930 for the years ended December 31, 2017 and 2016, respectively. The reserve has not been funded at December 31, 2017.

34th Street Apartments

Replacement Reserve

34th Street Apartments is required to fund a replacement reserve annually in the amount of \$27,200.

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 113,431	\$ 92,427
Add: Deposits	27,200	27,240
Interest income	10	10
Less: Authorized withdrawals	<u>(9,681)</u>	<u>(6,246)</u>
Balance, End of Year	<u>\$ 130,960</u>	<u>\$ 113,431</u>

Operating Reserve

34th Street Apartments was required to fund an operating reserve in an initial amount of \$73,925.

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 74,523	\$ 74,307
Add: Interest income	377	216
Balance, End of Year	<u>\$ 74,900</u>	<u>\$ 74,523</u>

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 3 - Restricted Reserves: (Continued)

34th Street Apartments (Continued)

Operating Reserve II

34th Street Apartments was required to fund Operating Reserve II from operating cash flow in an amount up to \$33,000.

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 33,003	\$ 33,001
Add: Interest income	3	2
Balance, End of Year	<u>\$ 33,006</u>	<u>\$ 33,003</u>

Note 4 - Property and Equipment:

Property and equipment consist of the following at December 31:

<u>2017</u>					
	<u>Townspeople</u>	<u>Wilson Avenue Apartments</u>	<u>51st Street Apartments</u>	<u>34th Street Apartments</u>	<u>Total</u>
Land	\$ -	\$ 99,694	\$ 471,000	\$ 1,466,500	\$ 2,037,194
Land improvements	-	-	-	1,703	1,703
Buildings and improvements	-	336,065	2,922,441	5,133,293	8,391,799
Equipment and furnishings	33,220	375	7,905	333,962	375,462
Subtotal	33,220	436,134	3,401,346	6,935,458	10,806,158
Less: Accumulated depreciation	(32,233)	(241,833)	(1,195,920)	(1,143,032)	(2,613,018)
Property and Equipment, Net	<u>\$ 987</u>	<u>\$ 194,301</u>	<u>\$ 2,205,426</u>	<u>\$ 5,792,426</u>	<u>\$ 8,193,140</u>
<u>2016</u>					
	<u>Townspeople</u>	<u>Wilson Avenue Apartments</u>	<u>51st Street Apartments</u>	<u>34th Street Apartments</u>	<u>Total</u>
Land	\$ 1,139,000	\$ 99,694	\$ 471,000	\$ 1,466,500	\$ 3,176,194
Land improvements	-	-	-	1,703	1,703
Buildings and improvements	-	322,433	2,922,441	5,133,293	8,378,167
Equipment and furnishings	33,897	375	12,735	333,962	380,969
Construction-in-progress	329,614	-	-	-	329,614
Subtotal	1,502,511	422,502	3,406,176	6,935,458	12,266,647
Less: Accumulated depreciation	(32,436)	(233,273)	(1,093,940)	(978,250)	(2,337,899)
Property and Equipment, Net	<u>\$ 1,470,075</u>	<u>\$ 189,229</u>	<u>\$ 2,312,236</u>	<u>\$ 5,957,208</u>	<u>\$ 9,928,748</u>

Note 5 - Note Receivable:

Townspeople entered into an agreement with Vista Del Puente, L.P. to lend \$300,000 to be used towards construction of Vista del Puente housing project. The note bears no interest and is due 55 years after the date of occupancy of the housing project. The note is secured by a deed of trust. The note receivable totaled \$300,000 and \$-0- at December 31, 2017 and 2016, respectively.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 6 - Line-of-Credit:

Townspeople has a line-of-credit available in the amount of \$75,600 with Wells Fargo. The line-of-credit provides for interest at the bank's prime rate plus 6.75% (11.25% and 10.25% at December 31, 2017 and 2016, respectively). The line-of-credit is secured by substantially all of Townspeople's assets. The line-of-credit is renewable annually. Outstanding advances under the line-of-credit totaled \$-0- and \$16,187 at December 31, 2017 and 2016, respectively.

Note 7 - Notes Payable:

Notes payable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
<u>Vista Del Puente</u>		
The note payable which originated on June 5, 2015, is held by Corporation for Supportive Housing in the original amount of \$500,000. The note bears interest at 6%. Principal and accrued interest are due and payable on the earlier of the closing of construction financing or 24 months from the date of closing. Secured by a deed of trust. Accrued interest totaled \$-0- and \$47,641 at December 31, 2017 and 2016, respectively. The note was repaid June 28, 2017.	\$ -	\$ 496,250
The note payable which originated on April 27, 2015, is held by State of California, Department of Housing and Community Development in the original amount of \$705,000. The note bears interest at 3%. Principal and accrued interest are due and payable on May 30, 2016. Secured by a deed of trust. Accrued interest totaled \$-0- and \$35,250 at December 31, 2017 and 2016, respectively. The note was repaid June 28, 2017.	-	705,000
The notes payable which originated on December 10, 2014, is held by Corporation for Supportive Housing in the original amount of \$50,000. The note is non-interest bearing for the first twenty-four months, and 6% thereafter until maturity. The note matures on the earlier of the closing of acquisition financing or 36 months from the date of the note. Unsecured. Accrued interest totaled \$-0- and \$108 at December 31, 2017 and 2016, respectively. The note was repaid June 28, 2017.	-	50,000
Total Vista Del Puente	-	1,251,250

(Continued)

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 7 - Notes Payable: (Continued)

2017

2016

Wilson Avenue Apartments

Townspeople obtained a loan in the amount of \$257,000 from the County of San Diego Department of Housing and Community Development in 1995 to purchase the Wilson Avenue Apartments. The loan bears interest at 3%. The interest payments are deferred until December, 2050, when the principal and accrued interest are payable, except to the extent that Townspeople has annual residual receipts as defined in the loan agreement. Any residual receipts required to be paid each year are first applied to accrued interest and then to the principal balance of the loan. Secured by a deed of trust. Accrued interest totaled \$169,834 and \$162,124 at December 31, 2017 and 2016, respectively.

\$ 257,000

\$ 257,000

51st Street Apartments

The mortgage note which was originated in 2007 from the California Department of Housing and Community Development (MHP) in the original amount of \$1,554,327 bears interest at 3%. Interest payments in the amount of forty-two hundredths of one percent (.42%) per annum on the unpaid principal balance of the loan are payable beginning December 31, 2007 and continuing annually thereafter up to and including the twenty-ninth (29th) anniversary of the interest payment date. Commencing on the thirtieth (30th) anniversary of the interest payment date and continuing annually thereafter, payments shall equal the lesser of (1) the full amount of interest accruing on the unpaid principal balance during the year, or (2) the amount determined by the lender as to be necessary to cover the costs of continued monitoring of the compliance requirements under the loan. In addition, the loan may require additional payments from net cash flow under the terms of the Regulatory Agreement equal to 25% of residual receipts. The note is due September 2062. Secured by a deed of trust. Accrued interest totaled \$410,955 and \$377,382 at December 31, 2017 and 2016, respectively. The required interest payment totaled \$6,528 and \$6,528 for the years ended December 31, 2017 and 2016, respectively.

1,554,327

1,554,327

(Continued)

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 7 - Notes Payable: (Continued)

2017 2016

51st Street Apartments (Continued)

The loan payable which was originated in 2006 is held by the San Diego Housing Commission in the original amount of \$1,570,000. The loan bears interest at 3%. Interest is payable annually from residual receipts (25%). Loan and accrued interest are due and payable on May 1, 2071. Secured by a deed of trust. Accrued interest totaled \$534,574 and \$487,474 at December 31, 2017 and 2016, respectively.

\$ 1,570,000 \$ 1,570,000

The mortgage note which was originated in 2006 from the Mission Federal Credit Union for the Affordable Housing Program (AHP) in the original amount of \$192,000. The note is noninterest bearing as long as all compliance requirements of the loan are met. Principal is due at the expiration of the retention period (15 years from date of completion) only if compliance requirements are not met. Secured by a deed of trust.

192,000 192,000
3,316,327 3,316,327

Total 51st Street Apartments

34th Street Apartments

The mortgage note which was originated in December 2011 from the California Department of Housing and Community Development (MHP) in the original amount of \$1,772,483 bears interest at 3%. Interest payments in the amount of forty-two hundredths of one percent (.42%) per annum on the unpaid principal balance of the loan are payable beginning December 31, 2012 and continuing annually thereafter up to and including the twenty-ninth (29th) anniversary of the interest payment date. Commencing on the thirtieth (30th) anniversary of the interest payment date and continuing annually thereafter, payments shall equal the lesser of (1) the full amount of interest accruing on the unpaid principal balance during the year, or (2) the amount determined by the lender as to be necessary to cover the costs of continued monitoring of the compliance requirements under the loan. In addition, the loan may require additional payments from net cash flow under the terms of the Regulatory Agreement equal to 17.5% of residual receipts. The note is due December, 2066. Secured by a deed of trust. Accrued interest totaled \$275,036 and \$229,306 at December 31, 2017 and 2016, respectively. The required interest payment totaled \$16,563 and \$12,071 for the years ended December 31, 2017 and 2016, respectively.

1,772,483 1,772,483

(Continued)

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 7 - Notes Payable: (Continued)

34th Street Apartments

The note payable which was originated on February 24, 2010, is held by the San Diego Housing Commission in the amount of \$2,920,000. Interest accrued at 4% per annum until conversion of the construction loan to a term loan when the rate became 3% per annum. Principal and accrued interest equal to 28.8% of residual receipts, as defined, are payable annually beginning in 2012. The principal and accrued interest are due February 2077. Secured by a deed of trust. Accrued interest totaled \$639,081 and \$551,481 at December 31, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
	\$ 2,920,000	\$ 2,920,000

The note payable which originated February 25, 2010, is held by the U.S. Department of Housing and Urban Development in the original amount of \$400,000. The loan is non-interest bearing. If the project ceases to be used as supportive housing within 10 years, then 100% must be repaid to HUD. If the project is used as supportive housing for more than 10 years, HUD shall reduce the percentage of the amount required to be repaid by 10% each year in excess of 10 years. Secured by a deed of trust.

	400,000	400,000
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The note payable which originated February 1, 2010, is held by the California Housing Finance Authority (CalHFA) in the original amount of \$370,610. The loan bears interest at 3%. Principal and interest equal to 3.7% of residual receipts, as defined, are payable annually beginning in 2012. Principal and accrued interest are due January 1, 2065. Secured by a deed of trust. Accrued interest totaled \$87,340 and \$76,222 at December 31, 2017 and 2016, respectively.

Total 34 th Street Apartments	<u>370,610</u>	<u>370,610</u>
Less: Unamortized debt issuance costs	<u>(4,585)</u>	<u>(4,792)</u>
Total 34 th Street Apartments, Net	<u>5,458,508</u>	<u>5,458,301</u>
Total Notes Payable, Net	<u>\$ 9,031,835</u>	<u>\$ 10,282,878</u>

Debt issuance costs total \$6,206, less accumulated amortization of \$1,621 and \$1,414 at December 31, 2017 and 2016, respectively.

There are no required principal payments due on notes payable for the next five years at December 31, 2017.

**TOWNSPEOPLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

Note 8 - Commitments:

Operating Leases

Townspeople leases office space under operating lease agreements through December 31, 2019. Rent expense under these leases totaled \$53,316 and \$49,948 for the years ended December 31, 2017 and 2016, respectively.

Following is a schedule of the future minimum lease payments under the leases:

<u>Years Ended December 31</u>	
2018	\$ 49,465
2019	<u>51,443</u>
Total	<u>\$ 100,908</u>

Grant

34th Street received a grant totaling \$1,200,000 from the County of San Diego Department of Housing and Community Development HOPWA program on February 12, 2010. Funds were used for construction costs. The grant requires that five (5) of the residential units be occupied by low-income households living with HIV/AIDS for a period of 55 years.

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2017

	ASSETS			
	<u>Townsville</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 234,112	\$ 81,691	\$ -	\$ 315,803
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from Townsville	-	46,779	(46,779)	-
Accounts receivable	81,583	3,390	-	84,973
Tenant security deposits	22,810	30,265	-	53,075
Prepaid expenses and other assets	20,209	918	-	21,127
Total Current Assets	<u>358,814</u>	<u>163,043</u>	<u>(46,879)</u>	<u>474,978</u>
<u>Restricted Reserves:</u>				
Replacement reserves	81,031	130,960	-	211,991
Operating reserves	37,439	107,906	-	145,345
Total Restricted Reserves	<u>118,470</u>	<u>238,866</u>	<u>-</u>	<u>357,336</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	2,400,714	5,792,426	-	8,193,140
Note receivable	300,000	-	-	300,000
Total Noncurrent Assets	<u>2,700,714</u>	<u>5,792,426</u>	<u>-</u>	<u>8,493,140</u>
TOTAL ASSETS	<u>\$ 3,177,998</u>	<u>\$ 6,194,335</u>	<u>\$ (46,879)</u>	<u>\$ 9,325,454</u>

LIABILITIES AND NET ASSETS

	LIABILITIES AND NET ASSETS			
	<u>Townsville</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 24,265	\$ 4,794	\$ -	\$ 29,059
Interest payable	6,528	42,134	-	48,662
Accrued compensated absences	42,215	-	-	42,215
Deferred revenue	1,064	-	-	1,064
Tenant security deposits	22,990	27,040	-	50,030
Due to 34th Street Project, LLC	46,779	-	(46,779)	-
Total Current Liabilities	<u>143,841</u>	<u>73,968</u>	<u>(46,779)</u>	<u>171,030</u>
<u>Noncurrent Liabilities:</u>				
Notes payable, net	3,573,327	5,458,508	-	9,031,835
Interest payable	1,108,835	959,323	-	2,068,158
Total Noncurrent Liabilities	<u>4,682,162</u>	<u>6,417,831</u>	<u>-</u>	<u>11,099,993</u>
Total Liabilities	<u>4,826,003</u>	<u>6,491,799</u>	<u>(46,779)</u>	<u>11,271,023</u>
<u>Unrestricted Net Assets (Deficit)</u>	<u>(1,648,005)</u>	<u>(297,464)</u>	<u>(100)</u>	<u>(1,945,569)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,177,998</u>	<u>\$ 6,194,335</u>	<u>\$ (46,879)</u>	<u>\$ 9,325,454</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2016

	ASSETS			
	<u>Townspiece</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 47,646	\$ 25,424	\$ -	\$ 73,070
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from 34th Street Project, LLC	29,554	-	(29,554)	-
Due from Townspiece	-	95,073	(95,073)	-
Accounts receivable	457,017	1,319	-	458,336
Tenant security deposits	17,812	24,552	-	42,364
Prepaid expenses and other assets	16,023	305	-	16,328
Total Current Assets	<u>568,152</u>	<u>146,673</u>	<u>(124,727)</u>	<u>590,098</u>
<u>Restricted Reserves:</u>				
Replacement reserves	74,488	113,431	-	187,919
Operating reserves	37,427	107,526	-	144,953
Total Restricted Reserves	<u>111,915</u>	<u>220,957</u>	<u>-</u>	<u>332,872</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	3,971,540	5,957,208	-	9,928,748
Total Noncurrent Assets	<u>3,971,540</u>	<u>5,957,208</u>	<u>-</u>	<u>9,928,748</u>
TOTAL ASSETS	<u>\$ 4,651,607</u>	<u>\$ 6,324,838</u>	<u>\$ (124,727)</u>	<u>\$ 10,851,718</u>

LIABILITIES AND NET ASSETS

	<u>Townspiece</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 151,200	\$ 1,367	\$ -	\$ 152,567
Interest payable	6,529	7,444	-	13,973
Accrued compensated absences	48,102	-	-	48,102
Line-of-credit	16,187	-	-	16,187
Deferred revenue	303,343	-	-	303,343
Tenant security deposits	16,773	23,432	-	40,205
Due to 34th Street Project, LLC	95,073	-	(95,073)	-
Due to Townspiece	-	29,554	(29,554)	-
Total Current Liabilities	<u>637,207</u>	<u>61,797</u>	<u>(124,627)</u>	<u>574,377</u>
<u>Noncurrent Liabilities:</u>				
Notes payable, net	4,824,577	5,458,301	-	10,282,878
Interest payable	1,103,450	849,565	-	1,953,015
Total Noncurrent Liabilities	<u>5,928,027</u>	<u>6,307,866</u>	<u>-</u>	<u>12,235,893</u>
Total Liabilities	<u>6,565,234</u>	<u>6,369,663</u>	<u>(124,627)</u>	<u>12,810,270</u>
<u>Unrestricted Net Assets (Deficit)</u>	<u>(1,913,627)</u>	<u>(44,825)</u>	<u>(100)</u>	<u>(1,958,552)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,651,607</u>	<u>\$ 6,324,838</u>	<u>\$ (124,727)</u>	<u>\$ 10,851,718</u>

**TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Revenue and Support:</u>				
Grants and contracts	\$ 451,738	\$ 233,551	\$ -	\$ 685,289
Rental income	436,458	169,735	-	606,193
Developer fee	267,616	-	-	267,616
Gain on disposal of property and equipment	180,925	-	-	180,925
Contributions	18,984	-	-	18,984
Miscellaneous income	3,762	7,342	-	11,104
Interest income	115	403	-	518
Management fees	89,323	-	(89,323)	-
Total Revenue and Support	<u>1,448,921</u>	<u>411,031</u>	<u>(89,323)</u>	<u>1,770,629</u>
<u>Expenses:</u>				
Program Services:				
Housing services	703,873	-	-	703,873
34th Street Apartments	-	650,450	(56,993)	593,457
51st Street Apartments	335,086	-	(32,330)	302,756
Housing development	69,927	-	-	69,927
Wilson Avenue Apartments	53,613	-	-	53,613
Total Program Services	<u>1,162,499</u>	<u>650,450</u>	<u>(89,323)</u>	<u>1,723,626</u>
Supporting Services:				
General and administrative	30,651	-	-	30,651
Fundraising	3,369	-	-	3,369
Total Supporting Services	<u>34,020</u>	<u>-</u>	<u>-</u>	<u>34,020</u>
Total Program and Supporting Services Expenses	<u>1,196,519</u>	<u>650,450</u>	<u>(89,323)</u>	<u>1,757,646</u>
Change in Unrestricted Net Assets	252,402	(239,419)	-	12,983
Unrestricted Net Assets (Deficit) at Beginning of Year	(1,913,627)	(44,825)	(100)	(1,958,552)
Contribution (Distribution)	13,220	(13,220)	-	-
UNRESTRICTED NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,648,005)</u>	<u>\$ (297,464)</u>	<u>\$ (100)</u>	<u>\$ (1,945,569)</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Townspeople</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Revenue and Support:</u>				
Grants and contracts	\$ 543,990	\$ 188,652	\$ -	\$ 732,642
Rental income	437,623	154,151	-	591,774
Contributions	329,541	-	(300,000)	29,541
Miscellaneous income	6,598	7,676	-	14,274
Interest income	60	241	-	301
Management fees	42,000	-	(42,000)	-
Total Revenue and Support	<u>1,359,812</u>	<u>350,720</u>	<u>(342,000)</u>	<u>1,368,532</u>
<u>Expenses:</u>				
Program Services:				
Housing services	770,781	-	-	770,781
34th Street Apartments	-	611,913	(30,000)	581,913
51st Street Apartments	321,315	-	(12,000)	309,315
Wilson Avenue Apartments	53,701	-	-	53,701
Housing development	333,250	-	(300,000)	33,250
Total Program Services	<u>1,479,047</u>	<u>611,913</u>	<u>(342,000)</u>	<u>1,748,960</u>
Supporting Services:				
General and administrative	24,918	-	-	24,918
Fundraising	1,177	-	-	1,177
Total Supporting Services	<u>26,095</u>	<u>-</u>	<u>-</u>	<u>26,095</u>
Total Program and Supporting Services Expenses	<u>1,505,142</u>	<u>611,913</u>	<u>(342,000)</u>	<u>1,775,055</u>
Change in Unrestricted Net Assets	(145,330)	(261,193)	-	(406,523)
Unrestricted Net Assets (Deficit) at Beginning of Year	<u>(1,768,297)</u>	<u>216,368</u>	<u>(100)</u>	<u>(1,552,029)</u>
UNRESTRICTED NET ASSETS (DEFICIT)				
AT END OF YEAR	<u>\$ (1,913,627)</u>	<u>\$ (44,825)</u>	<u>\$ (100)</u>	<u>\$ (1,958,552)</u>

**TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Passed Though to Subrecipient</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:				
Direct Programs:				
Supportive Housing Program (34th Street Loan)	14.235	N/A	\$ -	\$ 400,000
Total Direct Programs			<u>-</u>	<u>400,000</u>
Pass-Through Programs:				
HOME Investment Partnerships Program:	14.239			
San Diego Housing Commission (34th Street Loan)		N/A	-	2,920,000
San Diego Housing Commission (51st Street Loan)		N/A	-	1,300,000
Total HOME Investment Partnerships Program			<u>-</u>	<u>4,220,000</u>
Housing Opportunities for Persons with AIDS:	14.241			
County of San Diego		552128	-	164,828
County of San Diego		552137	-	136,822
County of San Diego		552152	-	129,683
County of San Diego (Wilson Avenue Loan)		N/A	-	125,150
Total Housing Opportunities for Persons with AIDS			<u>-</u>	<u>556,483</u>
Continuum of Care Program:	14.267			
San Diego Housing Commission		CA0533L9D011502	-	100,061
San Diego Housing Commission		CA0534L9D011609	-	99,360
San Diego Housing Commission		CA0534L9D011508	-	136,653
San Diego Housing Commission		CA0534L9D011609	-	167,487
Total Continuum of Care Program			<u>-</u>	<u>503,561</u>
Total Pass-Through Programs			<u>-</u>	<u>5,280,044</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>5,680,044</u>
U.S. Department of Health and Human Services				
Pass-Through Programs:				
Special Projects of National Significance	93.928			
Family Health Centers of San Diego, Inc.		H97HA31427	-	1,298
Total Pass-Through Programs			<u>-</u>	<u>1,298</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>1,298</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 5,681,342</u>

TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Townspeople under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Townspeople it is not intended to and does not present the financial position, changes in net assets, or cash flows of Townspeople.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Townspeople has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

Note 3 - Loan Programs:

CFDA Number	Program Name	Loans Outstanding at December 31, 2016	Loans Awarded for the Year Ended December 31, 2017	Loan Principal Repaid for the Year Ended December 31, 2017	Loans Outstanding at December 31, 2017
14.235	Supportive Housing Program:				
	Direct award	\$ 400,000	\$ -	\$ -	\$ 400,000
	Total Supportive Housing Program	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
14.239	HOME Investment Partnerships Program:				
	San Diego Housing Commission	2,920,000	-	-	2,920,000
	San Diego Housing Commission	1,300,000	-	-	1,300,000
	Total HOME Investment Partnerships Program	<u>4,220,000</u>	<u>-</u>	<u>-</u>	<u>4,220,000</u>
14.241	Housing Opportunities for Persons with AIDS:				
	County of San Diego	125,150	-	-	125,150
	Total Housing Opportunities for Persons with AIDS:	<u>125,150</u>	<u>-</u>	<u>-</u>	<u>125,150</u>
	Total Loans	<u>\$ 4,745,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,745,150</u>



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's 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
Townspeople

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 consolidated financial statements of Townspeople, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated April 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered Townspeople'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 Townspeople's internal control. Accordingly, we do not express an opinion on the effectiveness of Townspeople'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 Townspeople's consolidated 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 Townspeople's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Townspeople's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
April 18, 2018



Leaf & Cole, LLP
Certified Public Accountants
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**Independent Auditor's Report on Compliance
for The Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors
Townspeople

Report on Compliance for the Major Federal Program

We have audited Townspeople's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Townspeople's major federal program for the year ended December 31, 2017. Townspeople's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Townspeople's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Townspeople's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Townspeople's compliance.

Opinion on the Major Federal Program

In our opinion, Townspeople complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Townspeople is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Townspeople's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Townspeople's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
April 18, 2018

**TOWNSPEOPLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____	Yes	_____	X	No
Significant deficiencies identified?	_____	Yes	_____	X	No

Noncompliance material to financial statements noted? _____ Yes _____ X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weaknesses identified?	_____	Yes	_____	X	No
Significant deficiencies identified?	_____	Yes	_____	X	No

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? _____ Yes _____ X No

Identification of major program:

<u>CDFA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	_____ X Yes _____ No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

April 18, 2018

Mr. Jon Derryberry
Townspople
4080 Centre Street, Suite 201
San Diego, California 92103

Dear Mr. Derryberry:

Enclosed are the audited consolidated financial statements for Townspople for the years ended December 31, 2017 and 2016. Following are the filing requirements for these reports.

1. Federal Audit Clearinghouse:

The single audit reporting package is required to be submitted electronically through the Federal Audit Clearinghouse Internet Data Entry System. We have entered the Form SF-SAC and uploaded the complete single audit package as required. The submission must still be certified by both the auditee and the auditor. Upon receipt of the e-mail from the Federal Audit Clearinghouse we will certify as the auditor.

You will receive an e-mail from the Federal Audit Clearinghouse with instructions as to how you enter your signature codes online to certify the submission. The Federal Audit Clearinghouse will send e-mails to the auditee and auditor to confirm the receipt of the Form SF-SAC and single audit reporting package. Please print the e-mail and retain for your records.

Very truly yours,

LEAF & COLE, LLP

A handwritten signature in black ink that reads "Julie A. Firl". The signature is written in a cursive style with a large, looping initial 'J'.

Julie A. Firl

Enclosures