

TOWNSPEOPLE®

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



Leaf & Cole, LLP
Certified Public Accountants

**TOWNSPEOPLE
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

Independent Auditor's Report

To the Board of Directors
Townspeople

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Townspeople (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Townspeople, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated 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 consolidated 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 consolidated 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 Townspeople'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Townspeople'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 25 to 28 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.

To the Board of Directors
Townspeople

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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
May 15, 2023

TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
<u>Current Assets:</u> (Note 2, 5 and 8)		
Cash and cash equivalents	\$ 407,363	\$ 605,705
Accounts receivable, net	727,659	517,809
Contributions receivable	100,000	-
Tenant security deposits	84,228	73,222
Prepaid expenses and other assets	28,122	40,214
Total Current Assets	<u>1,347,372</u>	<u>1,236,950</u>
<u>Restricted Reserves:</u> (Note 4)		
Replacement reserves	187,434	181,379
Operating reserves	278,164	277,583
Total Restricted Reserves	<u>465,598</u>	<u>458,962</u>
<u>Noncurrent Assets:</u> (Notes 2, 6, 7, 8 and 9)		
Property and equipment, net	6,801,202	7,043,335
Related party receivables	1,162,804	1,162,804
Total Noncurrent Assets	<u>7,964,006</u>	<u>8,206,139</u>
TOTAL ASSETS	<u>\$ 9,776,976</u>	<u>\$ 9,902,051</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2 and 9)		
Accounts payable and accrued expenses	\$ 124,862	\$ 100,481
Interest payable	145,638	100,859
Accrued compensated absences	18,140	17,744
Deferred revenue	3,987	6,238
Tenant security deposits	84,228	71,528
Total Current Liabilities	<u>376,855</u>	<u>296,850</u>
<u>Noncurrent Liabilities:</u> (Note 9)		
Notes payable, net	9,462,870	9,502,663
Interest payable	3,022,224	2,881,346
Total Noncurrent Liabilities	<u>12,485,094</u>	<u>12,384,009</u>
Total Liabilities	<u>12,861,949</u>	<u>12,680,859</u>
<u>Commitments and Contingency</u> (Notes 8 and 11)		
<u>Net Assets (Deficit):</u> (Notes 2 and 10)		
Without donor restrictions	(3,254,399)	(2,898,424)
With donor restrictions	169,426	119,616
Total Net Assets (Deficit)	<u>(3,084,973)</u>	<u>(2,778,808)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,776,976</u>	<u>\$ 9,902,051</u>

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

**TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<u>Net Assets Without Donor Restrictions</u>		
<u>Revenue and Support:</u>		
Grants and contracts	\$ 1,177,407	\$ 1,404,789
Rental income	672,163	688,053
Social service fee	111,994	132,288
Debt forgiveness	40,000	40,000
Contributions	26,030	282,077
Other support	16,936	91,868
Miscellaneous income	16,076	9,601
Management fees	13,112	108,672
Interest income	639	384
Net assets released from restrictions	150,190	-
Total Revenue and Support	<u>2,224,547</u>	<u>2,757,732</u>
<u>Expenses:</u>		
<u>Program Services:</u>		
Housing services	959,070	1,341,318
34th Street Apartments	587,253	633,021
51st Street Apartments	460,743	414,654
Housing development	180,177	245,485
Wilson Avenue Apartments	124,258	115,550
Total Program Services	<u>2,311,501</u>	<u>2,750,028</u>
<u>Supporting Services:</u>		
General and administrative	268,032	254,313
Fundraising	989	3,603
Total Supporting Services	<u>269,021</u>	<u>257,916</u>
Total Program and Supporting Services Expenses	<u>2,580,522</u>	<u>3,007,944</u>
Change in Net Assets Without Donor Restrictions	(355,975)	(250,212)
<u>Net Assets With Donor Restrictions</u>		
Contributions	200,000	19,616
Net assets released from restrictions	(150,190)	-
Change in Net Assets With Donor Restrictions	<u>49,810</u>	<u>19,616</u>
Change in Net Assets	(306,165)	(230,596)
Net Assets (Deficit) at Beginning of Year	<u>(2,778,808)</u>	<u>(2,548,212)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (3,084,973)</u>	<u>\$ (2,778,808)</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, 2022

	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	\$ 296,481	\$ 42,983	\$ 82,817	\$ 56,110	\$ 141,713	\$ 620,104	\$ 83,339	\$ 666	\$ 84,005	\$ 704,109
Payroll taxes	20,073	3,314	7,557	5,773	10,571	47,288	7,908	58	7,966	55,254
Employee benefits	19,915	2,859	8,700	4,624	8,313	44,411	36,214	265	36,479	80,890
Total Salaries and Related Expenses	<u>336,469</u>	<u>49,156</u>	<u>99,074</u>	<u>66,507</u>	<u>160,597</u>	<u>711,803</u>	<u>127,461</u>	<u>989</u>	<u>128,450</u>	<u>840,253</u>
Nonsalary Related Expenses:										
Asset management fee	-	-	-	30,000	-	30,000	-	-	-	30,000
Bad debt expense	5,293	-	1,371	18,220	-	24,884	-	-	-	24,884
Contract services	20,089	1,669	1,130	1,680	1,819	26,387	18,003	-	18,003	44,390
Depreciation	-	9,534	106,712	140,042	-	256,288	2,552	-	2,552	258,840
Fees and licenses	1,753	554	1,301	4,355	64	8,027	2,677	-	2,677	10,704
Insurance	17,655	11,653	13,016	25,381	1,356	69,061	19,616	-	19,616	88,677
Interest	-	7,710	93,730	152,100	-	253,540	-	-	-	253,540
Legal/accounting fees	55,460	10,331	5,079	22,822	2,246	95,938	30,210	-	30,210	126,148
Manager rent free unit	-	4,812	-	12,444	-	17,256	-	-	-	17,256
Mileage	1,916	240	342	152	345	2,995	1,397	-	1,397	4,392
Miscellaneous	1,526	372	270	868	402	3,438	1,075	-	1,075	4,513
Office supplies/printing	16,960	1,717	8,440	8,502	3,714	39,333	34,900	-	34,900	74,233
Postage	133	37	30	29	-	229	156	-	156	385
Property management fees	-	-	19,819	19,559	-	39,378	-	-	-	39,378
Rent/lease	21,819	4,231	4,769	7,541	536	38,896	13,243	-	13,243	52,139
Rental assistance	452,576	204	11,830	-	6,314	470,924	83	-	83	471,007
Repairs and maintenance	14,447	10,149	43,913	58,951	646	128,106	5,790	-	5,790	133,896
Security	206	190	44,185	34,822	-	79,403	190	-	190	79,593
Telephone	4,689	3,397	3,461	2,045	1,162	14,754	3,383	-	3,383	18,137
Training	7,157	289	-	-	904	8,350	5,016	-	5,016	13,366
Utilities	922	8,013	22,090	30,792	72	61,889	2,280	-	2,280	64,169
Total Nonsalary Related Expenses	<u>622,601</u>	<u>75,102</u>	<u>381,488</u>	<u>570,305</u>	<u>19,580</u>	<u>1,669,076</u>	<u>140,571</u>	<u>-</u>	<u>140,571</u>	<u>1,809,647</u>
Less: Eliminations	<u>-</u>	<u>-</u>	<u>(19,819)</u>	<u>(49,559)</u>	<u>-</u>	<u>(69,378)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69,378)</u>
TOTAL EXPENSES	<u>\$ 959,070</u>	<u>\$ 124,258</u>	<u>\$ 460,743</u>	<u>\$ 587,253</u>	<u>\$ 180,177</u>	<u>\$ 2,311,501</u>	<u>\$ 268,032</u>	<u>\$ 989</u>	<u>\$ 269,021</u>	<u>\$ 2,580,522</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, 2021

	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	\$ 234,667	\$ 19,535	\$ 39,035	\$ 73,302	\$ 162,026	\$ 528,565	\$ 54,552	\$ 2,076	\$ 56,628	\$ 585,193
Payroll taxes	17,484	1,633	4,853	8,239	14,060	46,269	14,224	749	14,973	61,242
Employee benefits	7,375	18,539	27,721	33,403	11,375	98,413	2,426	128	2,554	100,967
Total Salaries and Related Expenses	<u>259,526</u>	<u>39,707</u>	<u>71,609</u>	<u>114,944</u>	<u>187,461</u>	<u>673,247</u>	<u>71,202</u>	<u>2,953</u>	<u>74,155</u>	<u>747,402</u>
Nonsalary Related Expenses:										
Asset management fee	-	-	-	30,000	-	30,000	-	-	-	30,000
Bad debt expense	-	-	5,276	3,335	-	8,611	-	-	-	8,611
Consulting	19,841	9,991	10,028	3,700	-	43,560	18,752	-	18,752	62,312
Contract labor	2,469	318	-	-	954	3,741	319	-	319	4,060
Depreciation	-	10,505	106,712	140,183	-	257,400	-	-	-	257,400
Development	-	-	-	-	-	-	-	650	650	650
Fees and licenses	5,215	380	1,757	4,116	10	11,478	16,945	-	16,945	28,423
Insurance	8,337	7,563	8,898	20,783	-	45,581	5,412	-	5,412	50,993
Interest	-	7,710	93,730	152,100	-	253,540	-	-	-	253,540
Legal/accounting fees	43,616	9,460	7,795	15,392	2,676	78,939	107,995	-	107,995	186,934
Manager rent free unit	-	4,812	6,960	12,444	-	24,216	-	-	-	24,216
Mileage	3,204	67	-	209	955	4,435	297	-	297	4,732
Miscellaneous	125	-	-	1,264	28	1,417	3,311	-	3,311	4,728
Office supplies/printing	13,170	1,172	8,330	12,615	3,567	38,854	8,440	-	8,440	47,294
Postage	341	20	-	-	81	442	144	-	144	586
Property management fees	-	-	23,328	31,046	-	54,374	-	-	-	54,374
Recruitment	-	8,125	8,125	6,531	-	22,781	8,125	-	8,125	30,906
Rent/lease	46,591	3,275	-	5,866	-	55,732	3,124	-	3,124	58,856
Rental assistance	894,987	400	-	-	2,479	897,866	149	-	149	898,015
Repairs and maintenance	9,578	9,280	30,514	73,610	305	123,287	951	-	951	124,238
Security	14,403	305	28,872	33,892	-	77,472	89	-	89	77,561
Site assessment/feasibility	-	-	-	-	44,164	44,164	-	-	-	44,164
Telephone	5,602	715	1,540	3,103	1,856	12,816	501	-	501	13,317
Training	6,358	-	-	-	300	6,658	7,670	-	7,670	14,328
Utilities	7,955	1,745	24,508	28,934	649	63,791	887	-	887	64,678
Total Nonsalary Related Expenses	<u>1,081,792</u>	<u>75,843</u>	<u>366,373</u>	<u>579,123</u>	<u>58,024</u>	<u>2,161,155</u>	<u>183,111</u>	<u>650</u>	<u>183,761</u>	<u>2,344,916</u>
Less: Eliminations	<u>-</u>	<u>-</u>	<u>(23,328)</u>	<u>(61,046)</u>	<u>-</u>	<u>(84,374)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(84,374)</u>
TOTAL EXPENSES	<u>\$ 1,341,318</u>	<u>\$ 115,550</u>	<u>\$ 414,654</u>	<u>\$ 633,021</u>	<u>\$ 245,485</u>	<u>\$ 2,750,028</u>	<u>\$ 254,313</u>	<u>\$ 3,603</u>	<u>\$ 257,916</u>	<u>\$ 3,007,944</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (306,165)	\$ (230,596)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	258,840	257,400
Amortization of debt issuance costs	207	207
Debt forgiveness	(40,000)	(40,000)
(Increase) Decrease in:		
Accounts receivable, net	(209,850)	176,872
Contributions receivable	(100,000)	-
Prepaid expenses and other assets	12,092	(18,253)
Increase (Decrease) in:		
Accounts payable and accrued expenses	24,381	20,035
Interest payable	185,657	193,902
Accrued compensated absences	396	(79,174)
Deferred revenue	(2,251)	(187,632)
Tenant security deposits	12,700	(4,855)
Net Cash (Used in) Provided by Operating Activities	<u>(163,993)</u>	<u>87,906</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(16,707)	-
Related party receivables advance	-	219,580
Net Cash (Used in) Provided by Investing Activities	<u>(16,707)</u>	<u>219,580</u>
Net (Decrease) Increase in Cash and Cash Equivalents and Restricted Cash	(180,700)	307,486
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>1,137,889</u>	<u>830,403</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	\$ <u>957,189</u>	\$ <u>1,137,889</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 67,676</u>	<u>\$ 59,431</u>

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

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

During 2021 Townspeople made a change in their executive leadership from Jon Derryberry who had been at Townspeople for a number of years and hired Melissa Peterman to take the reins.

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 were 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 (“VDP”) was formed as a limited liability company under the laws of the State of California on March 2, 2015. Townspeople is the sole member of VDP. Effective June 2017, the land, predevelopment costs, and the associated debt of VDP were acquired by Vista Del Puente, L.P., a California limited partnership. VDP is the managing general partner of Vista Del Puente, L.P., and has a 0.008% interest in the partnership, which has been recorded on the equity method.

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

Housing Development

Townspeople as a partner in Vista Del Puente, L.P. has developed Vista Del Puente, a 52-unit affordable housing project. Certificate of Occupancy was granted October 31, 2018, and lease up began December 24, 2018.

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 with secure, clean, safe, affordable housing and other vital human services and entitlements.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 1 - Organization: (Continued)

Housing Services (Continued)

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

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.

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 participant 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, 2022 and 2021.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Significant Accounting Policies: (Continued)

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.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on management's evaluation of outstanding accounts and contributions receivables. Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful contributions receivable was recorded at December 31, 2022 and 2021. The allowance for doubtful accounts receivable totaled \$10,000 and \$0- at December 31, 2022 and 2021, respectively.

Tenant Security Deposits

Tenant security deposits are restricted to the extent of the tenant security deposit liability totaling \$84,228 and \$71,528 at December 31, 2022 and 2021, respectively.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions 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 support with donor restrictions. Absent donor stipulations regarding how 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 net assets with donor restrictions to net assets without donor restrictions at that time.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation (Continued)

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 \$258,840 and \$257,400 for the years ended December 31, 2022 and 2021, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is reduced by 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.

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 2022 and 2021.

Compensated Absences

Accumulated unpaid vacation totaling \$18,140 and \$17,744 at December 31, 2022 and 2021, respectively, is accrued when incurred and included as a current liability.

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 for each of the years ended December 31, 2022 and 2021.

Revenue Recognition

Grants and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants and contract receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Grants and contracts receivables totaled \$425,544 and \$164,105 at December 31, 2022 and 2021, respectively, and are included in accounts receivable. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition (Continued)

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. Rental income is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. Rental units occupied by employees are included in rental income, and as an expense of operations. Townspeople has elected to apply the short-term lease exception to all residential leases with a term of one year or less.

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.

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 without donor restriction or with donor restriction, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When the stipulated time restriction ends or purpose restriction is accomplished, donor-restricted net assets are reclassified to net assets without donor restrictions. 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.

Property management fees are received in connection with management of low-income housing projects. Townspeople recognizes revenue annually as defined in the Management Agreement.

Social service fees are received in connection with provision of social services to residents of low-income housing projects.

The Organization provides development services in connection with a Development Services Agreement (the "DSA") for the development and construction of affordable low-income housing projects. The Organization earns fees based on this fixed-fee agreement, and recognizes revenue upon completion of each performance obligation defined in the DSA. The Organization believes that this method is the best measure of progress and most representative of services performed.

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, 2022 and 2021 did not meet the requirements above; therefore, no amounts were recognized in the consolidated financial statements.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Significant Accounting Policies: (Continued)

Functional Allocation of Expenses

The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of expenses that benefit multiple functional areas have been allocated between programs and supporting services, based on a cost allocation plan that allocates costs primarily based on the proportion of full-time employee equivalents of a program or supporting service versus the total organizational full-time employee equivalents.

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, 2022, 2021, 2020, and 2019 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three-to-four years after the returns were filed.

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 and Restricted Cash

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposits that may be redeemed without a significant penalty are considered cash and cash equivalents, regardless of the maturity. The following is a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated statements of financial position that sum to the total in the consolidated statements of cash flows at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 407,363	\$ 605,705
Tenant security deposits	84,228	73,222
Replacement reserves	187,434	181,379
Operating reserves	278,164	277,583
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 957,189</u>	<u>\$ 1,137,889</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 2 - Significant Accounting Policies: (Continued)

Accounting Pronouncements Adopted

In September 2020, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2020-07, *Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. ASU 2020-07 improves transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit entities. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. This standard is applied on a retrospective basis. The adoption had no effect on the 2022 consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Codification (“ASC”) 842, *Leases (“FASB ASC 842”)*. to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements. This standard is applied on a modified retrospective basis.

FASB ASC 842 was adopted January 1, 2022 with certain practical expedients available. The adoption had no effect on the 2022 consolidated financial statements.

Reclassification

Townspeople has reclassified certain prior-year information to conform with the current-year presentation.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 15, 2023, the date the consolidated financial statements were available to be issued, and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Liquidity and Availability:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. The Organization considers contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations, to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing housing and resident services programs, as well as the conduct of services undertaken to support those activities, to be general expenditures.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 3 - Liquidity and Availability: (Continued)

The table below presents financial assets available for general expenditure within one year at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 407,363	\$ 605,705
Accounts receivable	727,659	517,809
Contributions receivable	100,000	-
Financial assets available to meet general expenditures within one year	<u>\$ 1,235,022</u>	<u>\$ 1,123,514</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization has a line-of-credit agreement with available borrowings totaling \$75,600, as described in Note 8. The Organization receives grant support through direct awards, under which it receives reimbursement for direct expenses and indirect costs. In addition, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

The Organization has established and funded operating and replacement reserves for its rental property operations, as described in Note 4.

Note 4 - 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>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 39,795	\$ 30,783
Add: Deposits	6,029	9,008
Interest income	12	4
Balance, End of Year	<u>\$ 45,836</u>	<u>\$ 39,795</u>

Operating Reserve

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

	<u>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 37,470	\$ 37,466
Add: Interest income	10	4
Balance, End of Year	<u>\$ 37,480</u>	<u>\$ 37,470</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 4 - Restricted Reserves: (Continued)

Operating Reserve II

51st Street Apartments is required to fund Operating Reserve II from all remaining operating cash flow. There were no required deposits for each of the years ended December 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 129,455	\$ 106,813
Add: Deposits	-	22,631
Interest income	35	11
Balance, End of Year	<u>\$ 129,490</u>	<u>\$ 129,455</u>

34th Street Apartments

Replacement Reserve

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

	<u>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 141,584	\$ 116,573
Add: Deposits	-	25,000
Interest income	14	11
Balance, End of Year	<u>\$ 141,598</u>	<u>\$ 141,584</u>

Operating Reserve

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

	<u>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 77,638	\$ 77,329
Add: Interest income	533	309
Balance, End of Year	<u>\$ 78,171</u>	<u>\$ 77,638</u>

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>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 33,020	\$ 33,016
Add: Interest income	3	4
Balance, End of Year	<u>\$ 33,023</u>	<u>\$ 33,020</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 5 - Contributions Receivable:

Contributions receivable are due in less than one year, and total \$100,000 and \$-0- at December 31, 2022 and 2021, respectively.

Note 6 - Property and Equipment:

Property and equipment consist of the following at December 31:

	2022				
	Townspeople	Wilson Avenue Apartments	51 st Street Apartments	34 th Street Apartments	Total
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	38,945	-	1,800	332,944	373,239
Subtotal	38,945	435,759	3,395,241	6,934,440	10,803,935
Less: Accumulated depreciation	(24,339)	(310,957)	(1,723,460)	(1,943,977)	(4,002,733)
Property and Equipment, Net	\$ 14,156	\$ 124,802	\$ 1,671,781	\$ 4,990,463	\$ 6,801,202
	2021				
	Townspeople	Wilson Avenue Apartments	51 st Street Apartments	34 th Street Apartments	Total
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	21,788	-	1,800	332,944	356,532
Subtotal	21,788	435,759	3,395,241	6,934,440	10,787,228
Less: Accumulated depreciation	(21,788)	(301,421)	(1,616,749)	(1,803,935)	(3,743,893)
Property and Equipment, Net	\$ -	\$ 134,338	\$ 1,778,492	\$ 5,130,505	\$ 7,043,335

Note 7 - Related Party Transactions:

Property Management Fee

Pursuant to the First Amendment to the Agreement among General Partners of Vista del Puente, L.P. (“Amendment”), dated June 28, 2017, between Townspeople and National Community Renaissance of California, Townspeople is entitled to 70% of a Property Management Fee. Per the Management Agreement, dated June 27, 2016, between Vista del Puente, L.P. and National Community Renaissance of California, the Property Management Fee is equal to \$63.75 per unit per month, and under the Amendment of June 28, 2017, amount is to be increased annually by 3% per annum. Pursuant to the Amended and Restated Agreement Among General Partners of Vista Del Puente LP, dated September 28, 2021, effective September 2021 the Property Management Fee is to be received 100% by National Community Renaissance. For the years ended December 31, 2022 and 2021, respectively, the Property Management Fee totaled \$-0- and \$71,581, and is included in accounts receivable. The 2021 fee includes back payment for 2019 and 2020.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 7 - Related Party Transactions: (Continued)

Partnership Management Fee

Pursuant to the Amendment dated June 28, 2017, Townspeople is entitled to a Partnership Management Fee. Per the Amended and Restated Agreement Among General Partners of Vista Del Puente LP, dated September 28, 2021, the Partnership Management Fee will be paid 60% to Townspeople. Fee to increase by 3% per annum. For the years ended December 31, 2022 and 2021, respectively, the Partnership Management Fee totaled \$13,112 and \$37,091, and is included in accounts receivable. The 2021 fee includes back payment for 2019 and 2020.

Social Service Fee

Pursuant to the First Amendment to Contract Services (the “First Amendment”) between the General Partners of Vista del Puente, L.P. and Townspeople, dated July 3, 2020, for the provision of social services for tenants of the Property, Townspeople will receive \$11,000 per month. For the years ended December 31, 2022 and 2021, respectively, the social services fees totaled \$111,994 and \$132,288, and is included in accounts receivable. The 2021 fee includes back payment for 2020 and 2019.

Related party receivables consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Townspeople has a note receivable from Vista Del Puente, L.P. in the original amount of \$300,000. The note bears no interest, and is due May 31, 2072. Secured by a deed of trust.	\$ 300,000	\$ 300,000
Townspeople has a note receivable from Vista Del Puente, L.P. in the original amount of \$510,000. The note bears no interest, and is due May 31, 2072. Secured by a deed of trust.	510,000	510,000
Developer fee receivable from Vista Del Puente, L.P. in the original amount of \$840,000. The developer fee is paid from Limited Partner capital installments with any unpaid amounts payable from available cash flow.	<u>352,804</u>	<u>352,804</u>
Total Related Party Receivables	<u>\$ 1,162,804</u>	<u>\$ 1,162,804</u>

Note 8 - 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% (14.25% and 10.0% at December 31, 2022 and 2021, respectively). The line-of-credit is secured by substantially all of Townspeople’s assets. The line-of-credit is renewable annually. There were no outstanding advances under the line-of-credit at December 31, 2022 and 2021.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 9 - Notes Payable:

Notes payable consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
<u>Townspeople</u>		
The mortgage note which was originated in 2017 from California Credit Union for the Affordable Housing Program (AHP), in the original amount of \$510,000, is noninterest-bearing as long as all compliance requirements of the loan are met. Principal is due at the expiration of the retention period May 31, 2033 (15 years from date of completion) only if compliance requirements are not met. Secured by a deed of trust. These funds were loaned to Vista Del Puente, L.P. (Note 6).	\$ 510,000	\$ 510,000

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 \$206,370 and \$198,660 at December 31, 2022 and 2021, respectively.	257,000	257,000
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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 \$6,528, 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 (29 th) anniversary of the interest payment date. Commencing on the thirtieth (30 th) 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 \$611,462 and \$571,630 at December 31, 2022 and 2021, respectively. The required interest payment totaled \$6,529 for each of the years ended December 31, 2022 and 2021.	1,554,327	1,554,327
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(Continued)

**TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

Note 9 - Notes Payable: (Continued)

51st Street Apartments (Continued)

2022

2021

The note payable which was originated in 2006 is held by the San Diego Housing Commission in the original amount of \$1,570,000. bears interest at 3%. Interest is payable annually from residual receipts (25%) except to the extent that funds are used to fund Operating Reserve II. Note and accrued interest are due and payable on May 1, 2071. Secured by a deed of trust. Accrued interest totaled \$770,074 and \$772,974 at December 31, 2022 and 2021, respectively. There were no required interest payments for the years ended December 31, 2022 and 2021.

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 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

Total 51st Street Apartments

3,316,327

3,316,327

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 \$7,444, 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 \$439,048 and \$429,579 at December 31, 2022 and 2021, respectively. The required interest payments totaled \$53,527 and \$36,261 for the years ended December 31, 2022 and 2021, respectively.

1,772,483

1,772,483

(Continued)

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 9 - Notes Payable: (Continued)

	<u>2022</u>	<u>2021</u>
<u>34th Street Apartments (Continued)</u>		
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. The principal and accrued interest are due February 2077. Secured by a deed of trust. Accrued interest totaled \$1,022,722 and \$935,121 at December 31, 2022 and 2021, respectively. The required interest payments totaled \$75,840 and \$47,425 for the years ended December 31, 2022 and 2021, respectively.	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 noninterest-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. \$40,000 was forgiven during the year ended December 31, 2021.	320,000	360,000
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 \$129,266 and \$124,241 at December 31, 2022 and 2021, respectively.	370,610	370,610
Total 34 th Street Apartments	5,383,093	5,423,093
Less: Unamortized debt issuance costs	(3,550)	(3,757)
Total 34 th Street Apartments, Net	5,379,543	5,419,336
Total Notes Payable, Net	<u>\$ 9,462,870</u>	<u>\$ 9,502,663</u>

Debt issuance costs total \$6,206, less accumulated amortization of \$2,656 and \$2,449, at December 31, 2022 and 2021, respectively.

There are no required principal payments due on notes payable for the next five years at December 31, 2022.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 10 - Net Assets with Donor Restrictions:

Net assets with Donor Restrictions are available for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Shared housing collaborative	\$ 100,000	\$ -
Vista del Puente housing project	69,426	100,000
Equipment	-	9,916
Move-in kits	-	9,700
	<u>\$ 169,426</u>	<u>\$ 119,616</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Purpose Restrictions Accomplished:		
Shared housing collaborative	\$ 100,000	\$ -
Vista del Puente housing project	30,574	-
Equipment	9,916	-
Move-in kits	9,700	-
Total Net Assets Released from Restrictions	<u>\$ 150,190</u>	<u>\$ -</u>

Note 11 - Commitments and Contingency:

Operating Leases

Townspeople leased office space under operating lease agreements on a month-to-month basis through June 2022. In July 2022 Townspeople entered into a lease agreement for office space ending June 30, 2023. Rent expense under these leases totaled \$52,140 and \$58,856 for the years ended December 31, 2022 and 2021, respectively.

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

Note 11 - Commitments and Contingency: (Continued)

Coronavirus Pandemic Contingency

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. Townspeople is closely monitoring its liquidity, and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on Townspeople's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on Townspeople's donors, grantors, employees, lenders, tenants, and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact the Townspeople's financial position and changes in net assets and cash flows is uncertain, and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2022

	ASSETS			
	<u>Townspeople</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 337,913	\$ 69,450	\$ -	\$ 407,363
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from Townspeople	-	368,366	(368,366)	-
Accounts receivable, net	716,488	11,171	-	727,659
Contributions receivable	100,000	-	-	100,000
Tenant security deposits	40,061	44,167	-	84,228
Prepaid expenses and other assets	28,122	-	-	28,122
Total Current Assets	<u>1,222,684</u>	<u>493,154</u>	<u>(368,466)</u>	<u>1,347,372</u>
<u>Restricted Reserves:</u>				
Replacement reserves	45,836	141,598	-	187,434
Operating reserves	166,970	111,194	-	278,164
Total Restricted Reserves	<u>212,806</u>	<u>252,792</u>	<u>-</u>	<u>465,598</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	1,810,739	4,990,463	-	6,801,202
Related party receivables	1,162,804	-	-	1,162,804
Total Noncurrent Assets	<u>2,973,543</u>	<u>4,990,463</u>	<u>-</u>	<u>7,964,006</u>
TOTAL ASSETS	\$ <u>4,409,033</u>	\$ <u>5,736,409</u>	\$ <u>(368,466)</u>	\$ <u>9,776,976</u>
LIABILITIES AND NET ASSETS				
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 109,170	\$ 15,692	\$ -	\$ 124,862
Interest payable	6,528	139,110	-	145,638
Accrued compensated absences	18,140	-	-	18,140
Deferred revenue	-	3,987	-	3,987
Tenant security deposits	40,061	44,167	-	84,228
Due to 34th Street Project, LLC	368,366	-	(368,366)	-
Total Current Liabilities	<u>542,265</u>	<u>202,956</u>	<u>(368,366)</u>	<u>376,855</u>
<u>Noncurrent Liabilities:</u>				
Notes payable, net	4,083,327	5,379,543	-	9,462,870
Interest payable	1,570,298	1,451,926	-	3,022,224
Total Noncurrent Liabilities	<u>5,653,625</u>	<u>6,831,469</u>	<u>-</u>	<u>12,485,094</u>
Total Liabilities	<u>6,195,890</u>	<u>7,034,425</u>	<u>(368,366)</u>	<u>12,861,949</u>
<u>Net Assets (Deficit):</u>				
Without donor restrictions	(1,956,283)	(1,298,016)	(100)	(3,254,399)
With donor restrictions	169,426	-	-	169,426
Total Net Assets (Deficit)	<u>(1,786,857)</u>	<u>(1,298,016)</u>	<u>(100)</u>	<u>(3,084,973)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>4,409,033</u>	\$ <u>5,736,409</u>	\$ <u>(368,466)</u>	\$ <u>9,776,976</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2021

	ASSETS			
	<u>Townspeople</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 593,600	\$ 12,105	\$ -	\$ 605,705
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from Townspeople	-	232,235	(232,235)	-
Accounts receivable	502,771	15,038	-	517,809
Tenant security deposits	26,055	47,167	-	73,222
Prepaid expenses and other assets	38,029	2,185	-	40,214
Total Current Assets	<u>1,160,555</u>	<u>308,730</u>	<u>(232,335)</u>	<u>1,236,950</u>
<u>Restricted Reserves:</u>				
Replacement reserves	39,795	141,584	-	181,379
Operating reserves	166,925	110,658	-	277,583
Total Restricted Reserves	<u>206,720</u>	<u>252,242</u>	<u>-</u>	<u>458,962</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	1,912,830	5,130,505	-	7,043,335
Related party receivables	1,162,804	-	-	1,162,804
Total Noncurrent Assets	<u>3,075,634</u>	<u>5,130,505</u>	<u>-</u>	<u>8,206,139</u>
TOTAL ASSETS	<u>\$ 4,442,909</u>	<u>\$ 5,691,477</u>	<u>\$ (232,335)</u>	<u>\$ 9,902,051</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 93,483	\$ 6,998	\$ -	\$ 100,481
Interest payable	11,080	89,779	-	100,859
Accrued compensated absences	17,744	-	-	17,744
Deferred revenue	-	6,238	-	6,238
Tenant security deposits	24,361	47,167	-	71,528
Due to 34th Street Project, LLC	232,235	-	(232,235)	-
Total Current Liabilities	<u>378,903</u>	<u>150,182</u>	<u>(232,235)</u>	<u>296,850</u>
<u>Noncurrent Liabilities:</u>				
Notes payable, net	4,083,327	5,419,336	-	9,502,663
Interest payable	1,482,184	1,399,162	-	2,881,346
Total Noncurrent Liabilities	<u>5,565,511</u>	<u>6,818,498</u>	<u>-</u>	<u>12,384,009</u>
Total Liabilities	<u>5,944,414</u>	<u>6,968,680</u>	<u>(232,235)</u>	<u>12,680,859</u>
<u>Net Assets (Deficit):</u>				
Without donor restrictions	(1,621,121)	(1,277,203)	(100)	(2,898,424)
With donor restrictions	119,616	-	-	119,616
Total Net Assets (Deficit)	<u>(1,501,505)</u>	<u>(1,277,203)</u>	<u>(100)</u>	<u>(2,778,808)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,442,909</u>	<u>\$ 5,691,477</u>	<u>\$ (232,335)</u>	<u>\$ 9,902,051</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Net Assets Without Donor Restrictions</u>				
<u>Revenue and Support:</u>				
Grants and contracts	\$ 789,467	\$ 387,940	\$ -	\$ 1,177,407
Rental income	492,655	179,508	-	672,163
Social service fee	111,994	-	-	111,994
Debt forgiveness	-	40,000	-	40,000
Contributions	26,030	-	-	26,030
Other support	16,936	-	-	16,936
Miscellaneous income	8,091	7,985	-	16,076
Management fees	82,490	-	(69,378)	13,112
Interest income	73	566	-	639
Net assets released from restrictions	150,190	-	-	150,190
Total Revenue and Support	<u>1,677,926</u>	<u>615,999</u>	<u>(69,378)</u>	<u>2,224,547</u>
<u>Expenses:</u>				
<u>Program Services:</u>				
Housing services	959,070	-	-	959,070
34th Street Apartments	-	636,812	(49,559)	587,253
51st Street Apartments	480,562	-	(19,819)	460,743
Housing development	180,177	-	-	180,177
Wilson Avenue Apartments	124,258	-	-	124,258
Total Program Services	<u>1,744,067</u>	<u>636,812</u>	<u>(69,378)</u>	<u>2,311,501</u>
<u>Supporting Services:</u>				
General and administrative	268,032	-	-	268,032
Fundraising	989	-	-	989
Total Supporting Services	<u>269,021</u>	<u>-</u>	<u>-</u>	<u>269,021</u>
Total Program and Supporting Services Expenses	<u>2,013,088</u>	<u>636,812</u>	<u>(69,378)</u>	<u>2,580,522</u>
Change in Net Assets Without Donor Restrictions	(335,162)	(20,813)	-	(355,975)
<u>Net Assets With Donor Restrictions</u>				
Contributions	200,000	-	-	200,000
Net assets released from restrictions	(150,190)	-	-	(150,190)
Change in Net Assets With Donor Restrictions	<u>49,810</u>	<u>-</u>	<u>-</u>	<u>49,810</u>
Change in Net Assets	(285,352)	(20,813)	-	(306,165)
Net Assets (Deficit) at Beginning of Year	<u>(1,501,505)</u>	<u>(1,277,203)</u>	<u>(100)</u>	<u>(2,778,808)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,786,857)</u>	<u>\$ (1,298,016)</u>	<u>\$ (100)</u>	<u>\$ (3,084,973)</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Net Assets Without Donor Restrictions</u>				
<u>Revenue and Support:</u>				
Grants and contracts	\$ 1,030,159	\$ 374,630	\$ -	\$ 1,404,789
Rental income	509,536	178,517	-	688,053
Contributions	282,077	-	-	282,077
Social service fee	132,288	-	-	132,288
Management fees	193,046	-	(84,374)	108,672
Other support	91,868	-	-	91,868
Debt forgiveness	-	40,000	-	40,000
Miscellaneous income	3,874	5,727	-	9,601
Interest income	36	348	-	384
Total Revenue and Support	<u>2,242,884</u>	<u>599,222</u>	<u>(84,374)</u>	<u>2,757,732</u>
<u>Expenses:</u>				
<u>Program Services:</u>				
Housing services	1,341,318	-	-	1,341,318
34th Street Apartments	-	694,067	(61,046)	633,021
51st Street Apartments	437,982	-	(23,328)	414,654
Housing development	245,485	-	-	245,485
Wilson Avenue Apartments	115,550	-	-	115,550
Total Program Services	<u>2,140,335</u>	<u>694,067</u>	<u>(84,374)</u>	<u>2,750,028</u>
<u>Supporting Services:</u>				
General and administrative	254,313	-	-	254,313
Fundraising	3,603	-	-	3,603
Total Supporting Services	<u>257,916</u>	<u>-</u>	<u>-</u>	<u>257,916</u>
Total Program and Supporting Services Expenses	<u>2,398,251</u>	<u>694,067</u>	<u>(84,374)</u>	<u>3,007,944</u>
Change in Net Assets Without Donor Restrictions	(155,367)	(94,845)	-	(250,212)
<u>Net Assets With Donor Restrictions</u>				
Contributions	19,616	-	-	19,616
Change in Net Assets With Donor Restrictions	<u>19,616</u>	<u>-</u>	<u>-</u>	<u>19,616</u>
Change in Net Assets	(135,751)	(94,845)	-	(230,596)
Net Assets (Deficit) at Beginning of Year	<u>(1,365,754)</u>	<u>(1,182,358)</u>	<u>(100)</u>	<u>(2,548,212)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,501,505)</u>	<u>\$ (1,277,203)</u>	<u>\$ (100)</u>	<u>\$ (2,778,808)</u>

TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing 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	\$ -	\$ 360,000
Total Direct Programs			<u>-</u>	<u>360,000</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		558943	-	333,530
County of San Diego		558943-3	-	2,478
County of San Diego		558955	-	219,765
County of San Diego		558945	-	208,676
County of San Diego (Wilson Avenue Loan)		N/A	-	125,150
Total Housing Opportunities for Persons with AIDS			<u>-</u>	<u>889,599</u>
Continuum of Care Program:	14.267			
San Diego Housing Commission		CA0534L9D012013	-	173,945
San Diego Housing Commission		CA0534L9D012114	-	167,702
San Diego Housing Commission		CA0534L9D012013	-	189,826
San Diego Housing Commission		CA0534L9D012114	-	221,700
Total Continuum of Care Program			<u>-</u>	<u>753,173</u>
Total Pass-Through Programs			<u>-</u>	<u>5,862,772</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>6,222,772</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 6,222,772</u>

TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2022

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, 2022. 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:

Assistance Listing Number	Program Name	Loans Outstanding at December 31, 2021	Loans Awarded for the Year Ended December 31, 2022	Loan Principal Forgiven for the Year Ended December 31, 2022	Loans Outstanding at December 31, 2022
14.235	Supportive Housing Program:				
	Direct award	\$ 360,000	\$ -	\$ (40,000)	\$ 320,000
	Total Supportive Housing Program	<u>360,000</u>	<u>-</u>	<u>(40,000)</u>	<u>320,000</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>\$ 4,705,150</u>	<u>\$ -</u>	<u>\$ (40,000)</u>	<u>\$ 4,665,150</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 (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated May 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Townspeople's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Townpeople'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 consolidated financial statements. 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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
May 15, 2023



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

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors
Townspeople

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Townspeople's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Townspeople's major federal program for the year ended December 31, 2022. Townspeople's major federal program are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Townspeople complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Townspeople and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Townspeople's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Townspeople's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Townspeople's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Townspeople's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Townspeople's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Townspeople's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, 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 Townspeople's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

To the Board of Directors
Townspeople

Page 3

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
May 15, 2023

**TOWNSPEOPLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the consolidated 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 programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
14.235	Supportive Housing Program
14.241	Housing Opportunities for persons with AIDS (HOPWA)
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