

TOWNSPEOPLE®

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019



Leaf & Cole, LLP
Certified Public Accountants

**TOWNSPEOPLE
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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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 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, 2020 and 2019, 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, 2020 and 2019, 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 consolidated financial statements as a whole. The accompanying supplementary information on pages 23 to 26 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 July 21, 2021, 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
July 21, 2021

TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS		
	<u>2020</u>	<u>2019</u>
<u>Current Assets:</u> (Note 2)		
Cash and cash equivalents	\$ 353,573	\$ 134,877
Accounts receivable	694,681	167,346
Tenant security deposits	74,850	59,416
Prepaid expenses and other assets	21,961	20,296
Total Current Assets	<u>1,145,065</u>	<u>381,935</u>
<u>Restricted Reserves:</u> (Note 4)		
Replacement reserves	147,356	176,323
Operating reserves	254,624	243,772
Total Restricted Reserves	<u>401,980</u>	<u>420,095</u>
<u>Noncurrent Assets:</u> (Notes 2, 5, 6 and 8)		
Property and equipment, net	7,300,735	7,595,598
Related party receivables	1,382,384	1,382,384
Total Noncurrent Assets	<u>8,683,119</u>	<u>8,977,982</u>
TOTAL ASSETS	\$ <u>10,230,164</u>	\$ <u>9,780,012</u>
LIABILITIES AND NET ASSETS		
<u>Current Liabilities:</u> (Notes 2 and 8)		
Accounts payable and accrued expenses	\$ 80,446	\$ 56,740
Interest payable	29,981	13,972
Accrued compensated absences	96,918	56,471
Deferred revenue	193,870	-
Tenant security deposits	76,383	43,953
Total Current Liabilities	<u>477,598</u>	<u>171,136</u>
<u>Noncurrent Liabilities:</u> (Note 8)		
Notes payable, net	9,542,456	9,542,249
Interest payable	2,758,322	2,528,880
Total Noncurrent Liabilities	<u>12,300,778</u>	<u>12,071,129</u>
Total Liabilities	<u>12,778,376</u>	<u>12,242,265</u>
<u>Commitments and Contingency</u> (Notes 7 and 10)		
<u>Net Assets (Deficit):</u> (Notes 2 and 9)		
Without donor restrictions	(2,648,212)	(2,462,253)
With donor restrictions	100,000	-
Total Net Assets (Deficit)	<u>(2,548,212)</u>	<u>(2,462,253)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>10,230,164</u>	\$ <u>9,780,012</u>

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

**TOWNSPEOPLE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>Net Assets Without Donor Restrictions</u>		
<u>Revenue and Support:</u>		
Grants and contracts	\$ 1,212,446	\$ 1,043,179
Rental income	665,484	631,614
Social service fee	333,359	-
Contributions	28,579	25,747
Miscellaneous income	14,203	25,533
Property management fees	-	4,641
Interest income	889	1,325
Net assets released from restrictions	-	26,432
Total Revenue and Support	2,254,960	1,758,471
<u>Expenses:</u>		
<u>Program Services:</u>		
Housing services	1,122,273	1,058,684
34th Street Apartments	657,981	688,771
51st Street Apartments	377,110	369,110
Housing development	172,765	99,874
Wilson Avenue Apartments	55,004	68,008
Total Program Services	2,385,133	2,284,447
<u>Supporting Services:</u>		
General and administrative	52,939	43,070
Fundraising	2,848	2,625
Total Supporting Services	55,786	45,695
Total Program and Supporting Services Expenses	2,440,919	2,330,142
Change in Net Assets Without Donor Restrictions	(185,959)	(571,671)
<u>Net Assets With Donor Restrictions</u>		
Contributions	100,000	-
Net assets released from restrictions	-	(26,432)
Change in Net Assets With Donor Restrictions	100,000	(26,432)
Change in Net Assets	(85,959)	(598,103)
Net Assets (Deficit) at Beginning of Year	(2,462,253)	(1,864,150)
NET ASSETS (DEFICIT) AT END OF YEAR	\$ (2,548,212)	\$ (2,462,253)

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

**TOWNSPEOPLE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	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	\$ 404,480	\$ 17,308	\$ 42,153	\$ 103,939	\$ 104,060	\$ 671,940	\$ 42,402	\$ 1,663	\$ 44,065	\$ 716,005
Payroll taxes	28,913	1,367	5,312	10,792	9,454	55,838	2,129	112	2,241	58,079
Employee benefits	27,010	1,677	5,841	16,341	11,813	62,682	2,318	122	2,440	65,122
Total Salaries and Related Expenses	<u>460,403</u>	<u>20,352</u>	<u>53,306</u>	<u>131,072</u>	<u>125,327</u>	<u>790,460</u>	<u>46,849</u>	<u>1,898</u>	<u>48,746</u>	<u>839,206</u>
Nonsalary Related Expenses:										
Asset management fee	-	-	12,000	30,000	-	42,000	-	-	-	42,000
Bad debt expense	-	-	2,224	2,707	-	4,931	-	-	-	4,931
Contract labor	1,403	-	-	-	-	1,403	-	-	-	1,403
Depreciation	-	16,486	106,712	171,665	-	294,863	-	-	-	294,863
Development	-	-	-	-	-	-	-	950	950	950
Fees and licenses	345	370	1,681	2,581	10	4,987	727	-	727	5,714
Insurance	4,988	994	5,399	18,903	-	30,284	-	-	-	30,284
Interest	-	7,710	93,730	152,100	-	253,540	173	-	173	253,713
Legal/accounting fees	42,419	1,961	3,768	7,329	5,694	61,171	1,058	-	1,058	62,229
Manager rent free unit	-	4,812	6,960	12,444	-	24,216	-	-	-	24,216
Mileage	2,202	2	-	395	893	3,492	78	-	78	3,570
Miscellaneous	1,909	1,057	-	10,428	7,067	20,461	988	-	988	21,449
Office supplies/printing	17,618	86	7,186	21,746	229	46,865	1,095	-	1,095	47,960
Postage	235	-	-	-	6	241	7	-	7	248
Property management fees	-	-	23,328	29,196	-	52,524	-	-	-	52,524
Rent/lease	53,662	801	-	-	45	54,508	621	-	621	55,129
Rental assistance	496,034	2	-	-	1,162	497,198	451	-	451	497,649
Repairs and maintenance	10,074	43	65,944	61,500	1,419	138,980	571	-	571	139,551
Security	9,159	-	14,343	33,589	-	57,091	-	-	-	57,091
Site assessment/feasibility	-	-	-	-	23,519	23,519	-	-	-	23,519
Telephone	4,696	304	1,614	3,941	5,844	16,399	131	-	131	16,530
Training	1,375	-	-	-	1,550	2,925	190	-	190	3,115
Utilities	15,751	24	14,243	27,581	-	57,599	-	-	-	57,599
Total Nonsalary Related Expenses	<u>661,870</u>	<u>34,652</u>	<u>359,132</u>	<u>586,105</u>	<u>47,438</u>	<u>1,689,197</u>	<u>6,090</u>	<u>950</u>	<u>7,040</u>	<u>1,696,237</u>
Less: Eliminations	-	-	(35,328)	(59,196)	-	(94,524)	-	-	-	(94,524)
TOTAL EXPENSES	<u>\$ 1,122,273</u>	<u>\$ 55,004</u>	<u>\$ 377,110</u>	<u>\$ 657,981</u>	<u>\$ 172,765</u>	<u>\$ 2,385,133</u>	<u>\$ 52,939</u>	<u>\$ 2,848</u>	<u>\$ 55,786</u>	<u>\$ 2,440,919</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, 2019**

	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	\$ 398,450	\$ 25,032	\$ 51,071	\$ 108,722	\$ 58,352	\$ 641,627	\$ 29,323	\$ 908	\$ 30,231	\$ 671,858
Payroll taxes	28,981	2,039	5,593	11,214	4,898	52,725	2,605	137	2,742	55,467
Employee benefits	26,099	2,435	8,565	19,606	4,724	61,429	834	44	878	62,307
Total Salaries and Related Expenses	<u>453,530</u>	<u>29,506</u>	<u>65,229</u>	<u>139,542</u>	<u>67,974</u>	<u>755,781</u>	<u>32,762</u>	<u>1,089</u>	<u>33,851</u>	<u>789,632</u>
Nonsalary Related Expenses:										
Asset management fee	-	-	12,000	10,605	-	22,605	-	-	-	22,605
Bad debt expense	-	-	972	2,066	1,106	4,144	-	-	-	4,144
Contract labor	664	-	-	-	-	664	-	-	-	664
Contribution expense	-	-	-	-	22,608	22,608	-	-	-	22,608
Depreciation	-	16,486	106,712	174,624	-	297,822	-	-	-	297,822
Development	-	-	-	-	-	-	-	1,536	1,536	1,536
Fees and licenses	165	361	1,647	2,554	60	4,787	660	-	660	5,447
Insurance	6,554	1,026	2,643	18,021	-	28,244	-	-	-	28,244
Interest	-	7,710	93,730	152,100	-	253,540	-	-	-	253,540
Legal/accounting fees	28,517	1,091	10,194	11,816	-	51,618	3,342	-	3,342	54,960
Manager rent free unit	-	4,812	6,960	12,444	-	24,216	-	-	-	24,216
Mileage	5,981	23	-	1,541	1,996	9,541	143	-	143	9,684
Miscellaneous	131	69	-	141	27	368	1,450	-	1,450	1,818
Office supplies/printing	11,284	112	6,547	17,074	1,360	36,377	1,039	-	1,039	37,416
Postage	448	-	8	17	36	509	26	-	26	535
Property management fees	-	-	22,464	28,073	-	50,537	-	-	-	50,537
Rent/lease	57,444	2,031	-	-	-	59,475	1,117	-	1,117	60,592
Rental assistance	457,199	2,516	-	-	4,391	464,106	-	-	-	464,106
Repairs and maintenance	6,681	1,362	54,855	88,785	316	151,999	943	-	943	152,942
Security	7,624	172	933	28,521	-	37,250	15	-	15	37,265
Telephone	6,023	575	1,615	3,367	-	11,580	758	-	758	12,338
Training	3,124	-	-	-	-	3,124	815	-	815	3,939
Utilities	13,315	156	17,065	36,158	-	66,694	-	-	-	66,694
Total Nonsalary Related Expenses	<u>605,154</u>	<u>38,502</u>	<u>338,345</u>	<u>587,907</u>	<u>31,900</u>	<u>1,601,808</u>	<u>10,308</u>	<u>1,536</u>	<u>11,844</u>	<u>1,613,652</u>
Less: Eliminations	-	-	(34,464)	(38,678)	-	(73,142)	-	-	-	(73,142)
TOTAL EXPENSES	<u>\$ 1,058,684</u>	<u>\$ 68,008</u>	<u>\$ 369,110</u>	<u>\$ 688,771</u>	<u>\$ 99,874</u>	<u>\$ 2,284,447</u>	<u>\$ 43,070</u>	<u>\$ 2,625</u>	<u>\$ 45,695</u>	<u>\$ 2,330,142</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (85,959)	\$ (598,103)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	294,863	297,822
Amortization of debt issuance costs	207	207
(Increase) Decrease in:		
Accounts receivable	(527,335)	15,176
Prepaid expenses and other assets	(1,665)	644
Increase (Decrease) in:		
Accounts payable and accrued expenses	23,706	20,667
Accrued compensated absences	40,447	5,151
Deferred revenue	193,870	-
Tenant security deposits	32,430	(11,357)
Interest payable	245,451	222,018
Net Cash Provided by (Used in) Operating Activities	<u>216,015</u>	<u>(47,775)</u>
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash	216,015	(47,775)
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>614,388</u>	<u>662,163</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	\$ <u>830,403</u>	\$ <u>614,388</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash paid for interest	<u>\$ 8,055</u>	<u>\$ 31,315</u>

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

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

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

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

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.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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.

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, 2020 and 2019.

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, 2020 and 2019.

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. 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 \$294,863 and \$297,822 for the years ended December 31, 2020 and 2019, 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.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 2020 and 2019.

Compensated Absences

Accumulated unpaid vacation totaling \$96,918 and \$56,471 at December 31, 2020 and 2019, 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 \$76,383 and \$43,953 at December 31, 2020 and 2019, 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 for each of the years ended December 31, 2020 and 2019.

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 \$325,095 and \$161,904 at December 31, 2020 and 2019 respectively and are included in accounts receivable. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned.

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.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 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, 2020 and 2019 did not meet the requirements above; therefore, no amounts were recognized in the consolidated financial statements.

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.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

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, 2020, 2019, 2018 and 2017 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 353,573	\$ 134,877
Tenant security deposits	74,850	59,416
Replacement reserves	147,356	176,323
Operating reserves	254,624	243,772
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 830,403</u>	<u>\$ 614,388</u>

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 21, 2021, 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.

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 353,573	\$ 134,877
Accounts receivable	694,681	167,346
Financial assets available to meet general expenditures within one year	<u>\$ 1,048,254</u>	<u>\$ 302,223</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 7. 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>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 54,971	\$ 74,075
Add: Deposits	17,617	7,882
Interest income	6	21
Less: Authorized withdrawals	<u>(41,811)</u>	<u>(27,007)</u>
Balance, End of Year	<u>\$ 30,783</u>	<u>\$ 54,971</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 4 - 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>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 37,461	\$ 37,450
Add: Deposits - loan repayment	20,000	11
Interest income	5	-
Less: Authorized withdrawals - loan advance	<u>(20,000)</u>	<u>-</u>
Balance, End of Year	<u>\$ 37,466</u>	<u>\$ 37,461</u>

Operating Reserve II

51st Street Apartments is required to fund Operating Reserve II from all remaining operating cash flow. The required deposits total \$30,786 and \$22,631 for the years ended December 31, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 96,726	\$ 56,708
Add: Deposits	10,073	40,000
Interest income	14	18
Balance, End of Year	<u>\$ 106,813</u>	<u>\$ 96,726</u>

34th Street Apartments

Replacement Reserve

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

	<u>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 121,352	\$ 102,518
Add: Deposits	30,000	28,000
Interest income	13	11
Less: Authorized withdrawals	<u>(34,792)</u>	<u>(9,177)</u>
Balance, End of Year	<u>\$ 116,573</u>	<u>\$ 121,352</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 4 - Restricted Reserves: (Continued)

34th Street Apartments (Continued)

Operating Reserve

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

	<u>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 76,573	\$ 75,578
Add: Interest income	756	995
Balance, End of Year	<u>\$ 77,329</u>	<u>\$ 76,573</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>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 33,012	\$ 33,009
Add: Interest income	4	3
Balance, End of Year	<u>\$ 33,016</u>	<u>\$ 33,012</u>

Note 5 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2020</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	21,788	-	1,800	332,944	356,532
Subtotal	<u>21,788</u>	<u>435,759</u>	<u>3,395,241</u>	<u>6,934,440</u>	<u>10,787,228</u>
Less: Accumulated depreciation	<u>(21,788)</u>	<u>(290,916)</u>	<u>(1,510,037)</u>	<u>(1,663,752)</u>	<u>(3,486,493)</u>
Property and Equipment, Net	<u>\$ -</u>	<u>\$ 144,843</u>	<u>\$ 1,885,204</u>	<u>\$ 5,270,688</u>	<u>\$ 7,300,735</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 5 - Property and Equipment: (Continued)

	2019				
	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)	(274,431)	(1,403,324)	(1,492,087)	(3,191,630)
Property and Equipment, Net	\$ -	\$ 161,328	\$ 1,991,917	\$ 5,442,353	\$ 7,595,598

Note 6 - Related Party Transactions:

Property Management Fee

Pursuant to the First Amendment to 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. The Property Management Fee totaled \$0- and \$4,641 for the years ended December 31, 2020 and 2019, respectively.

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 year ended December 31, 2020, Townspeople has a receivable for social services fees of \$333,359 included in accounts receivable, which includes back payment for 2019 and 2018.

Related party receivables consist of the following at December 31:

	<u>2020</u>	<u>2019</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.	572,384	572,384
Total Related Party Receivables	\$ 1,382,384	\$ 1,382,384

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 7 - 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% (10.0% and 11.5% at December 31, 2020 and 2019, 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, 2020 and 2019.

Note 8 - Notes Payable:

Notes payable consist of the following at December 31:

	<u>2020</u>	<u>2019</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
<u>Wilson Avenue Apartments</u>		
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 \$190,950 and \$184,593 at December 31, 2020 and 2019, respectively.	257,000	257,000

(Continued)

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 8 - Notes Payable: (Continued)

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 (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 \$531,258 and \$491,158 at December 31, 2020 and 2019, respectively. The required interest payment totaled \$6,529 for each of the years ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
	\$ 1,554,327	\$ 1,554,327

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 \$675,874 and \$628,774 at December 31, 2020 and 2019, respectively. There were no required interest payments for the years ended December 31, 2020 and 2019.

	1,570,000	1,570,000
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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.

	<u>192,000</u>	<u>192,000</u>
	<u>3,316,327</u>	<u>3,316,327</u>

Total 51st Street Apartments

(Continued)

**TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

Note 8 - Notes Payable: (Continued)

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 \$399,856 and \$346,682 at December 31, 2020 and 2019, respectively. The required interest payments totaled \$23,452 and \$7,444 for the years ended December 31, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
	\$ 1,772,483	\$ 1,772,483

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 \$878,858 and \$786,257 at December 31, 2020 and 2019, respectively. The required interest payments totaled \$26,344 and \$0- for the years ended December 31, 2020 and 2019, respectively.

	2,920,000	2,920,000
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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.

	400,000	400,000
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(Continued)

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 8 - Notes Payable: (Continued)

	<u>2020</u>	<u>2019</u>
<u>34th Street Apartments (Continued)</u>		
<p>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 \$116,506 and \$105,388 at December 31, 2020 and 2019, respectively.</p>		
Total 34 th Street Apartments	\$ 370,610	\$ 370,610
Less: Unamortized debt issuance costs	5,463,093	5,463,093
Total 34 th Street Apartments, Net	<u>(3,964)</u>	<u>(4,171)</u>
Total Notes Payable, Net	<u>5,459,129</u>	<u>5,458,922</u>
	<u>\$ 9,542,456</u>	<u>\$ 9,542,249</u>

Debt issuance costs total \$6,206, less accumulated amortization of \$2,242 and \$2,035 at December 31, 2020 and 2019, respectively.

There are no required principal payments due on notes payable for the next five years at December 31, 2020.

Note 9 - Net Assets with Donor Restrictions:

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

	<u>2020</u>	<u>2019</u>
Restricted contributions – Vista del Puente housing project	\$ 100,000	\$ -
	<u>\$ 100,000</u>	<u>\$ -</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>2020</u>	<u>2019</u>
<u>Purpose Restrictions Accomplished:</u>		
Restricted contributions – Vista del Puente housing project	\$ -	\$ 26,432
Total Net Assets Released From Restrictions	<u>\$ -</u>	<u>\$ 26,432</u>

TOWNSPEOPLE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Note 10 - Commitments and Contingency:

Operating Leases

Townspeople leases office space under operating lease agreements through December 31, 2020. Rent expense under these leases totaled \$59,160 and \$60,592 for the years ended December 31, 2020 and 2019, respectively. As of January 1, 2021, the lease is on a month-to-month basis.

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.

Coronavirus Pandemic Contingency

As a result of the COVID-19 outbreak throughout the world, economic uncertainties have arisen that could negatively impact revenues and income. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the Institute's donors, grantors, employees and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization'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, 2020

	ASSETS			
	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 273,814	\$ 79,759	\$ -	\$ 353,573
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from Townspeople	-	87,049	(87,049)	-
Accounts receivable	687,132	7,549	-	694,681
Tenant security deposits	26,053	48,797	-	74,850
Prepaid expenses and other assets	19,533	2,428	-	21,961
Total Current Assets	<u>1,006,632</u>	<u>225,582</u>	<u>(87,149)</u>	<u>1,145,065</u>
<u>Restricted Reserves:</u>				
Replacement reserves	30,783	116,573	-	147,356
Operating reserves	144,279	110,345	-	254,624
Total Restricted Reserves	<u>175,062</u>	<u>226,918</u>	<u>-</u>	<u>401,980</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	2,030,047	5,270,688	-	7,300,735
Related party receivables	1,382,384	-	-	1,382,384
Total Noncurrent Assets	<u>3,412,431</u>	<u>5,270,688</u>	<u>-</u>	<u>8,683,119</u>
TOTAL ASSETS	<u>\$ 4,594,125</u>	<u>\$ 5,723,188</u>	<u>\$ (87,149)</u>	<u>\$ 10,230,164</u>

LIABILITIES AND NET ASSETS

	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 73,046	\$ 7,400	\$ -	\$ 80,446
Interest payable	6,529	23,452	-	29,981
Accrued compensated absences	96,918	-	-	96,918
Deferred revenue	193,870	-	-	193,870
Tenant security deposits	27,586	48,797	-	76,383
Due to 34th Street Project, LLC	87,049	-	(87,049)	-
Total Current Liabilities	<u>484,998</u>	<u>79,649</u>	<u>(87,049)</u>	<u>477,598</u>
<u>Noncurrent Liabilities:</u>				
Notes payable, net	4,083,327	5,459,129	-	9,542,456
Interest payable	1,391,554	1,366,768	-	2,758,322
Total Noncurrent Liabilities	<u>5,474,881</u>	<u>6,825,897</u>	<u>-</u>	<u>12,300,778</u>
Total Liabilities	<u>5,959,879</u>	<u>6,905,546</u>	<u>(87,049)</u>	<u>12,778,376</u>
<u>Net Assets (Deficit):</u>				
Without donor restrictions	(1,465,754)	(1,182,358)	(100)	(2,648,212)
With donor restrictions	100,000	-	-	100,000
Total Net Assets (Deficit)	<u>(1,365,754)</u>	<u>(1,182,358)</u>	<u>(100)</u>	<u>(2,548,212)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,594,125</u>	<u>\$ 5,723,188</u>	<u>\$ (87,149)</u>	<u>\$ 10,230,164</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2019

	ASSETS			
	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 60,012	\$ 74,865	\$ -	\$ 134,877
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from Townspeople	-	1,470	(1,470)	-
Accounts receivable	166,837	509	-	167,346
Tenant security deposits	25,399	34,017	-	59,416
Prepaid expenses and other assets	16,774	3,522	-	20,296
Total Current Assets	<u>269,122</u>	<u>114,383</u>	<u>(1,570)</u>	<u>381,935</u>
<u>Restricted Reserves:</u>				
Replacement reserves	54,971	121,352	-	176,323
Operating reserves	134,187	109,585	-	243,772
Total Restricted Reserves	<u>189,158</u>	<u>230,937</u>	<u>-</u>	<u>420,095</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	2,153,245	5,442,353	-	7,595,598
Related party receivables	1,382,384	-	-	1,382,384
Total Noncurrent Assets	<u>3,535,629</u>	<u>5,442,353</u>	<u>-</u>	<u>8,977,982</u>
TOTAL ASSETS	<u>\$ 3,993,909</u>	<u>\$ 5,787,673</u>	<u>\$ (1,570)</u>	<u>\$ 9,780,012</u>

LIABILITIES AND NET ASSETS

	LIABILITIES AND NET ASSETS			
	Townspeople	34th Street Project, LLC	Eliminations	Consolidated
<u>Current Liabilities:</u>				
Accounts payable and accrued expenses	\$ 39,347	\$ 17,393	\$ -	\$ 56,740
Interest payable	6,529	7,444	-	13,973
Accrued compensated absences	56,471	-	-	56,471
Tenant security deposits	17,431	26,522	-	43,953
Due to 34th Street Project, LLC	1,470	-	(1,470)	-
Total Current Liabilities	<u>121,248</u>	<u>51,359</u>	<u>(1,470)</u>	<u>171,137</u>
<u>Noncurrent Liabilities:</u>				
Notes payable, net	4,083,327	5,458,922	-	9,542,249
Interest payable	1,297,996	1,230,883	-	2,528,879
Total Noncurrent Liabilities	<u>5,381,323</u>	<u>6,689,805</u>	<u>-</u>	<u>12,071,128</u>
Total Liabilities	<u>5,502,571</u>	<u>6,741,164</u>	<u>(1,470)</u>	<u>12,242,265</u>
<u>Net Assets (Deficit) Without Donor Restrictions</u>	<u>(1,508,662)</u>	<u>(953,491)</u>	<u>(100)</u>	<u>(2,462,253)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,993,909</u>	<u>\$ 5,787,673</u>	<u>\$ (1,570)</u>	<u>\$ 9,780,012</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Townspople	34th Street Project, LLC	Eliminations	Consolidated
<u>Net Assets Without Donor Restrictions</u>				
<u>Revenue and Support:</u>				
Grants and contracts	\$ 880,159	\$ 332,287	\$ -	\$ 1,212,446
Rental income	516,890	148,594	-	665,484
Social service fee	333,359	-	-	333,359
Contributions	28,579	-	-	28,579
Miscellaneous income	7,576	6,627	-	14,203
Property management fees	94,524	-	(94,524)	-
Interest income	87	802	-	889
Total Revenue and Support	<u>1,861,174</u>	<u>488,310</u>	<u>(94,524)</u>	<u>2,254,960</u>
<u>Expenses:</u>				
<u>Program Services:</u>				
Housing services	1,122,273	-	-	1,122,273
34th Street Apartments	-	717,177	(59,196)	657,981
51st Street Apartments	412,438	-	(35,328)	377,110
Housing development	172,765	-	-	172,765
Wilson Avenue Apartments	55,004	-	-	55,004
Total Program Services	<u>1,762,480</u>	<u>717,177</u>	<u>(94,524)</u>	<u>2,385,133</u>
<u>Supporting Services:</u>				
General and administrative	52,939	-	-	52,939
Fundraising	2,848	-	-	2,848
Total Supporting Services	<u>55,786</u>	<u>-</u>	<u>-</u>	<u>55,786</u>
Total Program and Supporting Services Expenses	<u>1,818,266</u>	<u>717,177</u>	<u>(94,524)</u>	<u>2,440,919</u>
Change in Net Assets Without Donor Restrictions	42,908	(228,867)	-	(185,959)
<u>Net Assets With Donor Restrictions</u>				
Contributions	100,000	-	-	100,000
Change in Net Assets With Donor Restrictions	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Change in Net Assets	142,908	(228,867)	-	(85,959)
Net Assets (Deficit) at Beginning of Year	<u>(1,508,662)</u>	<u>(953,491)</u>	<u>(100)</u>	<u>(2,462,253)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,365,754)</u>	<u>\$ (1,182,358)</u>	<u>\$ (100)</u>	<u>\$ (2,548,212)</u>

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Townspeople</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Net Assets Without Donor Restrictions</u>				
<u>Revenue and Support:</u>				
Grants and contracts	\$ 797,512	\$ 245,667	\$ -	\$ 1,043,179
Rental income	462,834	168,780	-	631,614
Contributions	25,747	-	-	25,747
Miscellaneous income	13,016	12,517	-	25,533
Property management fees	77,783	-	(73,142)	4,641
Interest income	288	1,037	-	1,325
Net assets released from restrictions	26,432	-	-	26,432
Total Revenue and Support	<u>1,403,612</u>	<u>428,001</u>	<u>(73,142)</u>	<u>1,758,471</u>
<u>Expenses:</u>				
<u>Program Services:</u>				
Housing services	1,058,684	-	-	1,058,684
34th Street Apartments	-	727,449	(38,678)	688,771
51st Street Apartments	403,574	-	(34,464)	369,110
Housing development	99,874	-	-	99,874
Wilson Avenue Apartments	68,008	-	-	68,008
Total Program Services	<u>1,630,140</u>	<u>727,449</u>	<u>(73,142)</u>	<u>2,284,447</u>
<u>Supporting Services:</u>				
General and administrative	43,070	-	-	43,070
Fundraising	2,625	-	-	2,625
Total Supporting Services	<u>45,695</u>	<u>-</u>	<u>-</u>	<u>45,695</u>
Total Program and Supporting Services Expenses	<u>1,675,835</u>	<u>727,449</u>	<u>(73,142)</u>	<u>2,330,142</u>
Change in Net Assets Without Donor Restrictions	(272,223)	(299,448)	-	(571,671)
<u>Net Assets With Donor Restrictions</u>				
Contributions	-	-	-	-
Net assets released from restrictions	(26,432)	-	-	(26,432)
Change in Net Assets With Donor Restrictions	<u>(26,432)</u>	<u>-</u>	<u>-</u>	<u>(26,432)</u>
Change in Net Assets	(298,655)	(299,448)	-	(598,103)
Net Assets (Deficit) at Beginning of Year	(1,253,403)	(610,647)	(100)	(1,864,150)
Contribution (Distribution)	43,396	(43,396)	-	-
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,508,662)</u>	<u>\$ (953,491)</u>	<u>\$ (100)</u>	<u>\$ (2,462,253)</u>

**TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

<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	\$ -	\$ 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		558943		226,278
County of San Diego		558943-2	-	123,266
County of San Diego		558943-3	-	80,182
County of San Diego		558955	-	199,336
County of San Diego		558945	-	206,365
County of San Diego (Wilson Avenue Loan)		N/A	-	125,150
Total Housing Opportunities for Persons with AIDS			<u>-</u>	<u>960,577</u>
Continuum of Care Program:	14.267			
San Diego Housing Commission		CA0534L9D011811	-	147,634
San Diego Housing Commission		CA0534L9D011912		158,398
San Diego Housing Commission		CA0534L9D011811	-	199,055
San Diego Housing Commission		CA0534L9D011912	-	206,542
Total Continuum of Care Program			<u>-</u>	<u>711,629</u>
Total Pass-Through Programs			<u>-</u>	<u>5,892,206</u>
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>6,292,206</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	-	26,379
Total Pass-Through Programs			<u>-</u>	<u>26,379</u>
Total U.S. Department of Health and Human Services			<u>-</u>	<u>26,379</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 6,318,585</u>

TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020

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, 2020. 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, 2019	Loans Awarded for the Year Ended December 31, 2020	Loan Principal Repaid for the Year Ended December 31, 2020	Loans Outstanding at December 31, 2020
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 financial statements of Townspeople, which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated July 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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
July 21, 2021



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

**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, 2020. 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 the major federal program for the year ended December 31, 2020.

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
July 21, 2021

**TOWNSPEOPLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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>
14.241	Housing Opportunities for Persons with Aids
14.267	Continuum of Care 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