



**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

As of and For the

YEAR ENDED DECEMBER 31, 2024



MILLER CPA GROUP, P.C.
— AN AUDITING AND CONSULTING FIRM —

TOWNSPEOPLE
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MILLER CPA GROUP, P.C.
— AN AUDITING AND CONSULTING FIRM —

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Townspeople

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Townspeople (a nonprofit organization), which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Townspeople as of December 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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 matters related to internal control that we identified during the audit.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2026, 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.

Miller CPA Group, P.C.

Carlsbad, California
May 19, 2026

TOWNSPEOPLE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2024

Assets

Current Assets (Notes 2 and 5)

Cash and cash equivalents	\$ 210,536
Accounts receivable, net of allowance for credit losses	693,145
Tenant security deposits	72,030
Prepaid expenses and other assets	70,151
Total Current Assets	1,045,862

Restricted Reserves (Notes 2 and 5)

Replacement reserves	232,965
Operating reserves	278,983
Total Restricted Reserves	511,948

Noncurrent Assets (Notes 2, 6 and 10)

Property and equipment, net of accumulated depreciation	7,176,384
Related party receivables	1,188,847
	<u>8,365,231</u>

Total Assets **\$ 9,923,041**

Liabilities and Net Assets

Current Liabilities (Notes 2, 7, 8 and 9)

Accounts payable and accrued expenses	\$ 327,090
Interest payable, current	130,532
Deferred revenue	107,485
Tenant security deposits	84,958
Total Current Liabilities	650,065

Noncurrent Liabilities (Note 9)

Notes payable, net of debt issuance costs	9,191,285
Interest payable	3,308,571
	<u>12,500,856</u>

Total Liabilities **13,149,921**

Commitments (Note 13)

Net Assets (Deficit)

Without donor restrictions	(3,346,202)
With donor restrictions	119,322
Total Net Assets (Deficit)	(3,226,880)

Total Liabilities and Net Assets **\$ 9,923,041**

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

TOWNSPEOPLE
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2024

Net Assets Without Donor Restrictions

Revenue and Support

Grants and contracts	\$ 1,491,273
Rental income	1,038,692
Debt forgiveness	40,000
Social service fee	135,328
Contributions	333,068
Miscellaneous income	173,839
Management fees	14,329
Interest income	2,277
Net assets released from restrictions	<u>1,002,637</u>

Total Revenue and Support 4,231,443

Expenses

Program Services

Housing services	1,721,771
34th Street Apartments	804,826
51st Street Apartments	563,839
Wilson Avenue Apartments	149,244
VDP Supporting Services	<u>244,686</u>
Total Program Services	3,484,366

Supporting Services

General and administrative	300,014
Fundraising	<u>49,620</u>
Total Supporting Services	349,634

Total Expenses 3,834,001

Change in Net Assets Without Donor Restrictions 397,442

Net Assets With Donor Restrictions

Contributions	942,580
Net assets released from restrictions	<u>(1,002,637)</u>

Change in Net Assets With Donor Restrictions (60,057)

Change in Net Assets 337,385

Net Assets (Deficit), Beginning (3,564,265)

Net Assets (Deficit), Ending \$ (3,226,880)

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

TOWNSPEOPLE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2024

	Program Services						Supporting Services			Total Expenses
	Housing	Wilson Apartments	51st Street Apartments	34th Street Apartments	VDP Services	Total	General Administrative	Fundraising	Total	
Salaries and Related Expenses										
Salaries and wages	\$ 580,642	\$ 44,201	\$ 201,077	\$ 244,229	\$ 182,745	\$ 1,252,894	\$ 36,541	\$ 30,691	\$ 67,231	\$ 1,320,125
Payroll taxes	41,077	3,446	15,079	18,370	13,474	91,446	3,289	2,762	6,051	97,497
Employee benefits	82,635	6,260	28,151	0	26,293	143,340	5,008	5,008	10,016	153,356
Total Salaries and Related Expenses	704,354	53,907	244,307	262,599	222,512	1,487,680	44,838	38,461	83,298	1,570,978
Nonsalary Related Expenses										
Asset management fee	-	-	-	-	-	-	-	-	-	-
Bad debt expense	3,992	2,412	3,371	34,958	-	44,733	(93,593)	-	(93,593)	(48,860)
Contract services	63,342	-	-	-	-	63,342	61,529	9,975	71,504	134,845
Depreciation	-	6,772	106,712	140,042	-	253,526	-	-	-	253,526
Insurance	-	1,871	8,088	12,737	-	22,696	82,305	-	82,305	105,001
Interest	-	33,676	55,041	191,781	-	280,498	-	-	-	280,498
Legal/accounting fees	18,224	4,098	25,005	34,375	6,207	87,908	85,225	-	85,225	173,133
Mileage	3,341	-	-	-	400	3,741	1,293	-	1,293	5,034
Miscellaneous	20,217	-	10	20	-	20,247	28,824	-	28,824	49,072
Office supplies/printing	19,322	4,800	4,621	10,139	1,847	40,729	75,243	-	75,243	115,972
Postage	165	-	-	-	-	165	74	-	74	240
Property management fees	-	-	30,000	30,000	-	60,000	-	-	-	60,000
Rent/lease	17,280	1,309	-	-	5,498	24,087	1,047	1,047	2,095	26,182
Rental assistance	349,339	-	-	-	-	349,339	-	-	-	349,339
Repairs and maintenance	2,046	21,359	28,298	37,244	-	88,946	5,711	-	5,711	94,658
Security	0	5,668	55,216	42,877	-	103,761	733	-	733	104,494
Supportive services	512,386	105	5,131	-	5,391	523,014	26	-	26	523,039
Telephone	0	-	1,629	2,348	2,004	5,981	-	-	-	5,981
Training	4,326	-	54	-	109	4,489	6,621	-	6,621	11,110
Utilities	3,437	13,267	26,356	35,706	718	79,484	137	137	274	79,758
Total Nonsalary Related Expenses	1,017,417	95,337	349,532	572,227	22,174	2,056,686	255,177	11,159	266,336	2,323,022
Less: Eliminations			(30,000)	(30,000)		(60,000)			-	(60,000)
Total Expenses	<u>\$ 1,721,771</u>	<u>\$ 149,244</u>	<u>\$ 563,839</u>	<u>\$ 804,826</u>	<u>\$ 244,686</u>	<u>\$ 3,484,366</u>	<u>\$ 300,014</u>	<u>\$ 49,620</u>	<u>\$ 349,634</u>	<u>\$ 3,834,001</u>

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

TOWNSPEOPLE
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2024

Cash Flows From Operating Activities

Change in net assets	\$ 337,385
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	253,526
Amortization of debt issuance costs	207
Allowance for credit losses	(80,966)
Debt forgiveness	(40,000)
(Increase) decrease in operating assets	
Accounts receivable, net	(171,783)
Contributions receivable	16,241
Prepaid expenses and other assets	(8,537)
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	138,053
Interest payable	133,875
Deferred revenue	97,453
Tenant security deposits	5,884
	681,338
Net Cash Provided by Operating Activities	681,338

Cash Flows From Investing Activities

Purchase of property and equipment	(882,784)
Related party receivables advance	(35,425)
	(918,209)

Net Cash Provided by (Used in) Investing Activities (918,209)

Net Change in Cash and Cash Equivalents and Restricted Cash (236,871)

Cash and Cash Equivalents and Restricted Cash, Beginning 1,031,385

Cash and Cash Equivalents and Restricted Cash, End of Year \$ 794,514

Supplemental Cash Flow Information

Cash paid for interest	<u><u>\$ 118,639</u></u>
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The accompanying notes are an integral part of the consolidated financial statements.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

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 people with low-income, and especially those living with HIV/AIDS and other medical vulnerabilities, to affordable housing and other services to enable self-sufficiency. Townspeople is the first 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 Organization is considered a premier information organization in San Diego 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. The work of the organization is based upon the principle that anyone living with medical vulnerability such as HIV/AIDS deserves 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 non-congregate emergency housing, affordable rental housing, shared housing, and supportive services to its participants.

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 is a Community Housing Development Organization (CHDO) and a community-based HIV/AIDS service provider organization.

As a partner in Vista Del Puente, L.P., Townspeople 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, concluding in 2019.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 1. ORGANIZATION (continued)

Townspeople develops, owns, manages, and operates affordable permanent supportive multifamily residences. In addition, Townspeople provides funding for short-stays in non-congregate emergency housing and is the lead organization in the San Diego Housing Collaborative, an initiative of Townspeople.

34th Street Apartments

34th Street Apartments consist of 34 units available for persons with low and very low-income 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.

51st Street Apartments

51st Street Apartments consist of 24 units available for persons with low-income living with HIV/AIDS and other medical vulnerabilities. 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 persons with low-income living with HIV/AIDS and other medical vulnerabilities.

Meade Avenue

In 2024, Townspeople purchased the Meade Avenue single family home to rent as shared housing. The home consists of two-bedrooms and one bathroom.

Supportive Services

Townspeople provides site-based, scattered-site, and community services for individuals and families who are experiencing homelessness and live with disabling conditions, including HIV/AIDS, mental illness, and chronic physical health issues. These services include case management, crisis intervention, care coordination, and resource connections.

Emergency Housing

Townspeople provides immediate, short-term, non-congregate shelter in local hotels for individuals who are experiencing homelessness and living with HIV/AIDS.

Shared Housing

As part of the San Diego Shared Housing Collaborative, Townspeople supports the implementation of shared housing by managing the systems and partnerships that make the model possible such as operating the housemate matching portal. Townspeople also provides housing navigation, supportive services, and access to flexible financial assistance to promote stability and autonomy.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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.

Financial Statement Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Not-for-Profit Organizations (the Guide).

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s board may designate assets without restrictions for specific operational purposes from time to time.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

Measure of Operations

The consolidated statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization’s ongoing services and interest earned. Nonoperating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurement to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles.

FASB ASC 820 establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurement for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

The standard describes a three-tier hierarchy of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Due to the short-term nature of cash, accounts receivable, other assets, accounts payable and accrued expenses, fair value approximates carrying value.

Cash and Cash Equivalents

For purposes of the consolidated statement 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 deposit that may be redeemed without a significant penalty are considered cash and cash equivalents, regardless of the maturity

Allowance for Credit Losses

The Organization recognizes an allowance for credit losses on accounts receivable to present the net amount expected to be collected as of the consolidated statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which is based on the expectation as of the consolidated statement of financial position date, aging reports and historical information. Accounts receivable are written off when the Organization determines such receivables are deemed uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses. The allowance for credit losses totaled \$100,673 at December 31, 2024.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Uncollectible Contributions Receivable

Bad debts are recognized on the allowance method, based on historical experience and management's evaluation of contributions receivables. Management believes that all accounts receivable were fully collectible; therefore, no allowance for contributions receivable was recorded at December 31, 2024.

Tenant Security Deposits

Tenant security deposits are restricted to the extent of the tenant security deposit liability totaling \$84,958 at December 31, 2024.

Property and Equipment

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
Furniture and equipment	5 – 10 years

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 for the year ended December 31, 2024.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vested and accumulated personal time off (PTO) is recorded as an expense and liability as benefits accrue to employees. For the year ended December 31, 2024, the accrued PTO liability was \$28,285 and is included in accrued expenses in the consolidated statement of financial position.

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.

Revenue Recognition

Revenue from Contracts with Customers

The Organization recognizes revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606). Topic 606 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization generally measures revenue based on the amount of consideration the Organization expects to be entitled for the transfer of goods to a customer, then recognizes this revenue when the Organization satisfies its performance obligations.

The Organization evaluates its revenue contracts with customers based on the five-step model under Topic 606: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to separate performance obligations; and (v) recognize revenue when (or as) each performance obligation is satisfied.

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 \$354,965 at December 31, 2024, 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. 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. The Organization 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.

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

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Revenue from Contracts with Customers (continued)

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.

Contributions and Support

The Organization recognizes revenue from contributions, including grants, in accordance with ASU 2018-08, Not-For-Profit Entities (ASC Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. In accordance with Topic 958, the Organization evaluates whether a transfer of assets is (i) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (ii) a contribution.

If the transfer of assets is determined to be an exchange transaction, the Organization applies guidance under Topic 606, discussed above. If the transfer of assets is determined to be a contribution, the Organization evaluates whether the contribution is conditional based upon whether the agreement includes both (i) one or more barriers that must be overcome before the Organization is entitled to the assets transferred and promised and (ii) a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are received. Unconditional promises are recognized at the estimated present value of future cash flows, discounted at a risk adjusted rate. Conditional promises to give are recognized when the conditions are met. Amortization of the discount is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management’s judgment, including such factors as prior giving history, type of contribution, collection risk, and nature of fund-raising activity.

Contributed revenue may include gifts of cash or promises to give. Contributions and grants are recognized as revenues in the period received and are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Conditional contributions and grants are not recognized until they become unconditional, that is, at the time when the conditions are substantially met. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contributed Nonfinancial Assets

Contributed nonfinancial assets (in-kind) are recorded as support in the consolidated statement of activities. Such contributions are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. The Organization's policy is to use contributed nonfinancial assets for programmatic or other purposes unless the assets have no utility consistent with the Organization's mission. In those instances, the assets would be monetized. (See additional disclosures in Note 12).

Contributed Services

The Organization utilizes the services of volunteers throughout the year that perform a variety of tasks that assist the Organization with various programs. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (i) create or enhance nonfinancial assets or (ii) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services do not meet the criteria for recognition as a contribution and are not reflected in the consolidated financial statements.

Functional Allocation of Expenses

The consolidated statement of functional expenses present expenses by function and natural classification. It is the policy of the Organization to ensure all expenses incurred are consistently and appropriately designated to their functional expense categories (program services, management, and fundraising) to allow for an accurate representation of the true program costs of the Organization. Functional expenses are allocated as follows:

Direct Expense

Direct expenses relate to one classification and can be directly charged as incurred.

Shared Direct Expense

Shared direct expenses are those that are incurred in support of program work and can be allocated. Examples of shared direct expenses include occupancy, information technology, office expenses, insurance, etc.

Indirect Expense

Indirect expenses are only those expenses that are administrative in function.

Allocation Basis – Payroll

The method of allocating costs for payroll is by the use of time studies. Employees document how time was being spent over a time period to determine, on average, where the employee is spending their time, whether it be program, management or fundraising.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses (continued)

Expense Allocation Process

- Program: Costs that result in the Organization fulfilling its mission.
- Management: Costs necessary for the operations of the Organization that are not identifiable with a specific program or fundraising.
- Fundraising: Costs that involve seeking, soliciting, or securing contributions.

This allocation process achieves a complete distribution of expenses to program areas and provides the Organization with an accurate understanding of true program costs.

Income Taxes

The Organization 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. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization did not have any unrelated business income for the year ended December 31, 2024. Therefore, no provisions have been made for income taxes.

The Organization follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Organization believes that it has taken no significant uncertain tax positions for the year ended December 31, 2024. Management believes the Organization is no longer subject to income tax examinations by applicable taxing jurisdictions for the years prior to December 31, 2020.

Advertising

The Organization expenses the cost of advertising as incurred. There were no advertising expenses for the year ended December 31, 2024.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are available to be issued.

Recent Accounting Pronouncements

The Organization has evaluated all recently issued accounting pronouncements through the date of the independent auditors' report. Management has determined that none are applicable to the consolidated financial statements or would have a material impact on the financial reporting or disclosures.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The table below presents financial assets available for general expenditure within one year at December 31, 2024:

Cash and cash equivalents	\$	231,885
Accounts receivable, net of allowance for credit losses		<u>693,145</u>
Total financial assets		<u>925,230</u>
Less: amounts not available to be used within one year		
Restricted by donor with purpose restrictions		<u>119,322</u>
Financial assets available to meet general expenditures over the next twelve months	\$	<u><u>805,908</u></u>

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.

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 5.

NOTE 4. CONCENTRATION OF CREDIT RISK

Cash

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. As of December 31, 2024, the Organization exceeded federally insured limits by \$143,060.

Concentrations

The Organization's operations are concentrated in the multifamily 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 federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by an act of congress or an administrative change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 5. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

The following is a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated statement of financial position that sum to the total in the consolidated statement of cash flows at December 31:

Cash and cash equivalents	\$	231,885
Tenant security deposits		50,681
Replacements reserves		232,965
Operating reserves		278,983
Total Cash and Cash Equivalents and Restricted Cash	\$	<u><u>794,514</u></u>

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.

Balance, Beginning of Year	\$	45,904
Add: Deposits		45,336
Interest income		9
Balance, End of Year	\$	<u><u>91,249</u></u>

Operating Reserve

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

Balance, Beginning of Year	\$	37,536
Add: Interest income		4
Less: Replacement reserve transfer		<u>(13,512)</u>
Balance, End of Year	\$	<u><u>24,028</u></u>

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 the year ended December 31, 2024.

Balance, Beginning of Year	\$	129,684
Add: Interest Income		<u>16</u>
Balance, End of Year	\$	<u><u>129,700</u></u>

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 5. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSIT (continued)

34th Street Apartments

Replacement Reserve

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

Balance, Beginning of Year	\$	141,646
Add: Interest income		70
Balance, End of Year	\$	141,716

Operating Reserve

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

Balance, Beginning of Year	\$	79,471
Add: Interest income		15
Balance, End of Year	\$	81,590

Operating Reserve II

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

Balance, Beginning of Year	\$	33,034
Add: Interest income		16
Balance, End of Year	\$	33,050

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2024:

	<u>Townpeople</u>	<u>Wilson Avenue Apartments</u>	<u>51st Street Apartments</u>	<u>34th Street Apartments</u>	<u>Total</u>
Land	\$ 472,234	\$ 99,694	\$ 471,000	\$ 1,466,500	\$ 2,509,428
Land improvements	-	-	-	1,703	1,703
Buildings and improvements	410,549	336,065	2,922,441	5,138,393	8,807,448
Equipment and furnishings	38,496	-	1,800	327,844	368,140
Subtotal	921,279	435,759	3,395,241	6,934,440	11,686,719
Less: Accumulated depreciation	(30,236)	(319,154)	(1,936,884)	(2,227,131)	(4,510,335)
Property and Equipment, Net	\$ 891,043	\$ 116,605	\$ 1,458,357	\$ 4,707,309	\$ 7,176,384

Depreciation totaled \$253,526 for the year ended December 31, 2024.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following as of December 31, 2024:

Accounts payable	\$	249,377
Accrued payroll		46,351
Accrued vacation		28,285
Accrued benefits		3,077
Total accounts payable and accrued expenses	\$	327,090

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% at December 31, 2024). 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, 2024.

NOTE 9. NOTES PAYABLE

Notes payable consist of the following as of December 31, 2024:

Townspeople

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. \$ 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 \$218,000 at December 31, 2024 257,000

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 9. 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 \$651,564 at December 31, 2024. The required interest payment totaled \$6,528 for the year ended December 31, 2024.

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 \$864,106 at December 31, 2024. There were no required interest payments for the year ended December 31, 2024.

1,570,000

Total 51st Street Apartments

3,124,327

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 hereafter, 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 \$489,187 at December 31, 2024. The required interest payments totaled \$27,037 for the year ended December 31, 2024.

1,772,483

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 9. NOTES PAYABLE (continued)

34th Street Apartments (continued)

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 \$1,074,456 at December 31, 2024. The required interest payments totaled \$32,244 for the year ended December 31, 2024. 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, 2024. 240,000

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 \$141,790 at December 31, 2024.

	370,611
Total 34th Street Apartments	5,303,094
Less: Unamortized debt issuance costs	3,136
Total 34th Street Apartments, net	5,299,958
Total Notes Payable, net	\$ 9,191,285

Debt issuance costs were \$6,206, less accumulated amortization of \$3,136 as of December 31, 2024.

There are no required principal payments due on notes payable for the next five years as of December 31, 2024.

NOTE 10. 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. No Property Management Fee was earned for the year ended December 31, 2024.

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 10. 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, L.P., dated September 28, 2021, the Partnership Management Fee will be paid 60% to Townspeople. Fee to increase by 3% per annum. For the year ended December 31, 2024, the Partnership Management Fee totaled \$14,329 and is included in accounts receivable.

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 year ended December 31, 2024, the social services fees totaled \$135,328 and is included in accounts receivable.

Related party receivables consist of the following as of December 31, 2024:

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
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
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.	416,679
Total Related Party Receivables	\$ <u><u>1,226,679</u></u>

NOTE 11. NET ASSETS

Net assets with donor restrictions consist of the following as of December 31, 2024:

Shared housing collaborative	\$ <u>119,322</u>
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Net assets released from net assets with donor restrictions are as follows as of December 31, 2024:

Shared housing property	\$ 718,500
Shared housing collaborative	207,878
Vista del Puente housing project	62,759
Equipment	8,500
Client Supplies	5,000
	\$ <u><u>1,002,637</u></u>

TOWNSPEOPLE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2024

NOTE 12. RETIREMENT PLAN

The Organization participates in a SIMPLE IRA savings plan, which is qualified under the Internal Revenue Code and covers substantially all employees. Currently, there is no employer match offered.

NOTE 13. COMMITMENTS

Operating Leases

Townspeople committed under a one-year lease agreement for office space through March 2025. Rent expense under these leases totaled \$26,182 for the year ended December 31, 2024.

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.

NOTE 14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 19, 2026, the date on which the consolidated financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2024

	<u>Townspeople</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ 193,530	\$ 17,006	\$ -	\$ 210,536
Investment in 34th Street Project, LLC	100	-	(100)	-
Due from Townspeople	459,347	-	(459,347)	-
Accounts receivable, net of allowance for credit losses	658,998	34,147	-	693,145
Tenant security deposits	33,794	38,236	-	72,030
Prepaid expenses and other assets	65,905	4,246	-	70,151
Total Current Assets	<u>1,411,674</u>	<u>93,635</u>	<u>(459,447)</u>	<u>1,045,862</u>
Restricted Reserves				
Replacement reserves	91,249	141,716	-	232,965
Operating reserves	164,343	114,640	-	278,983
Total Restricted Reserves	<u>255,592</u>	<u>256,356</u>	<u>-</u>	<u>511,948</u>
Non-current Assets				
Property and equipment, net of accumulated depreciation	2,466,005	4,710,379	-	7,176,384
Related party receivables	1,128,847	459,346	(399,346)	1,188,847
Total Assets	<u>\$ 5,262,118</u>	<u>\$ 5,519,716</u>	<u>\$ (858,793)</u>	<u>\$ 9,923,041</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	\$ 279,763	\$ 47,327	\$ -	\$ 327,090
Interest payable, current	130,532	-	-	130,532
Deferred revenue	107,485	-	-	107,485
Tenant security deposits	33,795	51,163	-	84,958
Due to 34th Street Project, LLC	459,347	-	(459,347)	-
Total Current Liabilities	<u>1,010,922</u>	<u>98,490</u>	<u>(459,347)</u>	<u>650,065</u>
Non-current Liabilities (Note 9)				
Notes payable, net of debt issuance costs	3,891,327	5,299,958	-	9,191,285
Interest payable	1,603,138	1,705,433	-	3,308,571
Total Liabilities	<u>6,505,387</u>	<u>7,103,881</u>	<u>(459,347)</u>	<u>13,149,921</u>
Net Assets (Deficit)				
Without donor restrictions	(1,761,941)	(1,584,161)	(100)	(3,346,202)
With donor restrictions	119,322	-	-	119,322
Total Net Assets (Deficit)	<u>(1,642,619)</u>	<u>(1,584,161)</u>	<u>(100)</u>	<u>(3,226,880)</u>
Total Liabilities and Net Assets	<u>\$ 4,862,768</u>	<u>\$ 5,519,720</u>	<u>\$ (459,447)</u>	<u>\$ 9,923,041</u>

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

TOWNSPEOPLE
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
For the Year Ended December 31, 2024

	<u>Townspeople</u>	<u>34th Street Project, LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net Assets Without Donor Restrictions				
Revenue and Support				
Grants and contracts	\$ 1,385,499	\$ 105,774	\$ -	\$ 1,491,273
Rental income	473,773	564,919	-	1,038,692
Debt forgiveness	-	40,000	-	40,000
Social service fee	135,328	-	-	135,328
Miscellaneous income	166,328	7,511	-	173,839
Contributions	333,068	-	-	333,068
Management fees	44,329	-	(30,000)	14,329
Interest income	53	2,224	-	2,277
Net assets released from restrictions	1,002,637	-	-	1,002,637
Total Revenue and Support	<u>3,541,015</u>	<u>720,428</u>	<u>(30,000)</u>	<u>4,231,443</u>
Expenses				
Program Services				
Housing services	1,721,771	-	-	1,721,771
34th Street Apartments	-	834,826	(30,000)	804,826
51st Street Apartments	563,839	-	-	563,839
Wilson Avenue Apartments	149,244	-	-	149,244
VDP Supporting Services	244,686	-	-	244,686
Total Program Services	<u>2,679,540</u>	<u>834,826</u>	<u>(30,000)</u>	<u>3,484,366</u>
Supporting Services				
General and administrative	300,014	-	-	300,014
Fundraising	49,620	-	-	49,620
Total Supporting Services	<u>349,634</u>	<u>-</u>	<u>-</u>	<u>349,634</u>
Total Expenses	<u>3,029,175</u>	<u>834,826</u>	<u>(30,000)</u>	<u>3,834,001</u>
Change in Net Assets Without Donor Restrictions	511,840	(114,398)	-	397,442
Net Assets With Donor Restrictions				
Contributions	942,580	-	-	942,580
Net assets released from restrictions	(1,002,637)	-	-	(1,002,637)
Change in Net Assets With Donor Restrictions	<u>(60,057)</u>	<u>-</u>	<u>-</u>	<u>(60,057)</u>
Change in Net Assets	451,783	(114,398)	-	337,385
Net Assets (Deficit), Beginning	<u>(2,094,402)</u>	<u>(1,469,763)</u>	<u>(100)</u>	<u>(3,564,265)</u>
Net Assets (Deficit), Ending	<u>\$ (1,642,619)</u>	<u>\$ (1,584,161)</u>	<u>\$ (100)</u>	<u>\$ (3,226,880)</u>

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

TOWNSPEOPLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2024

Federal/Pass-through Grantor and Program Title	Assistance Listing	Contract Number	Expenditures
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Supportive Housing Programs (34th Street Loan)	14.235	N/A	240,000
Total Direct Programs			<u>240,000</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 Partnership Program			<u>4,220,000</u>
Housing Opportunities for Persons with AIDS:	14.241		
County of San Diego		570116.3466	228,399
County of San Diego		570116.3467	74,144
County of San Diego		570116.3468	87,863
County of San Diego		570116.3517	231,933
County of San Diego		570116.3518	150,765
County of San Diego		570116.3519	127,314
County of San Diego (Wilson Ave Loan)		N/A	125,150
Total Housing Opportunities for Persons with AIDS			<u>1,025,567</u>
Continuum of Care Program:	14.267		
San Diego Housing Commission		HHI-24-17	253,425
San Diego Housing Commission		SIHI-25-14	245,585
San Diego Housing Commission		HHI-24-16	120,471
San Diego Housing Commission		SIHI-25-11	119,486
Total Continuum of Care Program			<u>738,967</u>
Total Pass-Through Programs			<u>5,984,535</u>
Total U.S. Department of Housing and Urban Development			<u>6,224,535</u>
Total Expenditures of Federal Awards			<u><u>\$ 6,224,535</u></u>

See notes to schedule of expenditures of federal awards

TOWNSPEOPLE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2024

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, 2024. 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 Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass through entity identifying numbers are presented where available.

NOTE 3 – INDIRECT COST RATE

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

NOTE 4 – LOAN PROGRAMS

Assistance Listing Number	Program Name	Loans Outstanding at December 31, 2023	Loans Awarded for the Year Ended December 31, 2024	Loans Principal Forgiven for the Year Ended December 31, 2024	Loans Outstanding at December 31, 2024
14.234	Supportive Housing Program				
	Direct award	\$ 280,000	\$ -	\$ (40,000)	\$ 240,000
	Total Supportive Housing Program	<u>280,000</u>	<u>-</u>	<u>(40,000)</u>	<u>240,000</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>\$ 4,625,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,585,150</u>

See accompanying independent auditors' report

TOWNSPEOPLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2024

Section I – Summary of Auditors’ Results

FINANCIAL STATEMENTS

Types of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Significant deficiency(ies) identified?	None reported
Material weakness(es) identified?	None
Noncompliance material to the financial statements noted?	None

FEDERAL AWARDS

Type of auditors' report issued on compliance for major programs	Unmodified
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Internal control over major programs:	
Significant deficiency(ies) identified?	Yes
Material Weakness(es) identified?	None

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, 2 CFR 200.516(a)?	Yes
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Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Federal Assistance Listing No.</u>
Home Investment Partnerships Program	14.239

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as a low-risk auditee under the Uniform Grant Guidance, 2.CFR.200.520?	No
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Section II – Financial Statement Findings

None reported

TOWNSPEOPLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2024

Section III - Federal Award Findings and Questioned Costs

Finding 2024-001 – Significant Deficiency in Internal Control Over Compliance – Untimely Submission of Single Audit Reporting Package

Federal Program Information

Federal Agency: U.S. Department of Housing and Urban Development

Assistance Listing Number(s): 14.235, 14.239, 14.241, 14.267

Program Name: Supportive Housing, HOME Investment Partnerships Program, Housing Opportunities for Persons with AIDS, Continuum of Care Program

Type of Finding

Significant Deficiency in Internal Control Over Compliance

Other Matter – Reporting

Criteria

In accordance with 2 CFR §200.512, the auditee is required to submit the Data Collection Form and reporting package to the Federal Audit Clearinghouse (FAC) within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

Condition

The Organization did not submit the required Single Audit reporting package to the Federal Audit Clearinghouse within the required timeframe for the fiscal year ended December 31, 2024. The reporting package was submitted in June 2026.

Cause

Management did not have adequate procedures in place to ensure timely preparation and submission of financial information required for completion of the audit and Single Audit reporting package. Delays in providing requested financial information to the auditors, along with other unforeseen circumstances encountered during the audit process, contributed to the untimely filing..

Effect

Failure to submit the Single Audit reporting package timely constitutes noncompliance with Uniform Guidance reporting requirements and may subject the Organization to increased oversight from federal agencies and pass-through programs.

Questioned Costs

None noted.

Recommendation

We recommend management strengthen internal procedures related to the preparation, review, and timely submission of financial information necessary for completion of the audit and Single Audit reporting requirements. Management should establish formal timelines, assign responsibility for monitoring reporting deadlines, and enhance communication with auditors throughout the audit process to help ensure timely filing with the Federal Audit Clearinghouse.

TOWNSPEOPLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2024

Finding 2024-001 – Significant Deficiency in Internal Control Over Compliance – Untimely Submission of Single Audit Reporting Package (continued)

Views of Responsible Officials and Planned Corrective Action

Management acknowledges the finding and recognizes improvements are needed in the coordination and timing of information provided during the audit process. Management plans to implement enhanced internal timelines and monitoring procedures for future audits and Single Audit submissions. Management will also work more closely with auditors throughout the engagement to help ensure all required information is provided timely and future reporting deadlines are met.

Finding 2024-002 – Noncompliance with Reserve for Replacement Funding Requirements

Criteria

The Regulatory Agreement and related HUD program requirements require the Organization to make monthly deposits to the Reserve for Replacement account in the amount specified by HUD. These funds are required to be maintained in a separate restricted account to provide for future capital repairs and replacements of the property.

Condition

During our audit, we noted the Organization did not make all required deposits to the Reserve for Replacement account during the fiscal year ended December 31, 2024.

Cause

Management indicated the Organization experienced cash flow limitations during the year and did not have adequate monitoring procedures in place to ensure compliance with HUD reserve funding requirements.

Effect

Failure to maintain the required Reserve for Replacement funding balance constitutes noncompliance with the Regulatory Agreement and HUD requirements. Continued noncompliance may result in increased HUD oversight, restrictions on operations, or other regulatory actions.

Questioned Costs

None noted.

Recommendation

We recommend management implement procedures to ensure required Reserve for Replacement deposits are made timely and that reserve balances are regularly monitored for compliance with HUD requirements. Management should also communicate with HUD and the lender, if applicable, regarding a plan to restore the reserve balance to the required level.

Views of Responsible Officials and Planned Corrective Action

Management acknowledges the finding and plans to improve monitoring of reserve funding requirements and cash flow projections to ensure timely future deposits. Management is also evaluating options to replenish the reserve account balance and will communicate corrective actions to HUD.

TOWNSPEOPLE
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended December 31, 2024

The audit of the financial statements for the year ended December 31, 2023 was performed by another independent auditor. No findings or questioned costs were reported in that auditor's reports on internal control over financial reporting and compliance and on compliance for major federal programs.



MILLER CPA GROUP, P.C.
— AN AUDITING AND CONSULTING FIRM —

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 of
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, 2024, and the related statements of activities, 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 19, 2026.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Townspeople’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 an instance of noncompliance and other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2024-002.

Townspeople's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Townspeople's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Townspeople's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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 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.

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.

Miller CPA Group, P.C.

Carlsbad, California
May 19, 2026



MILLER CPA GROUP, P.C.
AN AUDITING AND CONSULTING FIRM

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 programs for the year ended December 31, 2024. Townspeople's major federal programs 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 types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2024.

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.

Auditors' 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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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.

A significant deficiency 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, yet important enough to merit attention by those charged with governance.

During our audit, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, as described in the accompanying schedule of findings and questioned costs as Finding 2024-002. However, we do not consider these deficiencies to be material weaknesses, as defined above.

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.

Miller CPA Group, P.C.

Carlsbad, California

May 19, 2026