Bay Area Housing Corporation and Affiliates

Consolidated Financial Statements
and Supplementary Information
and Other Audit Report

June 30, 2023
(With Comparative Totals for 2022)

armanino

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bay Area Housing Corporation and Affiliates
Los Gatos, California

Opinion

We have audited the accompanying consolidated financial statements of Bay Area Housing Corporation (a California nonprofit corporation) and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Housing Corporation and Affiliates as of June 30, 2023, and the changes in their net assets and their 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 Bay Area Housing Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bay Area Housing Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bay Area Housing Corporation's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 30 - 32 is presented for purposes of additional analysis and is 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 February 12, 2024, on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Bay Area Housing Corporation's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 20, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Jose, California

February 12, 2024

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
ASSETS		
Current assets		
Cash	$ 1,620,227	$ 2,019,907
Accounts receivable	373,424	394,260
Contributions and grants receivable	39,747	9,747
Note receivable - West Bay Housing Corporation, current portion	41,315	39,888
Prepaid expenses and deposits	63,954	45,089
Total current assets	2,138,667	2,508,891
Property and equipment, net	60,073,148	58,765,927
Other assets		
Note receivable - West Bay Housing Corporation, net of current portion	3,505	48,203
Housing predevelopment funds	208,656	162,194
Replacement reserves	1,355,380	1,473,963
Operating reserve	70,215	68,257
Surplus funds reserve	748,998	721,811
Debt service reserve	4,280,110	4,280,110
Total other assets	6,666,864	6,754,538
Total assets	$ 68,878,679	$ 68,029,356

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 43,917	$ 240,226
Deferred revenue	440,249	389,578
CHFFA bonds payable, current portion	3,666,135	3,440,133
Mortgages and notes payable, current portion	173,363	150,220
Accrued interest, current portion	90,000	80,000
Total current liabilities	4,413,664	4,300,157
Long-term liabilities		
CHFFA bonds payable, net of current portion	5,548,519	9,076,154
Mortgages and notes payable, net of current portion	9,940,350	9,394,931
Accrued interest, net of current portion	395,481	403,811
Total long-term liabilities	15,884,350	18,874,896
Total liabilities	20,298,014	23,175,053
Net assets		
Without donor restrictions		
Operating fund	1,043,621	1,278,921
Restricted deposits and reserves	6,454,703	6,544,141
Property and equipment fund	33,984,423	30,586,005
Total without donor restrictions	41,482,747	38,409,067
With donor restrictions		
Home modification fund	84,084	76,467
Housing predevelopment fund	253,476	250,285
Property and equipment fund	6,760,358	6,118,484
Total with donor restrictions	7,097,918	6,445,236
Total net assets	48,580,665	44,854,303
Total liabilities and net assets	$ 68,878,679	$ 68,029,356

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Activities
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Revenue, support, and gains (losses)				
Rental income	$ 5,858,309	$ -	$ 5,858,309	$ 5,811,215
Property management income	1,481,980	-	1,481,980	1,390,264
Contributions and grants	689,348	783,400	1,472,748	1,134,076
Special events, net of $49,620 event expenses	98,629	7,618	106,247	76,467
Other income	37,122	-	37,122	59,992
Interest income	16,831	3,190	20,021	4,513
Loss on sale and disposal of property and equipment	-	-	-	(1,236,523)
Net assets released from restriction	141,526	(141,526)	-	-
Total revenue, support, and gains (losses)	8,323,745	652,682	8,976,427	7,240,004
Functional expenses				
Program services				
Project development	423,086	-	423,086	364,814
Property management	4,234,877	-	4,234,877	4,157,893
Total program services	4,657,963	-	4,657,963	4,522,707
Support services				
Management and general	362,151	-	362,151	293,108
Fundraising	229,951	-	229,951	174,806
Total support services	592,102	-	592,102	467,914
Total functional expenses	5,250,065	-	5,250,065	4,990,621
Change in net assets	3,073,680	652,682	3,726,362	2,249,383
Net assets, beginning of year	38,409,067	6,445,236	44,854,303	42,604,920
Net assets, end of year	$ 41,482,747	$ 7,097,918	$ 48,580,665	$ 44,854,303

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Program Services			Support Services		
	Project Development	Property Management	Total Program Services	Management and General	Fundraising	
Personnel expenses						
Salaries	$ 306,467	$ 212,875	$ 519,342	$ 156,043	$ 139,911	$
Payroll taxes and benefits	47,661	33,106	80,767	24,267	21,758	
Total personnel expenses	354,128	245,981	600,109	180,310	161,669	
Interest	-	1,413,884	1,413,884	-	-	
Depreciation	-	1,111,702	1,111,702	-	-	
Repairs and maintenance	-	1,056,642	1,056,642	-	-	
Property taxes	-	283,586	283,586	-	-	
Professional services	-	-	-	136,870	36,800	
Insurance	36,582	100,594	137,176	18,626	16,700	
Rent	11,881	8,253	20,134	6,050	5,424	
Office expense	7,913	5,496	13,409	4,029	3,612	
Telephone	6,709	4,660	11,369	3,416	3,064	
Travel and conferences	5,873	4,079	9,952	2,990	2,682	
California LLC taxes	-	-	-	7,600	-	
Utilities	-	-	-	1,863	-	
Miscellaneous	-	-	-	397	-	
Pre-development expenses	-	-	-	-	-	
Bad debt expense	-	-	-	-	-	
	$ 423,086	$ 4,234,877	$ 4,657,963	$ 362,151	$ 229,951	$
Percentage of total	8.1 %	80.7 %	88.8 %	6.9 %	4.3 %	

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
Cash flows from operating activities		
Change in net assets	$ 3,726,362	$ 2,249,383
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Proceeds from grants restricted for purchase of property and equipment	(783,400)	(1,108,000)
Depreciation	1,111,702	1,094,391
Amortization of debt issuance costs	175,583	174,646
Loss on sale and disposal of property and equipment	-	1,236,523
Changes in operating assets and liabilities		
Accounts receivable	20,836	(118,253)
Contributions and grants receivable	(30,000)	3,000
Prepaid expenses and deposits	(18,865)	(23,797)
Accounts payable and accrued expenses	1,745	(6,754)
Deferred revenue	50,671	2,536
Accrued interest	1,670	30,020
Net cash provided by operating activities	4,256,304	3,533,695
Cash flows from investing activities		
Purchase of property and equipment	(2,616,977)	(1,281,678)
Payments received on notes receivable - WBHC	43,271	38,614
Net cash used in investing activities	(2,573,706)	(1,243,064)
Cash flows from financing activities		
Payment for debt issuance costs	(21,388)	(16,358)
Proceeds from mortgages and notes payable	740,000	570,000
Payments on mortgages and notes payable	(158,186)	(133,878)
Payments on bonds payable	(3,469,080)	(3,253,438)
Proceeds from grants restricted for purchase of property and equipment	783,400	1,108,000
Net cash used in financing activities	(2,125,254)	(1,725,674)
Net increase (decrease) in cash	(442,656)	564,957
Cash and restricted cash, beginning of year	8,726,242	8,161,285
Cash and restricted cash, end of year	$ 8,283,586	$ 8,726,242

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
Cash and restricted cash consisted of the following:		
Cash	$ 1,620,227	$ 2,019,907
Housing predevelopment funds	208,656	162,194
Replacement reserves	1,355,380	1,473,963
Operating reserve	70,215	68,257
Surplus funds reserve	748,998	721,811
Debt service reserve	4,280,110	4,280,110
	$ 8,283,586	$ 8,726,242

Supplemental disclosure of cash flow information

Cash paid during the year for interest	$ 1,294,023	$ 1,461,106

Supplemental schedule of noncash investing and financing activities

Construction in progress included in accounts payable and accrued expenses	$ -	$ 198,055

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

1. NATURE OF ACTIVITIES

Bay Area Housing Corporation ("BAHC" or the "Organization") was established in April 2003 in response to the need for alternative housing solutions for the individuals being displaced by the closure of Agnews Developmental Center.

The mission is to develop and maintain housing, scattered within the community, which would provide a safe, supportive environment for people with intellectual and developmental disabilities.

BAHC's history

In cooperation with the Department of Developmental Services, San Andreas Regional Center ("SARC") and Golden Gate Regional Center ("GGRC"), the Organization has developed a well-respected housing organization with a financially sustainable portfolio.

BAHC currently owns 50 scattered site, single family homes in the Bay Area. Homes will provide PERMANENT housing opportunities for a vulnerable and often invisible part of our Community. Current capacity provides specialized housing for up to 200 individuals at any one time. Over the years, BAHC's homes have been a safe, supportive home for an estimated 400 people, and will continue to be a community resource into the future.

Casa Milagro

In 2007, the Organization formed a limited liability company, Casa Milagro, LLC. This LLC holds the 32 homes acquired under the Bay Area Housing Plan, between 2003 and 2011. These properties were refinanced with a 15 year bond issued in 2011 (see Note 8).

Mas Milagros

In 2010, the Organization formed another limited liability company, Mas Milagros, LLC. This LLC holds 4 properties, acquired between 2011 and 2015. These properties have "forgivable" loans from City and County of Santa Clara, and are encumbered by restrictive covenants. Interest is accrued annually, however no payments are made and loans will be forgiven over time.

CPP properties

CPP holds 14 properties acquired under the Community Placement Plan ("CPP"), between 2016 and 2023. These properties were financed with a combination of grants from the State of California and commercial loans.

In fiscal 2022-23, the Organization added one home to the CPP portfolio. Renovations are ongoing at year end. BAHC is actively working on contracts to acquire and renovate two additional CPP homes in the next year.

1. NATURE OF ACTIVITIES (continued)

Primary sources of revenues

The Organization's primary sources of revenue are rental income from the 49 homes in operation and associated property management fees. Long-term lease agreements have been entered into with tenants sponsored by SARC and paid with state appropriated funds. These funds are obligated under state law to provide services to persons with developmental disabilities. The Organization also offers property management services for low-income properties and special projects, such as construction management, and providing consultation for creating and managing customized housing for persons with developmental disabilities.

Starting in fiscal 2021-22, the Organization increased fundraising activities, raising money specifically intended to assist low-income individuals with intellectual and developmental disabilities who require modifications to their homes to improve quality of life.

In general

Since its inception, the Organization has sustained an experienced, supportive Board of Directors consisting primarily of parents of children with developmental disabilities.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Not-for-profits that: 1) have a majority of voting interest; 2) have economic interest; and 3) exercise economic control over a related entity, are required to consolidate their financial statements. Casa Milagro, LLC and Mas Milagros, LLC meet the above criteria and are consolidated into the Organization's financial statements. The two LLCs, of which the Organization is the sole member, are California limited liability companies operated exclusively to further the tax exempt charitable purposes of the sole member. All significant intercompany transactions have been eliminated.

Method of accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- *Net assets with donor restrictions* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting year (see Note 12). Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments. There are no net assets held in perpetuity as of June 30, 2023 and 2022.

Adoption of accounting standards updated

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as right-of-use ("ROU") assets and corresponding lease liabilities on the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liabilities should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liabilities will bear interest expense and be reduced for lease payments.

ASU 2016-02 is effective for the fiscal year beginning after December 15, 2021. The Organization adopted ASU 2016-02 on July 1, 2022, using the modified retrospective approach.

The adoption of the new lease accounting standard had no impact on the Organization's consolidated statement of financial position, operating results and cash flows.

Use of estimates

The presentation 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the expected useful lives of property and equipment, and the determination of functional expense allocations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash consists of cash on hand and cash in demand deposit accounts. Not included in cash are funds restricted as to their use, regardless of their liquidity. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. The Organization's cash balance included no cash equivalents as of June 30, 2023 and 2022.

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables and allowance for doubtful accounts

The Organization uses the specific write-off method to provide for doubtful accounts since management's estimation indicates an allowance for such accounts is immaterial.

Property and equipment

All property and equipment are stated at cost, or if donated, recorded as support at the estimated fair value at the time of donation. Major improvements or additions over $2,500 are charged to the property and equipment accounts. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Impairment of long-lived assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2023 and 2022, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

Depreciation

Depreciation is computed based on the straight-line method over the estimated useful lives of fixed assets, which range from 3 to 40 years (see Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of the debt issuance costs is calculated using the straight-line method, which approximates the effective interest method and is reported as a component of interest expense.

Contributions and grants

Contributions and grants are recorded as revenue without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a donor 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 restriction. Contributions and grants with donor restrictions are reported as an increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions and grants are recognized. Contributions and grants including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, which is when donor stipulated barriers are overcome and the Organization is entitled to the assets transferred or promised.

Revenue recognition

The Organization follows the following steps to determine revenue recognition for program income including property management:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),
- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Organization satisfies a performance obligation.

Retirement plan

The Organization has a Simple IRA retirement plan, which covers substantially all full-time employees. The Organization contributes up to 3% of an eligible employee's gross salary. The contribution for the years ended June 30, 2023 and 2022 was $13,916 and $14,183, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expense allocations

Directly identifiable expenses are charged to program and support services. Expenses related to more than one function are charged to programs and support services on the basis of salary expense. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income tax status

U.S. GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns and its state limited liability company tax returns are more likely than not to be sustained upon examination.

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the previous 3 years remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the previous 4 years remain subject to possible examination by the Franchise Tax Board.

Summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional revenue and expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended June 30, 2022 for comparative purposes to conform with the presentation in the current year consolidated financial statements.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2023 for potential recognition or disclosure in the consolidated financial statements. The Organization did not have subsequent events that required recognition or disclosure in the consolidated financial statements for the fiscal year ended June 30, 2023. Subsequent events have been evaluated through the date the consolidated financial statements became available to be issued, February 12, 2024.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Organization's liquidity management, it structures its financial assets to be available as its operating expenditures, liabilities, and other obligations come due.

To meet liquidity needs, the Organization maintains adequate levels of cash and cash equivalents available. Accounts receivable, contributions and grants receivable, and note receivable - West Bay Housing Corporation that are considered current will be collected within one year.

In addition, the Organization maintains funds in reserves for operating and replacement accounts. These funds are used for the benefit of the tenants and/or the Organization. Such funds are not considered by the Organization to have donor restrictions. If there are emergency replacements and repairs that cannot be covered by operating cash, the Organization can request funds to be temporarily released from the reserve accounts. Funds will then be returned back to the reserve accounts once operating cash becomes available.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2023 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash	$ 1,620,227
Accounts receivable	373,424
Contributions and grants receivable	39,747
Note receivable - West Bay Housing Corporation	44,820
Housing predevelopment funds	208,656
	2,286,874
Less: amounts unavailable to meet cash needs for general expenditures	
Funds subject to purpose restriction - Home modification fund	(84,084)
Funds subject to purpose restriction - Housing predevelopment fund	(253,476)
	(337,560)
	$ 1,949,314

4. NOTE RECEIVABLE

West Bay Housing Corporation

The Organization advanced $500,000 to West Bay Housing Corporation ("WBHC") per authorization of the Steering Committee of the Bay Area Housing Plan for the purchase of properties pursuant to the Bay Area Housing Plan. The source of the funds is the SARC housing predevelopment advance (see Note 7). The advance to WBHC is subject to the conditions established in a promissory note agreement between WBHC and the Organization dated July 20, 2009. Monthly payments of principal and interest of $3,513 are due through July 2024 at an interest rate of 3.25% per annum. The balance of the note receivable from WBHC is $44,820 and $88,091 as of June 30, 2023 and 2022, respectively. Interest earned and received for the years ended June 30, 2023 and 2022 totaling of $2,403 and $3,546, respectively, is restricted for related predevelopment expenses.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2023	2022
Land	$ 26,497,554	$ 25,467,554
Land improvements	847,098	825,398
Buildings and building improvements	43,912,852	41,735,422
Furniture and fixtures	17,826	17,826
Construction in progress	1,741,575	2,551,782
	73,016,905	70,597,982
Accumulated depreciation	(12,943,757)	(11,832,055)
	$ 60,073,148	$ 58,765,927

Depreciation expense for the years ended June 30, 2023 and 2022 was $1,111,702 and $1,094,391, respectively.

6. RESTRICTED DEPOSITS AND RESERVES

Housing predevelopment funds

The Organization holds housing predevelopment funds available for disbursement. The balance as of June 30, 2023 and 2022 was $208,656 and $162,194, respectively (see Note 7).

6. RESTRICTED DEPOSITS AND RESERVES (continued)

Replacement reserves

The Organization is required to maintain reserves for capital improvements, maintenance, repair and replacement of major components of its properties, to be funded on a monthly basis at varying rates per property ranging from $2,400 to $3,600 per year. Disbursements from the reserve require prior approval from the lender and/or SARC.

The replacement reserves activity detail is as follows:

	2023	2022
Balance, beginning of year	$ 1,473,963	$ 1,423,342
Monthly funding and interest earned	182,047	160,511
Authorized withdrawals	(300,630)	(109,890)
Balance, end of year	$ 1,355,380	$ 1,473,963

Interest earned during the years ended June 30, 2023 and 2022 was $11,047 and $911, respectively.

Operating reserve

The Organization acquired 455 Cypress Avenue located in San Jose by assuming the seller's outstanding loans on the property and carried operating reserves along with the loans. Reserves consist of unrestricted funds. The balance as of June 30, 2023 and 2022 was $70,215 and $68,257, respectively.

Surplus funds reserve

The surplus funds reserve, also known as the prepayment account, represents the accumulation of funds from rents which proved to be higher than the property taxes they were meant to pay. Currently the Organization uses the surplus funds reserve to pay two types of expenses: (1) maintenance and repair expenses as provided for in the November 2016 BAHP HOMES: Policies and Procedures for Maintenance Services and Repairs; and (2) certain professional fees and bank charges associated with Casa Milagro's ownership of 32 BAHP properties. The balance in the surplus funds reserve amounted to $748,998 and $721,811, as of June 30, 2023 and 2022, respectively.

Debt service reserve

Concurrent with the bond refinancing (see Note 8), $4,269,387 was deposited to a debt service reserve fund held in trust by the bond trustee. As of June 30, 2023 and 2022, the debt service reserve was $4,280,110 and $4,280,110, respectively.

7. HOUSING PREDEVELOPMENT FUND ADVANCE

SARC made available a fund, originally in the amount of $3,360,672, to be used for housing predevelopment costs as outlined in a Bay Area Housing Plan agreement in which BAHC is the trustee. The funds were primarily lent out for the development of housing and repaid with interest. During the year ended June 30, 2018, all funds less authorized expenditures were repaid to SARC after the plan was fully implemented. All interest earned is restricted for housing predevelopment purposes and included in the net assets with donor restrictions balance (see Notes 4 and 12).

The fund balance detail is as follows:

	2023	2022
Fund assets		
Note receivable - West Bay Housing Corporation	$ 44,820	$ 88,091
Housing predevelopment funds	208,656	162,194
	$ 253,476	$ 250,285
Fund net assets		
Net assets with donor restrictions - housing predevelopment fund interest income	$ 253,476	$ 250,285
	$ 253,476	$ 250,285

8. CHFFA BONDS PAYABLE

The Organization refinanced its indebtedness on 32 homes under a loan agreement dated February 1, 2011 between Casa Milagro, LLC and California Health Facilities Financing Authority ("CHFFA"), a public instrumentality of the State of California, using proceeds allocated from its issuance of Tax-Exempt Series 2011A and Taxable Series 2011B Insured Revenue Bonds (Community Program for Persons with Developmental Disabilities), pursuant to the Bay Area Housing Plan. The total amount allocated to Casa Milagro, LLC net of premium and discount was $41,610,258. The bond debt is fully amortizable over a fifteen-year term with payments of principal and interest due monthly in the amount of $359,130 through February 1, 2026. Interest rates range from 2.12% in year one to 7.88% in year fifteen. The loan is secured by the underlying properties.

8. CHFFA BONDS PAYABLE (continued)

Bonds payable consisted of the following:

	2023	2022
Bonds payable	$ 9,591,312	$ 13,034,192
Unamortized bond premium and discount, net	69,868	96,068
	9,661,180	13,130,260
Less: current portion	(3,666,135)	(3,440,133)
Less: unamortized debt issuance cost	(446,526)	(613,973)
	$ 5,548,519	$ 9,076,154

The future maturities of the bonds payable are as follows:

Year ending June 30,	
2024	$ 3,666,135
2025	3,910,755
2026	2,014,422
	$ 9,591,312

Interest expense on the bonds for the years ended June 30, 2023 and 2022 was $840,481 and $1,056,125, respectively. Amortization of debt issuance costs on the bonds for the years ended June 30, 2023 and 2022 was $167,447 and $167,447, respectively.

9. MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable are detailed as follows:

	2023	2022
City of Santa Clara RDA note (2010) - The Organization assumed debt with the City of Santa Clara Redevelopment Agency through a loan assignment and assumption agreement dated November 9, 2010, in exchange for property acquired from Bracher HDC, Inc. The note accrues simple interest at the rate of 2% per annum. Payments of $10,000 are due annually starting on December 1, 2015, to be applied to accrued and current interest first. All unpaid principal and interest is due at maturity on August 1, 2033.	$ 1,246,000	$ 1,246,000
City of Santa Clara RDA loan (2012) - Mas Milagros, LLC ("Mas") assumed a note with the City of Santa Clara Redevelopment Agency through a loan assignment and assumption agreement dated August 28, 2012, in exchange for property acquired from Senior Housing Solutions. The note, bearing no interest, is due at maturity on August 31, 2065.	393,858	393,858
City of Santa Clara HOME loan - Mas Milagros, LLC assumed a note with the City of Santa Clara through a loan assignment and assumption agreement dated August 28, 2012, in exchange for property acquired from Senior Housing Solutions. The note, bearing no interest, is due at maturity on July 13, 2030. As long as the property continues to be used to provide affordable housing and services to extremely low income persons with developmental disabilities, no repayment is required to the City.	488,244	488,244

9. MORTGAGES AND NOTES PAYABLE (continued)

	2023	2022
County of Santa Clara HOME loan - Mas Milagros, LLC assumed a note with the County of Santa Clara through a loan assignment and assumption agreement dated August 21, 2012, in exchange for property acquired from Senior Housing Solutions. The note, bearing 3% interest, is due at maturity on July 13, 2065. Payments of principal and interest are contingent on the availability of residual receipts as defied in the note. Residual receipts are kept by Mas until the threshold of $25,000 is reached. Once the threshold is attained, 50% of residual receipts will be used to make payments to the County of Santa Clara HOME loan.	170,000	170,000
Housing Trust loan - Mas Milagros, LLC assumed a note with the Opportunity Fund Northern California through a loan assignment and assumption agreement dated June 5, 2012, in exchange for property acquired from Senior Housing Solutions. The loan was assigned to Housing Trust Silicon Valley on January 1, 2013. The note bears no interest. Mas has an option to keep residual receipts as defined in the note, or use 100% of residual receipts to pay down the note. Unpaid principal is due at maturity on August 1, 2065.	100,000	100,000
First Republic Bank loan - the Organization entered into a loan agreement dated April 12, 2017, in the amount of $404,799, bearing 4.5% simple interest, to acquire a property located in South San Francisco. In June 2017 monthly payments of principal and interest in the amount of $2,051 commenced. Final payment of all outstanding principal and interest shall be made May 1, 2047.	360,134	368,339
First Republic Bank loan - the Organization entered into a loan agreement dated May 24, 2017, in the amount of $584,000, bearing 4.5% simple interest, to acquire a property located in Daly City. In July 2017 monthly payments of principal and interest in the amount of $2,595 commenced. Final payment of all outstanding principal and interest shall be made June 1, 2047.	520,568	532,362

9. MORTGAGES AND NOTES PAYABLE (continued)

	2023	2022
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated December 2, 2016, in the amount of $615,038, bearing 6.0% simple interest, to acquire a property located in San Martin. In February 2017 monthly payments of principal and interest in the amount of $3,721 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2047.	559,490	569,639
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated April 18, 2017, in the amount of $593,722, bearing 6.15% simple interest, to acquire a property located in Morgan Hill. In June 2017 monthly payments of principal and interest in the amount of $3,794 commenced. Final payment of all outstanding principal and interest shall be made May 1, 2044.	528,129	540,141
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated April 18, 2017, in the amount of $560,267, bearing 6.15% simple interest, to acquire a property located in Morgan Hill. In June 2017 monthly payments of principal and interest in the amount of $3,581 commenced. Final payment of all outstanding principal and interest shall be made May 1, 2044.	498,370	509,705
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated December 9, 2016, in the amount of $666,000, bearing 6.15% simple interest, to acquire a property located in San Martin. In February 2017 monthly payments of principal and interest in the amount of $4,030 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2047.	606,292	617,201

9. MORTGAGES AND NOTES PAYABLE (continued)

	2023	2022
Santa Cruz County Bank - the Organization entered into a loan agreement dated September 19, 2016, in the amount of $611,500, bearing 6.5% simple interest, to acquire a property located in Santa Cruz. In November 2016 monthly payments of principal and interest in the amount of $3,903 commenced. Final payment of all outstanding principal and interest shall be made October 5, 2046.	556,730	566,520
First Republic Bank loan - the Organization entered into a loan agreement dated July 5, 2017, in the amount of $811,292, bearing 4.5% simple interest, to acquire a property located in San Jose. In September 2017 monthly payments of principal and interest in the amount of $4,111 commenced. Final payment of all outstanding principal and interest shall be made August 1, 2047.	725,955	742,216
Santa Cruz County Bank - the Organization entered into a loan agreement dated September 25, 2018, in the amount of $535,000, bearing 6.5% simple interest, to acquire a property located in Hollister. In October 2018 monthly payments of principal and interest in the amount of $3,599 commenced. Final payment of all outstanding principal and interest shall be made September 5, 2043.	489,899	500,848
Santa Cruz County Bank - the Organization entered into a loan agreement dated March 11, 2019, in the amount of $640,000, bearing 6.5% simple interest, to acquire a property located in Hollister. In April 2019 monthly payments of principal and interest in the amount of $4,044 commenced. Final payment of all outstanding principal and interest shall be made March 5, 2049.	602,309	611,464
Choice Financial Group - the Organization entered into a loan agreement dated December 20, 2019, in the amount of $660,000, bearing 5.0% simple interest, to acquire a property located in San Juan Bautista. In February 2020 monthly payments of principal and interest in the amount of $3,543 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2050.	624,624	635,609

9. MORTGAGES AND NOTES PAYABLE (continued)

	2023	2022
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated December 7, 2020, in the amount of $622,102, bearing 5.75% simple interest, to acquire a property located in Watsonville. In February 2021 monthly payments of principal and interest in the amount of $4,099 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2044.	589,768	603,928
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated November 29, 2021, in the amount of $570,000, bearing 5.75% simple interest, to acquire a property located in Watsonville. In February 2022 monthly payments of principal and interest in the amount of $3,837 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2044.	552,082	565,343
Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated November 29, 2022 in the amount of $740,000, bearing 5.25% simple interest, to acquire a property located in Farnham Drive. In November 2022 monthly payments of principal and interest in the amount of $4,468, commenced. Final payment of all outstanding principal and interest shall be made October 1, 2047.	730,779	-
	10,343,231	9,761,417
Less unamortized debt issuance costs	(229,518)	(216,266)
	10,113,713	9,545,151
Current portion	(173,363)	(150,220)
	$ 9,940,350	$ 9,394,931

9. MORTGAGES AND NOTES PAYABLE (continued)

The future maturities of the mortgages and notes payable are as follows:

Year ending June 30,	
2024	$ 173,363
2025	184,110
2026	194,797
2027	206,768
2028	216,543
Thereafter	9,367,650
	$ 10,343,231

Amortization of debt issuance costs on the mortgages and notes for the years ended June 30, 2023 and 2022 was $8,136 and $7,199, respectively.

10. ACCRUED INTEREST

Accrued interest consisted of the following:

	2023	2022
City of Santa Clara RDA note (2010)	$ 430,331	$ 433,761
County of Santa Clara HOME loan	55,150	50,050
	485,481	483,811
Accrued interest, current portion	(90,000)	(80,000)
	$ 395,481	$ 403,811

11. INTEREST EXPENSE

Interest expense consisted of the following:

	2023	2022
CHFFA bonds	$ 840,481	$ 1,056,125
City of Santa Clara RDA note (2010)	24,920	24,920
County of Santa Clara HOME loan	5,100	5,100
CPP Properties various loans	367,800	356,403
Amortization of debt issuance costs	175,583	174,646
	$ 1,413,884	$ 1,617,194

11. INTEREST EXPENSE (continued)

$75,923 and $48,578 of interest incurred for the years ended June 30, 2023 and 2022, respectively, was capitalized to property costs.

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2023	2022
Home modification fund	$ 84,084	$ 76,467
Housing predevelopment fund *	253,476	250,285
Property and equipment fund	6,760,358	6,118,484
	$ 7,097,918	$ 6,445,236

* In the event fund is not used for the intended restricted purpose, the entire amount from housing predevelopment costs will be repaid to SARC at the culmination of the Bay Area Housing Plan (see Note 7).

13. RENTAL INCOME

Rental income consisted of the following:

	2023	2022
Property lease income	$ 5,605,132	$ 5,546,012
Property tax reimbursement	175,577	188,403
Replacement reserve payments	77,600	76,800
	$ 5,858,309	$ 5,811,215

14. PROPERTY MANAGEMENT INCOME

Property management income consisted of the following:

	2023	2022
Property management fees	$ 486,552	$ 505,463
Property repairs and maintenance reimbursement	706,534	637,581
Property maintenance contract fees	266,918	215,946
Property insurance reimbursement	21,976	24,973
Property management administration fees	-	6,301
	$ 1,481,980	$ 1,390,264

15. COMMITMENTS AND CONTINGENCIES

Commitment

The Organization, under restrictions as outlined in various agreements with the California Department of Developmental Services and the City of Santa Clara Redevelopment Agency, is to maintain all owned properties solely as long-term residences for the benefit of persons who are intellectually and developmentally disabled.

Lease

The Organization conducts its operations from office space leased under month-to-month basis. Lease expense for the office space for the years ended June 30, 2023 and 2022 was $31,608 and $33,395, respectively.

SUPPLEMENTARY INFORMATION

Bay Area Housing Corporation and Affiliates
Consolidating Statement of Financial Position
June 30, 2023 and 2022

ASSETS

	BAHC (without CPP)	CPP Projects	Eliminating Entries	BAHC	Casa Milagro, LLC	Mas Milagros, LLC	Elim En
Current assets							
Cash	$ 1,005,609	$ 565,025	$ -	$ 1,570,634	$ -	$ 49,593	$
Due from related parties	59,940	-	(16,504)	43,436	-	-	(
Accounts receivable	261,486	-	-	261,486	111,938	-	
Contributions and grants receivable	39,747	-	-	39,747	-	-	
Note receivable - West Bay Housing Corporation, current portion	41,315	-	-	41,315	-	-	
Prepaid expenses and deposits	63,954	-	-	63,954	-	-	
Total current assets	1,472,051	565,025	(16,504)	2,020,572	111,938	49,593	(
Property and equipment, net	-	19,646,087	-	19,646,087	37,137,342	3,289,719	
Other assets							
Note receivable - West Bay Housing Corporation, net of current portion	3,505	-	-	3,505	-	-	
Housing predevelopment funds	208,656	-	-	208,656	-	-	
Replacement reserves	-	148,719	-	148,719	719,516	487,145	
Operating reserve	-	-	-	-	-	70,215	
Surplus funds reserve	-	-	-	-	748,998	-	
Debt service reserve	-	-	-	-	4,280,110	-	
Total other assets	212,161	148,719	-	360,880	5,748,624	557,360	
Total assets	$ 1,684,212	$ 20,359,831	$ (16,504)	$ 22,027,539	$ 42,997,904	$ 3,896,672	$ (

Bay Area Housing Corporation and Affiliates
Consolidating Statement of Financial Position
June 30, 2023 and 2022

LIABILITIES AND NET ASSETS

	BAHC (without CPP)	CPP Projects	Eliminating Entries	BAHC	Casa Milagro, LLC	Mas Milagros, LLC	Elim En
Current liabilities							
Accounts payable and accrued expenses	$ 25,139	$ 18,778	$ -	$ 43,917	$ -	$ -	$
Deferred revenue	-	81,119	-	81,119	359,130	-	
CHFFA bonds payable, current portion	-	-	-	-	3,666,135	-	
Mortgages and notes payable, current portion	-	173,363	-	173,363	-	-	
Accrued interest, current portion	-	-	-	-	-	90,000	
Due to related parties	-	16,504	(16,504)	-	40,516	2,920	(
Total current liabilities	25,139	289,764	(16,504)	298,399	4,065,781	92,920	(
Long-term liabilities							
CHFFA bonds payable, net of current portion	-	-	-	-	5,548,519	-	
Mortgages and notes payable, net of current portion	-	7,575,634	-	7,575,634	-	2,364,716	
Accrued interest, net of current portion	-	-	-	-	-	395,481	
Total long-term liabilities	-	7,575,634	-	7,575,634	5,548,519	2,760,197	
Total liabilities	25,139	7,865,398	(16,504)	7,874,033	9,614,300	2,853,117	(
Net assets							
Without donor restrictions	1,321,513	5,734,075	-	7,055,588	33,383,604	1,043,555	
With donor restrictions	337,560	6,760,358	-	7,097,918	-	-	
Total net assets	1,659,073	12,494,433	-	14,153,506	33,383,604	1,043,555	
Total liabilities and net assets	$ 1,684,212	$ 20,359,831	$ (16,504)	$ 22,027,539	$ 42,997,904	$ 3,896,672	$ (

Bay Area Housing Corporation and Affiliates
Consolidating Statement of Activities
For The Years Ended June 30, 2023 and 2022

	BAHC (without CPP)	CPP Projects	Eliminating Entries	BAHC	Casa Milagro, LLC	Mas Milagros, LLC	Elim En
Revenue, support, and gains (losses)							
Rental income	$ -	$ 1,192,176	$ -	$ 1,192,176	$ 4,562,741	$ 103,392	$
Property management income	2,321,599	-	(480,187)	1,841,412	485,823	-	(8
Contributions and grants	59,479	1,413,269	-	1,472,748	-	-	
Special events, net of $49,620 event expenses	106,247	-	-	106,247	-	-	
Development fee revenue	165,000	-	(165,000)	-	-	-	
Other income	1,819	-	-	1,819	6,800	28,503	
Interest income	5,002	1,087	-	6,089	10,025	3,907	
Loss on sale and disposal of property and equipment	-	-	-	-	-	-	
Total revenue, support, and gains (losses)	2,659,146	2,606,532	(645,187)	4,620,491	5,065,389	135,802	(8
Functional expenses							
Program services							
Project development	422,071	165,000	(165,000)	422,071	-	1,015	
Property management	1,370,935	1,365,308	(480,187)	2,256,056	2,514,561	309,515	(8
Total program services	1,793,006	1,530,308	(645,187)	2,678,127	2,514,561	310,530	(8
Supporting services							
Management and general	299,226	26,158	-	325,384	26,772	9,995	
Fundraising	229,488	-	-	229,488	-	463	
Total support services	528,714	26,158	-	554,872	26,772	10,458	
Total functional expenses	2,321,720	1,556,466	645,187	3,232,999	2,541,333	320,988	8
Change in net assets	337,426	1,050,066	-	1,387,492	2,524,056	(185,186)	
Net assets, beginning of year	1,321,647	11,444,367	-	12,766,014	30,859,548	1,228,741	
Net assets, end of year	$ 1,659,073	$ 12,494,433	$ -	$ 14,153,506	$ 33,383,604	$ 1,043,555	$

OTHER AUDIT REPORT

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
Bay Area Housing Corporation and Affiliates
Los Gatos, California

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 Bay Area Housing Corporation (a California nonprofit corporation) and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated February 12, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP

Armanino LLP
San Jose, California

February 12, 2024