The San Diego Lesbian, Gay, Bisexual and Transgender Community Center

Financial Statements and Supplemental Information

Year Ended June 30, 2021

Aldrich℠

THE SAN DIEGO LESBIAN, GAY, BISEXUAL AND TRANSGENDER COMMUNITY CENTER

Financial Statements and Supplemental Information

Year Ended June 30, 2021

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Aldrich

Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #1300
San Diego, CA 92108

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The San Diego Lesbian, Gay, Bisexual and Transgender Community Center

Report on the Financial Statements

We have audited the accompanying financial statements of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center as of June 30, 2021, 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.

Prior Period Financial Statements

The financial statements of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center as of June 30, 2020, were audited by other auditors whose report dated April 28, 2021, expressed an unmodified opinion on those statements.

Correction of an Error

As discussed in Note 15 to the financial statements, an error resulting in an understatement of net assets with donor restrictions related to revenue recognition as of June 30, 2020 and an error resulting in an understatement of net assets without donor restrictions was discovered during the current year. Accordingly, the amounts reported for net assets without donor restrictions and net assets with donor restrictions have been restated as of June 30, 2020 to correct the error. Our opinion is not modified with respect to this matter.

Other Matters

Other 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 information 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 March 17, 2023, on our consideration of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center'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 The San Diego Lesbian, Gay, Bisexual and Transgender Community Center'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 San Diego Lesbian, Gay, Bisexual and Transgender Community Center's internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

San Diego, California
March 17, 2023

THE SAN DIEGO LESBIAN, GAY, BISEXUAL AND TRANSGENDER COMMUNITY CENTER

Statement of Financial Position

June 30, 2021

ASSETS		
Current Assets:		
Cash	$	5,495,692
Accounts receivable		19,448
Government grants receivable		1,142,043
Promises to give		52,524
Prepaid expenses		111,561
Total Current Assets		6,821,268
Noncurrent Assets:		
Property and equipment, net of accumulated depreciation and amortization		4,986,003
Beneficial interests in assets held by others - endowment funds		844,091
Deposits		12,150
Total Noncurrent Assets		5,842,244
Total Assets	$	12,663,512
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	87,489
Accrued expenses		455,517
Deferred revenue		175,274
Total Current Liabilities		718,280
Noncurrent Liabilities:		
Accrued interest		188,000
Notes payable		3,878,746
Total Noncurrent Liabilities		4,066,746
Total Liabilities		4,785,026
Net Assets:		
Without donor restrictions		6,493,253
With donor restrictions		1,385,233
Total Net Assets		7,878,486
Total Liabilities and Net Assets	$	12,663,512

THE SAN DIEGO LESBIAN, GAY, BISEXUAL AND TRANSGENDER COMMUNITY CENTER

Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Government grants	$ 4,461,720	$ 40,000	$ 4,501,720
Contributions	3,704,726	7,565	3,712,291
Other grants	872,793	430,077	1,302,870
Paycheck Protection Program loan forgiveness	865,022	-	865,022
Investment return, net	846	193,418	194,264
In-kind interest contribution	104,362	-	104,362
Other income	72,117	-	72,117
Net assets released from restrictions, satisfaction of program restrictions	709,234	(709,234)	-
Total Revenue and Support	10,790,820	(38,174)	10,752,646
Expenses:			
Program services	6,290,791	-	6,290,791
Supporting services:			
Management and general	829,136	-	829,136
Fundraising	933,420	-	933,420
Total Expenses	8,053,347	-	8,053,347
Change in Net Assets	2,737,473	(38,174)	2,699,299
Net Assets, beginning as previously stated	3,488,402	1,553,285	5,041,687
Restatement (Note 15)	267,378	(129,878)	137,500
Net Assets, beginning as restated	3,755,780	1,423,407	5,179,187
Net Assets, ending	$ 6,493,253	$ 1,385,233	$ 7,878,486

THE SAN DIEGO LESBIAN, GAY, BISEXUAL AND TRANSGENDER COMMUNITY CENTER

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services						Supporting Services			
	Youth Drop-in and Housing Services	Community Services	HIV Services	Behavioral Health Services	Adult Housing Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Salaries and Related Expenses:										
Salaries and wages	$ 882,953	$ 681,906	$ 985,320	$ 775,186	$ 107,129	$ 3,432,494	$ 361,878	$ 548,150	$ 910,028	$ 4,342,522
Payroll taxes and fringe benefits	73,191	55,722	72,371	63,627	7,461	272,372	23,513	44,701	68,214	340,586
Employee benefits	44,912	44,648	71,110	53,366	5,329	219,365	52,114	35,866	87,980	307,345
	1,001,056	782,276	1,128,801	892,179	119,919	3,924,231	437,505	628,717	1,066,222	4,990,453
Other Expenses:										
Advertising, graphics, postage, and printing	3,449	9,416	25,238	4,465	387	42,955	2,749	41,656	44,405	87,360
Bank fees	-	60	-	617	-	677	8,059	44,349	52,408	53,085
Client services	39,375	50,887	6,889	64	45,722	142,937	4,377	-	4,377	147,314
Community events and outreach	941	17,626	4,698	337	69	23,671	711	7,672	8,383	32,054
Depreciation and amortization	138,900	3,929	-	-	-	142,829	128,958	-	128,958	271,787
Fundraising	-	212	-	-	-	212	555	17,816	18,371	18,583
Grant allocations	-	419,500	-	-	-	419,500	-	91,607	91,607	511,107
Insurance	43,059	17,015	26,462	19,392	2,889	108,817	29,613	13,169	42,782	151,599
Interest	-	-	-	-	-	-	116,362	-	116,362	116,362
Internet, telephone, and utilities	71,772	42,385	24,346	23,048	4,290	165,841	623	19,193	19,816	185,657
Memberships, dues, and subscriptions	-	-	-	-	-	-	-	3,997	3,997	3,997
Miscellaneous	-	1,820	-	-	-	1,820	4,076	-	4,076	5,896
Permits, fees, and property taxes	15,451	2,977	2,115	1,837	194	22,574	4,565	2,191	6,756	29,330
Professional fees and contracted services	197,910	160,809	76,312	16,749	2,187	453,967	39,132	26,681	65,813	519,780
Rent	64,450	79,715	-	-	483,637	627,802	454	1,408	1,862	629,664
Repairs and maintenance	13,461	1,569	1,539	1,952	264	18,785	1,176	901	2,077	20,862
Software, licensing, and maintenance	1,691	13,773	2,453	9,474	292	27,683	7,108	29,890	36,998	64,681
Staff development, training, and appreciation	1,285	1,895	2,185	1,771	26	7,162	2,379	252	2,631	9,793
Supplies	62,778	36,500	38,187	19,095	301	156,861	40,718	3,916	44,634	201,495
Travel	1,745	5	29	7	681	2,467	16	5	21	2,488
	$ 1,657,323	$ 1,642,369	$ 1,339,254	$ 990,987	$ 660,858	$ 6,290,791	$ 829,136	$ 933,420	$ 1,762,556	$ 8,053,347

THE SAN DIEGO LESBIAN, GAY, BISEXUAL AND TRANSGENDER COMMUNITY CENTER
Statement of Cash Flows

Year Ended June 30, 2021

Cash Flows from Operating Activities:		
Change in net assets	$	2,699,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		271,787
Change in value of beneficial interests in assets held by others - endowment funds		(193,418)
Paycheck Protection Program loan forgiveness		(865,022)
Accrued interest		12,000
Changes in operating assets and liabilities:		
Accounts receivable		(8,688)
Government grants receivable		90,845
Promises to give		105,681
Prepaid expenses and deposits		(12,676)
Outstanding transfers in excess of bank balance		(197,147)
Accounts payable and accrued expenses		25,759
Deferred revenue		175,274
Net Cash Provided by Operating Activities		2,103,694
Cash Flows Used by Investing Activities:		
Purchases of property and equipment		(28,674)
Net Increase in Cash		2,075,020
Cash, beginning		3,420,672
Cash, ending	$	5,495,692

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Activities
The San Diego Lesbian, Gay, Bisexual and Transgender Community Center (The Center) is San Diego's anchor organization for the lesbian, gay, bisexual, transgender, queer, (LGBTQ) and human immunodeficiency virus (HIV) community and one of the largest LGBTQ community centers in the nation, led by an 11-member Board of Directors, employing more than 69 paid staff, and utilizing more than 1,200 community volunteers to achieve its twin goals of promoting LGBTQ health/wellness and human rights in San Diego County.

The Center's mission is to enhance and sustain the health and well-being of the lesbian, gay, bisexual, queer, transgender, nonbinary, immigrant, and HIV communities to the betterment of our entire San Diego region. The Center accomplishes its mission by providing targeted programs and services to the full diversity of individuals that make up the San Diego LGBTQ community through the following core services and programs: Behavioral Health Services and Programs; Sexual Health and Wellness Services and Programs; Youth Drop-in and Housing Services and Programs; Adult Housing Services and Programs; Community Services and Programs; and Advocacy and Civic Engagement Programs.

New Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard update, along with related subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard under accounting principles generally accepted in the United States of America (US GAAP). During the year ended June 30, 2021, The Center adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

Management has analyzed the provisions of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has concluded that no changes to revenue recognition are necessary to conform with the new standard.

Financial Statement Presentation
The financial statements of The Center have been prepared in accordance with US GAAP which require The Center to report information regarding their financial position and activities according to the following net asset classifications:

- 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 Center. These net assets may be used at the discretion of The Center's management and the Board of Directors.

- 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 Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates
The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents
The Center considers all highly liquid investments available for current uses with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable
Accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding receivables at year-end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectable amounts. No allowance was considered necessary at June 30, 2021 because management believes all amounts are collectable.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Government Grants Receivable
Government grants receivable are recorded at estimated net realizable value. Past due status is determined based on how recently payments have been received. No allowance was considered necessary at June 30, 2021 because management believes all amounts are collectable.

Promises to Give
Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises to give that are expected to be collected in future years are discounted to their estimated net present value. After promises to give are originally recorded, an allowance for uncollectable promises to give may be established based on specific circumstances. No allowance was considered necessary at June 30, 2021 because management believes all amounts are collectable. All promises to give as of June 30, 2021 were due in one year or less.

Property and Equipment
The Center capitalizes all expenditures for property and equipment in excess of $2,500. Equipment and improvements are recorded at cost or at estimated fair value at date of gift if donated. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets of 3 to 40 years.

Property and equipment donated with explicit restrictions regarding the use or disposal are reported as assets with donor restrictions depending on the nature of the restrictions.

Intangible Assets
Intangible assets consist of the “AIDS Walk” and “Family Matters” names. The names had an initial value of $15,000 and were amortized over a period of 15 years. As of June 30, 2021, these intangible assets were fully amortized.

Beneficial Interests in Assets Held by Others
The Center has transferred assets to two local community foundations, The San Diego Foundation (SDF) and the San Diego Human Dignity Foundation (SDHDF), which are holding them as endowed agency funds (Funds) for the benefit of The Center as a named beneficiary. The Center has granted each community foundation variance power which gives the community foundations’ Board of Directors the power to use the Funds for other purposes in certain circumstances. The Center reports the fair value of the beneficial interest in assets held at the community foundations in the statements of financial position. Changes in the value of the Funds are reported as operating items in the statements of activities. Investment return on the beneficial interest in assets held by others is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

Revenue Recognition
The Center recognizes revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which The Center expects to be entitled in exchange for those goods or services. Revenues for The Center primarily consist of government grants, other grants, and contributions.

The Center recognizes revenue from contracts with customers when its performances obligations are satisfied, regardless of the period in which it is billed. This is typically over time as the service is provided or at a point in time when ownership, risks and rewards transfer, or upon completion of the service.

Government grants received are recognized in the period in which the related work is performed or when qualified expenses are incurred in accordance with the terms of the grant or contract. Government grants receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Revenue Recognition, continued
Contributions and other grants received 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. Donor restricted contributions and other grants are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. 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 statements of activities as net assets released from restrictions. Contributions and other grants received with donor-imposed restrictions that are satisfied within the same reporting period are reported as support without donor restrictions and increase net assets without donor restrictions. Conditional contributions and other grants, that is, those with a measurable performance or other barrier and right of return or release, are not recognized until the conditions on which they depend have been substantially met.

Noncash Contributions
Many individuals volunteer their time and perform a variety of tasks that assist The Center with various programs. The services do not meet the criteria for recognition as a contribution and are not reflected in the financial statements. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Contributions of noncash assets are recorded at their fair values in the period received.

Advertising
The Center follows the policy of charging the costs of advertising to expense as incurred.

Functional Expense Allocations
The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses which can be identified with a specific program or support service are allocated directly, according to their natural expense. Costs that are common to several functions are allocated among the program and supporting services in alignment with the cost allocation plan on the basis of full-time equivalents (FTE) or square footage, as determined by The Center’s management. Full-time equivalents and square footage are applied, as applicable, based on whether certain staff work at The Center and whether staff are assigned to project(s) of The Center that are or are not funded by a government grant.

Expenses allocated to staff that work at The Center are allocated by FTE to advertising, graphics, postage, printing, internet, telephone, software, licensing, maintenance, and supplies or square footage to utilities, repairs and maintenance. Expenses allocated to projects both funded or not funded by a government grant are allocated by FTE to bank fees, insurance, professional fees, administrative staff salaries and related payroll taxes and benefits.

Grant Allocations
From time to time, The Center contributes funds to other nonprofit organizations supporting like-minded causes based on recommendations from an advisory council. During the year ended June 30, 2021, The Center contributed $419,500 to such organizations. In addition, $91,607 was granted to several nonprofit organizations participating in Aids Walk San Diego.

Income Taxes
The Center is a qualified nonprofit organization that 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. However, The Center remains subject to taxes on any net income which is derived from a trade or business regularly carried on and unrelated to is exempt purpose.

The Center follows US GAAP related to the recognition of uncertain tax positions. The Center recognizes accrued interest and penalties associated with uncertain tax positions as part of the statements of activities, when applicable. Management has determined that The Center has no uncertain tax positions at June 30, 2021, and therefore, no amounts have been accrued.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements
The Center defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Center applies fair value measurements to assets and liabilities that are required to be recorded at fair value under US GAAP. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs and are categorized in a fair value hierarchy based on the transparency of inputs.

The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices 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.

The carrying value of cash, receivables, other assets and payables approximate fair values as of June 30, 2021, due to the relative short maturities of these instruments.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021.

Beneficial interest in assets: Valued at net present value of The Center's interest in the underlying assets.

Future Accounting Standards
The FASB has issued two substantial ASUs which will become effective in future years.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The primary change in US GAAP addressed by ASU 2016-02 is the requirement for a lessee to recognize on the statement of financial position a liability to make lease payments ("lease liability") and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 also requires qualitative and quantitative disclosures to enable the users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, although there are other optional practical expedients that entities may elect to apply. The Center is evaluating the effect that the provisions of ASU 2016-02 will have on its financial statements and related disclosures.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The purpose of ASU 2020-07 is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of nonfinancial assets were received and how they are used and recognized by The Center. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021.The Center is evaluating the effect that the provisions of ASU 2020-07 will have on its financial statements and related disclosures.

Subsequent Events
The Center has evaluated subsequent events through March 17, 2023, which is the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

The following reflects The Center's financial assets as of the statements of financial positions dates, reduced by amounts not available for general use because of contractual obligations within one year of the statement of financial position date.

		2021
Cash	$	5,495,692
Accounts receivable		19,448
Government grants receivable		1,142,043
Promises to give		52,524
Total financial assets		6,709,707
Less amounts not available to be used within one year:		
Restricted by donor with purpose or time restrictions		(449,142)
Financial assets available to meet cash needs for general expenditures within one year	$	6,260,565

The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of available funds. The Center structures its financial assets to be available as general expenditures and other obligations become due.

Note 3 - Concentrations of Credit Risk

The Center 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. The balances at times may exceed FDIC limits. The Center manages this risk by using high quality financial institutions.

One customer comprised 99% of accounts receivable, two grantors comprised 27% of government grants receivable, and two donors comprised 71% of promises to give at June 30, 2021. Two grantors comprised 32% of government grants, two donors comprised 52% of contributions, and two grantors comprised 31% of other grants for the year ended June 30, 2021.

Note 4 - Beneficial Interests in Assets Held by Others

Beneficial interests in assets held by others are classified as Level 3 according to the fair value standard due to significant unobservable inputs. SDF and SDHDF value securities and other financial instruments on a fair value basis of accounting. SDF and SDHDF invest in a variety of domestic stocks, international stocks, mutual funds, bonds, real assets, and other multi-strategy securities.

Changes in the fair value of Level 3 holdings are as follows for the year ended June 30, 2021:

Fair value, beginning	$	650,673
Investment return, net		193,418
Fair value, ending	$	844,091

The estimated fair values of certain investments of SDF and SDHDF, which include private placements and other securities for which prices are not readily available, are determined by the management of SDF and SDHDF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

Note 4 - Beneficial Interests in Assets Held by Others, continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SDF and SDHDF believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 5 - Property and Equipment

Property and equipment consist of the following for the year ended June 30, 2021:

Building and improvements	$ 8,024,115
Furniture and fixtures	364,675
Equipment	16,497
Intangible assets	15,000
	8,420,287
Less accumulated depreciation	(3,446,473)
	4,973,814
Construction in progress	12,189
	$ 4,986,003

Note 6 - Notes Payable

Paycheck Protection Program Loan
On May 1, 2020, The Center received a loan under the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief and Economic Security (CARES) Act in the amount of $865,022. This provided relief and resources to fund payroll and certain other expenses. The loan was forgiven on March 2, 2021 and is included in Paycheck Protection Program loan forgiveness on the statement of activities.

Youth Housing Loans
On October 18, 2005, The Center secured permanent financing for the acquisition and rehabilitation of the Sunburst Apartments, located at 1640 Broadway, San Diego CA 92101. Permanent financing came in the form of loans from the Centre City Development Corporation (CCDC), the San Diego Housing Commission (SDHC), the County of San Diego Department of Housing and Community Development (HCD), The Center's General Fund (Private Loan), and a $50,000 equity position provided by The Center.

Centre City Development Corporation
On October 18, 2005, The Center entered into a mortgage and security agreement with CCDC in the amount of $2,544,746. The terms of the note include interest at 3% per annum with payment of principal and interest deferred and due on November 1, 2060. In March 2007, CCDC agreed to provide $230,000 of additional funds for the purposes of repaying The Center for its contribution of funds to the rehabilitation of the building of $120,000 and to cover the U.S. Department of Housing and Urban Development (HUD) required loan flood insurance for the next ten years in the amount of $110,000. The note is secured by the apartment building.

As a condition of the loan agreement with CCDC, The Center is required to operate the Sunburst Apartments for a period of 55 years as affordable housing for young adults, ages 18 to 24, who have a qualifying disability and are either homeless or at-risk of becoming homeless. Further, of the 23 units at the Sunburst Apartments, 8 of the apartments must be occupied by persons whose incomes are no greater than 30% of the Area Median Income (AMI), as published and adjusted annually by HUD. The remaining 15 units must be occupied by persons whose incomes are no greater than 50% AMI. These restrictions remain in place for 55 years, regardless of whether the loans are repaid early.

Note 6 - Notes Payable, continued

Centre City Development Corporation, continued
Based upon a clarification letter provided by CCDC, dated April 27, 2009, accrued interest for this loan is not recorded, as CCDC considers this loan forgivable at maturity as long as The Center meets all other terms and conditions of the loan described above. In lieu of accrued interest, an annual interest amount is calculated and recorded as in-kind revenue and expense, recorded within contributions and interest expense on the statement of activities.

San Diego Housing Commission
On October 18, 2005, The Center entered into a mortgage and security agreement with the SDHC in the amount of $934,000. The terms of the note include interest at 3% per annum with principal and interest payments deferred and due on October 18, 2060. The note is secured by the apartment building.

As a condition of the loan agreement with the SDHC, The Center is required to operate the Sunburst Apartments for a period of 55 years as affordable housing for young adults, ages 18 to 24, who have a qualifying disability and are either homeless or at-risk of becoming homeless. Further, of the 23 units at the Sunburst Apartments, 8 of the apartments must be occupied by persons whose incomes are no greater than 30% of the Area Median Income (AMI), as published and adjusted annually by HUD. The remaining 15 units must be occupied by persons whose incomes are no greater than 50% AMI. These restrictions remain in place for 55 years, regardless of whether the loans are repaid early.

On July 9, 2010, the SDHC approved a loan modification for The Center for the Youth Housing Project by reducing the interest from 3% to zero percent for the $934,000 loan retroactively to the original loan date of October 20, 2005. In lieu of accrued interest, an annual interest amount is calculated and recorded as in-kind revenue and expense, recorded within contributions and interest expense on the statement of activities.

San Diego County Department of Housing and Community Development
On October 18, 2005, The Center entered into a mortgage and security agreement with the HCD in the amount of $400,000. The terms of the note include interest at 3% per annum with principal and interest payments deferred and due on October 18, 2060. The note is secured by the apartment building.

As a condition of the loan agreement with the HCD, The Center is required to operate 3 apartments at the Sunburst Apartments for a period of 55 years as affordable housing for young adults, ages 18 to 24, who have a confirmed diagnosis of HIV or AIDS and incomes no greater than 50% of the Area Median Income (AMI), as published and adjusted annually by HUD. These restrictions remain in place for 55 years, regardless of whether the loans are repaid early.

Total loans outstanding at June 30, 2021 consist of:

Noncurrent, due in 2060:	
Centre City Development Corporation	$ 2,544,746
San Diego Housing Commission	934,000
San Diego County Department of Housing and Community Development	400,000
	$ 3,878,746

In accordance with the terms of the note with the HCD, The Center accrued interest of 3% per annum for the interest payment that is deferred and due on October 18, 2060. Total amount accrued for interest as of June 30, 2021 was $188,000.

In-kind interest related to the loans from the CCDC and SDHC totaled $104,362 for the year ended June 30, 2021.

Note 7 - Restrictions on Net Assets

Net assets with donor restrictions consist of the following:

Purpose Restrictions:	
Unappropriated endowment earnings	$ 496,071
Engage San Diego	306,567
Youth drop-in and housing services	102,575
Behavioral health services	20,000
Property, plant, and equipment and capital improvements	20,000
	945,213
Time Restrictions:	
General use	92,000
Perpetual in Nature:	
Beneficial interests in assets held by others	348,020
	$ 1,385,233

Net assets with both purpose and time restrictions are reported within the purpose restrictions category.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donor as follows:

Satisfaction of Purpose Restrictions:	
Engage San Diego	$ 520,734
COVID-19 emergency relief funds	25,000
	545,734
Satisfaction of Time Restrictions:	
General use	163,500
	$ 709,234

Note 8 - Employee Benefit Plan

The Center provides a 401(k) defined contribution plan (Plan) for substantially all employees. In addition to employee contributions, The Center makes matching contributions to the Plan up to 2.5% of each participant's annual compensation. All Center employees who work at least 1,000 hours per year and are at least 21 years of age are eligible to participate. Contributions made by The Center to the Plan totaled $41,338 for the year ended June 30, 2021.

Note 9 - Endowments

The Center has two separate endowment funds: one is maintained by SDF and the other by the SDHDF. Both endowments were created to support and assist The Center in enhancing and sustaining the health and wellbeing of the lesbian, gay, bisexual, transgender, and HIV communities by funding The Center. Investment strategy, return objectives and risk parameters, and spending policy are determined by each respective community foundation. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 9 - Endowments, continued

The Board of Directors of The Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Center retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetuity is subject to appropriation for expenditure by the respective community foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, The Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund.
(2) The purposes of The Center and the donor-restricted endowment fund.
(3) General economic conditions.
(4) The possible effect of inflation and deflation.
(5) The expected total return from income and the appreciation of investments.
(6) Other resources of The Center.
(7) The investment policies of The Center.

At June 30, 2021, the endowment net assets composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-designated funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by the donor	$ -	$ 348,020	$ 348,020
Accumulated investment gains	-	496,071	496,071
Total endowment funds	$ -	$ 844,091	$ 844,091

Changes in endowment net assets for the year ended June 30, 2021 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 650,673	$ 650,673
Investment return, net	-	193,418	193,418
Endowment net assets, end of year	$ -	$ 844,091	$ 844,091

Note 10 - Operating Leases

The Center leases office space and various office equipment under non-cancellable operating leases expiring at various dates through December 2024 as well as month-to-month operating leases. Rental expense for these leases consisted of $80,927 for the year ended June 30, 2021.

Future minimum payments required under non-cancellable operating leases are as follows as of June 30, 2021:

Year Ending June 30,		
2022	$	56,987
2023		42,627
2024		21,576
Thereafter		-
	$	121,190

Note 11 - Contingencies

Litigation
From time to time, The Center is subject to various litigation as a result of its ongoing business activities. Management believes that the outcome of any such litigation would not have a material adverse effect on The Center's statements of financial position, results of operations, or liquidity.

Government Grants and Contracts
The Center's grants and contracts are subject to inspections and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits, cannot be reasonably estimated. As of June 30, 2021, no notice of any disallowance has been received.

Note 12 - Community Development Block Grant

On December 7, 2001, The Center entered into an agreement with the City of San Diego for a Community Development Block Grant (CDBG). This agreement was later expanded in March 2003, August 2003, March 2004, July 2004, October 2004, and July 2005 for a total grant value of $1,496,742. The general purpose of the CDBG was to remodel and improve The Center's existing facility at 3909 Centre Street, San Diego, California.

Terms of the agreement require The Center to: (1) file annual Summary of Information reports by August 1st of each year the organization is eligible for funds, (2) comply with various rules and regulations of the U.S. Department of Housing and Urban Development (HUD), (3) transfer remaining funds upon completion of the project to the City of San Diego, (4) dispose of the property in such a manner as to reimburse the City for its contribution to the improvements should the organization dispose of the property within twenty (20) years of the completion date of the project, and (5) use the facility for low and moderate income persons for a period not less than twenty (20) years from the completion of the project.

Note 13 - Youth Housing Project

On October 18, 2005, The Center entered into agreements with CCDC, SDHC, and HCD. These agreements require The Center to operate the building located at 1640 Broadway, San Diego, California as housing for homeless youth for a period of at least fifty-five (55) years.

In accordance with these agreements, "residual receipts" are calculated and a portion paid to the financing agencies annually. Residual receipts are the net operating income of the project minus repayment of the private loan. Residual receipts are calculated annually in January for the prior calendar year. The Center retains 50% of the residual receipts for the project; the remaining 50% of the residual receipts are paid to CCDC, SDHC, and HCD based upon their pro-rata share of the financing: 66% to CCDC, 24% to SDHC, and 10% to HCD. In accordance with The Center's agreement with CCDC, the payment to CCDC is then returned to The Center for deposit into a fund to pay ongoing operating expenses for the project; no such agreement exists with the other lenders.

For the twelve months ended December 31, 2020, the Youth Housing Project had net income of $243,682, before cash and replacement reserves of $4,800 for the year ended December 31, 2020.

		December 31, 2020
Total revenue	$	354,915
Total expenses		111,233
Net income		243,682
Cash reserve		1,200
Replacement reserve		3,600
Total reserve		4,800
Adjusted residual income	$	238,882

Note 14 - Subsequent Event

In fiscal year 2022, The Center received notice that it would be the beneficiary of a bequest with an approximate value of $19 million with donor restrictions. As of the date the financial statements were available to be issued, approximately $10 million has been received by The Center in relation to the bequest.

Note 15 - Restatement

During the year, it was determined that revenue related to a grant awarded in the prior fiscal year was recognized in the current period, resulting in an understatement of net assets with donor restrictions at June 30, 2020. The restatement resulted in an increase in the beginning balance of net assets with donor restrictions of $137,500 on the statement of activities.

In addition, it was identified that the balance previously reported as net assets with donor restrictions at June 30, 2020 was overstated. The restatement resulted in an increase in the beginning balance of net assets without donor restrictions and a decrease in the beginning balance of net assets without donor restrictions of $267,378, respectively, on the statement of activities.

Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #1300
San Diego, CA 92108

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
The San Diego Lesbian, Gay, Bisexual and Transgender Community Center
San Diego, 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 financial statements of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The San Diego Lesbian, Gay, Bisexual and Transgender Community Center'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 San Diego Lesbian, Gay, Bisexual and Transgender Community Center's internal control. Accordingly, we do not express an opinion on the effectiveness of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center'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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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*, CONTINUED

The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's Response to Findings

The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Aldrich CPAs + Advisors LLP

San Diego, California
March 17, 2023

SUPPLEMENTAL AWARDS INFORMATION

Aldrich CPAs + Advisors LLP
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San Diego, CA 92108

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

To the Board of Directors
The San Diego Lesbian, Gay, Bisexual and Transgender Community Center
San Diego, California

Report on Compliance for Each Major Federal Program

We have audited The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's major federal programs for the year ended June 30, 2021. The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's compliance.

Opinion on Each Major Federal Program

In our opinion, The San Diego Lesbian, Gay, Bisexual and Transgender Community Center 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 June 30, 2021.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2021-003. Our opinion on each major federal program is not modified with respect to this matter.

Other Matters, continued

The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identity certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004, that we consider to be significant deficiencies.

The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.
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.

Aldrich CPAs + Advisors LLP

San Diego, California
March 17, 2023

THE SAN DIEGO LESBIAN, GAY, BISEXUAL AND TRANSGENDER COMMUNITY CENTER

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2021

Federal/Pass-Through Grantor and Program Title	Federal Assistance Listing Number	Agency or Pass-Through Grantor Number	Expenditures	Subrecipients
Research and Development Cluster:				
U.S. Department of Health and Human Services				
Pass-through University of California, San Diego:				
Mental Health Research Grants	93.242	703797	$ 90,406	$ -
Pass-through University of California, San Diego:				
Transmovement	93.855	703857	9,989	-
Pass-through Florida State University:				
Scale It Up - Effectiveness - Implementation	93.865	R000002673	118,985	-
Total Research and Development Cluster			219,380	-
CDBG - Entitlement Grants Cluster:				
U.S. Department of Housing and Urban Development				
Pass-through City of San Diego:				
General Mental Health	14.218	PS-FY21-001-01	141,956	-
General Mental Health - COVID-19	14.218	PS-FY21-019-01	29,361	-
Total CDBG - Entitlement Grants Cluster			171,317	-
U.S. Department of Housing and Urban Development				
Pass-through San Diego Housing Commission:				
Continuum of Care Program	14.267	CA0534L9D011912	755,698	-
Pass-through Regional Task Force on The Homeless:				
Youth Homelessness Demonstration Program	14.276	2019-YHDP-CEN-01, 2019-YHDP-CEN-02, 2019-YHDP-CEN-03	221,011	-
			976,709	-
U.S. Department of Justice				
Pass-through North County Lifeline:				
Services for Trafficking Victims	16.320	2019-VT-BX-0070	6,400	-
Pass-through Cal OES:				
Crime Victim Assistance	16.575	AT20 01 1307, KE19 02 1307, KE20 03 1307	401,583	124,586
Pass-through California Coalition Against Sexual Assault:				
COVID-19 Support to Victim Service Providers	16.588	CO 19 011578	14,893	-
			422,876	124,586
U.S. Department of Health and Human Services				
Pass-through County of San Diego:				
Clinical Quality Management	93.914	556903	296,285	-
Pass-through Family Health Centers of San Diego:				
HIV Emergency Relief Project Grants	93.914	559094	377,344	-
HIV Emergency Relief Project Grants - COVID-19	93.914	559094	18,556	-
HIV Prevention Activities	93.939	PS15-1502, PS17-1704	271,644	-
Pass-through County of San Diego:				
Ryan White Treatment Modernization Act Funds	93.940	551106, 562137, 563738, 563861	353,042	57,356
			1,316,871	57,356
Total Expenditures of Federal Awards			$ 3,107,153	$ 181,942

See independent auditor’s report and notes to schedule of expenditures of federal awards.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center (The Center) under programs of the federal government for the year ended June 30, 2021. 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 The Center, it is not intended to and does not present the statements of financial position, activities, functional expenses, or cash flows.

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 the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

The Center elected to use the 10% de minimis cost rate as covered in the Uniform Guidance 2 CFR section 200.414 Indirect Costs.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Significant deficiency(ies) identified	Yes
Material weakness(es) identified?	No
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
Significant deficiency(ies) identified?	Yes
Material weakness(es) identified?	No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2.CFR.200.516(a)?	Yes

Identification of major programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
14.267	Continuum of Care Program

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as a low-risk auditee Under the Uniform Guidance, 2.CFR.200.520?	Yes

Section II - Financial Statement Findings

<u>Significant Deficiencies</u>

2021-001	Financial Close Process
Criteria:	For entities that receive more than $750,000 in federal funding, the Uniform Guidance requires audited financial statements to be remitted annually 30 days after receipt of the auditor's report or nine months after the end of the fiscal year; The Registry of Charitable Trusts, State of California, requires audited financial statements for nonprofit organizations with revenues more than $2,000,000 be remitted with Form 990 within nine months of fiscal year end.
Condition:	Certain reconciliations were not reviewed timely which impacted The Center's ability to generate financial reports for internal and external stakeholders and remit by their respective due dates, specifically to the Federal Audit Clearinghouse and The Registry of Charitable Trusts, State of California.
Cause:	The Center experienced significant growth in government contracts at the beginning of fiscal year 2020 but did not have the proper infrastructure in place to support this growth within the accounting department, which also oversaw all human resource functions. This, combined with the impact of the COVID-19 pandemic on staff hiring and retention, shift from manual processes to electronic processes, and general availability of staff, resulted in certain reconciliations and the review of such not occurring on a timely basis.
Effect:	This caused the annual audit of The Center's financial statements for the fiscal year 2021 to be delayed, as well as delayed submissions to the Federal Audit Clearinghouse and The Registry of Charitable Trusts, State of California. In addition, $267,378 was corrected via a restatement of fiscal year 2020 net assets in the fiscal year 2021 audited financial statements among other current year adjustments.
Context:	The Center was delayed in performing the fiscal year 2021 audit due to challenges related to hiring new staff to expand the accounting team, staff turnover, and other impacts of the COVID-19 pandemic. Once underway, the audit process primarily relied on a single individual responsible for many aspects of the day-to-day accounting, payroll, and other organizational functions, as well as facilitating the audit, which led to further delays.
Repeat Finding:	No
Recommendation:	The Center should consider implementing a month-end and year-end close process to ensure all major accounts are reconciled and reviewed on a timely basis and to ensure resulting financial reporting is accurate and completed within a reasonable timeframe to meet all internal and external reporting requirements. The Center should evaluate the structure of the accounting department to ensure the number of staff and their skill level is appropriate to support close processes, considering the volume and complexity of the financial transactions of The Center and the annual audit.
Views of Responsible Officials:	Management agrees with the finding and a response is included in the corrective action plan.

2021-002 Revenue Recognition

Criteria: Per Accounting Standards Codification (ASC) 958-605-25-2 under US GAAP, contributions (non-reciprocal transactions) received shall be recognized as revenues in the period received (cash gift) or made (promise to give) by the donor or grantor when the transaction is part of the nonprofit's ongoing major or central activities.

After a contribution has been deemed not to contain a donor-imposed condition, an entity shall consider whether the contribution includes a donor-imposed restriction, which includes the consideration about how broad or narrow the purpose of the agreement is and whether the resources can be used only after a specified date.

Condition: Revenue of $137,500 related to an unconditional, multi-year grant of $275,000 that was originally awarded to The Center in fiscal year 2020 was recognized as revenue in fiscal year 2021.

Cause: Revenue was recognized based on the receipt of cash, which followed the payment schedule listed in the grant agreement, instead of when the grant was awarded considering ASC 958-605-25-2 and the fact that the grant was not conditional.

Effect: Revenue for fiscal year 2020 was understated by $137,500 and revenue for fiscal year 2021 was overstated by $137,500 which was corrected via a restatement of fiscal year 2020 net assets in the fiscal year 2021 audited financial statements.

Context: The Center experienced tremendous growth during fiscal 2019 and 2020 resulting in an increase in the volume and complexity of certain types of financial transactions. This combined with the challenges experienced during fiscal 2020 and 2021 related to hiring new staff to expand the accounting team, staff turnover, and other impacts of the COVID-19 pandemic, resulted in the accounting function primarily being relied upon by a single individual responsible for many aspects of the day-to-day accounting, payroll, human resource, and other organizational functions, which reduced the time available for review of transactions.

Repeat Finding: No

Recommendation: All correspondence regarding contributions to The Center and, in particular, grant award letters, grant agreements, email award notifications, and supporting documents, should be provided to an experienced individual when awarded for review and to ensure proper initial recording of the gift in accordance with the applicable standard, paying particular attention to the award date and potential conditions that could impact the timing of revenue recognition. To facilitate this, it may be beneficial to create an interdepartmental communication process to ensure timely and accurate information is being provided to the accounting department.

It may also be beneficial to maintain a schedule of such awards, including key information such as award date, grantor or donor, and any conditions, restrictions, and/or cash collected which is then reconciled to the general ledger and financial statements on a regular basis. The Center should continuously reassess the structure of the accounting department to ensure the number of staff and their skill level is appropriate to support the financial activity of The Center, including the reconciliation and review process, particularly considering the growing volume and complexity of contributions received by The Center.

Views of Responsible Officials: Management agrees with the finding and a response is included in the corrective action plan.

Section III - Federal Award Findings and Questioned Costs

Significant Deficiencies

2021-003	Program Income
Program:	14.267 Continuum of Care Program
Criteria:	Housing program tenants are required to pay up to 30% of their income for rent. Eligibility and rent determination evaluations are performed for new tenants before move-in and annually for existing tenants to determine their portion of rent to pay. In accordance with 2 CFR 200.307, program income (in this case, tenant rent) must be correctly determined and properly recorded in the accounting records.
Condition:	For one out of 11 transactions tested, the amount of rent collected by The Center from the tenant was more than the amount determined on the Eligibility and Rent Determination form.
Cause:	There is no process to regularly review tenant rent to ensure amounts collected are accurate and agree with the Eligibility and Rent Determination form.
Effect:	One tenant overpaid their tenant portion of rent by $20.
Questioned Costs:	The conditions did not result in questioned costs greater than $25,000.
Context:	Rent was overpaid by $10 for two months in a row, then all subsequent tenant payments were made for the correct amount. Management is currently processing a refund to the tenant for the overpayment amount.
Repeat Finding:	No.
Recommendation:	The Center should develop a policy for handling underpayments and overpayments of tenant rent. Rent collected should be compared to the amount determined on the Eligibility and Rent Determination form on a monthly basis to review for inconsistencies and, when differences arise, they should be timely investigated and followed-up on with the appropriate corrective action, per the established policy.
Views of Responsible Officials:	Management agrees with the finding and a response is included in the corrective action plan.

2021-004	Suspension and Debarment Policy
Program:	N/A
Criteria:	In 2 CFR Part 180, the Uniform Guidance requires that, for covered transactions, the non-Federal entity verify that entities are not suspended, debarred, or otherwise excluded.
Condition:	While The Center has a policy in place to ensure that its Board members and employees are not suspended, debarred, or otherwise excluded, it does not perform a review for vendors and landlords which may participate in covered transactions.
Cause:	Certain contracts specify that The Center perform debarment and exclusion checks monthly on all Board members and employees, but do not explicitly state that other parties should also be reviewed.
Effect:	Without reviewing vendors and landlords for suspension or debarment, there exists the possibility that The Center entered into covered transactions with excluded parties.
Questioned Costs:	The conditions did not result in questioned costs greater than $25,000.
Context:	The audit did not identify any transactions with suspended, debarred, or otherwise excluded parties.
Repeat Finding:	No.
Recommendation:	The Center should expand the current suspension and debarment policy to include review of vendors and landlords.
Views of Responsible Officials:	Management agrees with the finding and a response is included in the corrective action plan.

Section IV - Schedule of Prior Year Findings and Questioned Costs

None reported.

THE CENTER
Serving the lesbian, gay, bisexual & transgender community of San Diego County since 1972.

March 17, 2023

Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, Suite 1300
San Diego, CA 92108

RE: Corrective Action Plan

The following are responses to the findings identified in The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's audit for the year ended June 30, 2021:

1) Finding 2021-001
   a. Financial Close Process
   b. Criteria: For entities that receive more than $750,000 in federal funding, the Uniform Guidance requires audited financial statements to be remitted annually 30 days after receipt of the auditor's report or nine months after the end of the fiscal year; The Registry of Charitable Trusts, State of California, requires audited financial statements for nonprofit organizations with revenues more than $2,000,000 be remitted with Form 990 within nine months of fiscal year end.
   c. Condition: Certain reconciliations were not reviewed timely which impacted The Center's ability to generate financial reports for internal and external stakeholders and remit by their respective due dates, specifically to the Federal Audit Clearinghouse and The Registry of Charitable Trusts, State of California.

   Response:
   a. The Center has performed an analysis of the structure of the accounting team and has determined it appropriate to restructure and expand The Center's accounting team to ensure the proper resources are in place to support the day-to-day financial operations of The Center.
   b. The accounting department will implement a month-end close process using a month-end close checklist to ensure timely completion of all reconciliations by staff members which will be reviewed and approved by the Director of Accounting by the month-end close deadline.
   c. During the preparation of internal monthly financial statements, a review and evaluation of all transactions will be performed by the Director of Accounting.
   d. The accounting department will also implement a year-end close process, similar to the one outlined above, to ensure timely completion of all reconciliations to include the name of the party responsible for each task which will be reviewed and approved by the Director of Accounting by the month-end close deadline.

   Contact person responsible for corrective action:
   a. Angela Reyes, Chief Financial Officer

   Completion date or anticipated completion date:
   a. July 1, 2021
   b. July 1, 2022
   c. January 1, 2023
   d. July 1, 2023

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Tax ID #: 23-7332048

2) Finding 2021-002
   a. Revenue Recognition
   b. Criteria: Per Accounting Standards Codification (ASC) 958-605-25-2 under US GAAP, contributions (non-reciprocal transactions) received shall be recognized as revenues in the period received (cash gift) or made (promise to give) by the donor or grantor when the transaction is part of the nonprofit's ongoing major or central activities.

      After a contribution has been deemed not to contain a donor-imposed condition, an entity shall consider whether the contribution includes a donor-imposed restriction, which includes the consideration about how broad or narrow the purpose of the agreement is and whether the resources can be used only after a specified date.
   c. Condition: Revenue of $137,500 related to an unconditional, multi-year grant of $275,000 that was originally awarded to The Center in fiscal year 2020 was recognized as revenue in fiscal year 2021.

   Response:
   a. The accounting department has created a schedule of awards to track all contributions received, which includes key data about the contribution such as the award date, and memorialize the accounting department's assessment as to whether the award is unconditional or conditional. If unconditional, the schedule also tracks whether there are any donor-imposed restrictions and nature of the restriction. If conditional, the schedule tracks any barriers that need to be overcome and the timing of such to ensure conditional awards are recorded in the proper period. The schedule is reconciled to the general ledger on a periodic basis to ensure all contributions received have been evaluated and are recorded accurately and in the proper period.
   b. The Center will provide ongoing trainings and other resources to accounting staff to ensure they have the level of expertise needed to record contributions in accordance with ASC 958-605-25-2.
   c. The Center will create an interdepartmental process to ensure donor or grant information needed to determine how revenue is recognized in accordance with ASC 958-605-25-2 is provided to the accounting department timely and is complete and accurate.
   d. The Center will reassess the infrastructure of the accounting department and related skill levels to ensure they are appropriate to support the volume and complexity of contributions received.

   Contact person responsible for corrective action:
   a. Angela Reyes, Chief Financial Officer

   Completion date or anticipated completion date:
   a. July 1, 2021
   b. July 1, 2022
   c. July 1, 2023
   d. July 1, 2023

3) Finding 2021-003
   a. Program Information: 14.267 Continuum of Care Program
   b. Criteria: Housing program tenants are required to pay up to 30% of their income for rent. Eligibility and rent determination evaluations are performed for new tenants before move-in and annually for existing tenants to determine their portion of rent to pay. In accordance with 2 CFR 200.307, program income (in this case, tenant rent) must be correctly determined and properly recorded in the accounting records.
   c. Condition: For one out of 11 transactions tested, the amount of rent collected by The Center from the tenant was more than the amount determined on the Eligibility and Rent Determination form.

   Response:
   a. The Director of Housing and Youth Homeless Services is working with the housing complex property manager to memorialize the practice of either having the tenant reduce a future payment by the overpayment amount or refunding the overpayment amount to the tenant. In addition, they are working together to implement an actively level control whereby the Director of Housing and Youth Homeless Services' team and the housing complex property manager are performing a more detailed review on a monthly basis to ensure overpayments, in particular, are detected and corrected timely.

Contact persons responsible for corrective action:
a. Victor Esquivel, Director of Housing and Youth Homeless Services
b. Angela Reyes, Chief Financial Officer

Completion date:
a. March 1, 2023

4) Finding 2021-004
   a. Suspension and Debarment Policy
   b. Criteria: In 2 CFR Part 180, the Uniform Guidance requires that, for covered transactions, the non-Federal entity verify that entities are not suspended, debarred, or otherwise excluded.
   c. Condition: While The Center has a policy in place to ensure that its Board members and employees are not suspended, debarred, or otherwise excluded, it does not perform a review for vendors and landlords which may participate in covered transactions.

Response:
a. The Center will expand our current suspension and disbarment policy to include vendors and landlords to ensure The Center does not enter into covered transactions with excluded entities. The contracts team will develop a process for identifying a complete list of vendors and landlords that The Center has entered or plans to enter into covered transactions with, checking these entities for suspension and debarment and documenting such on a monthly basis.

Contact person responsible for corrective action:
a. Angela Reyes, Chief Financial Officer

Anticipated completion date:
a. March 31, 2023

Sincerely,

Caroline (Cara) Dessert, Esq.
Chief Executive Officer