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

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Year Ended June 30, 2023

Aldrich®

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

Financial Statements and Supplemental Information

Year Ended June 30, 2023

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Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, #550
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 Audit of the Financial Statements

Opinion
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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Auditor's Responsibilities for the Audit of the Financial Statements, continued
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

Supplemental Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024, 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
June 28, 2024

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

Statement of Financial Position

June 30, 2023

ASSETS		
Current Assets:		
Cash and restricted cash	$	15,110,784
Accounts receivable		39,657
Government grants receivable		1,256,312
Promises to give		687,549
Prepaid expenses		204,454
Total Current Assets		17,298,756
Noncurrent Assets:		
Promises to give, net of current portion		9,117,678
Property and equipment, net of accumulated depreciation and amortization		6,477,748
Beneficial interests in assets held by others - endowment funds		865,846
Operating lease right-of-use assets, net of accumulated amortization		287,206
Deposits		106,400
Total Noncurrent Assets		16,854,878
Total Assets	$	34,153,634
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$	152,692
Accrued expenses		811,433
Current portion of operating lease liability		267,439
Refundable advances		696,241
Total Current Liabilities		1,927,805
Noncurrent Liabilities:		
Accrued interest		212,000
Operating lease liability, net of current portion		27,625
Notes payable		3,878,746
Total Noncurrent Liabilities		4,118,371
Total Liabilities		6,046,176
Net Assets:		
Without donor restrictions		7,536,697
With donor restrictions		20,570,761
Total Net Assets		28,107,458
Total Liabilities and Net Assets	$	34,153,634

See accompanying notes to financial statements.

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

Statement of Activities

Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Government grants	$ 5,563,459	$ -	$ 5,563,459
Contributions	4,946,833	-	4,946,833
Other grants	1,260,882	747,200	2,008,082
Investment return, net	276,088	56,785	332,873
Contributed nonfinancial assets	104,362	-	104,362
Other income	105,253	-	105,253
Net assets released from restrictions, satisfaction of program restrictions	283,386	(283,386)	-
Total Revenue and Support	12,540,263	520,599	13,060,862
Expenses:			
Program services	8,377,373	-	8,377,373
Supporting services:			
Management and general	1,867,781	-	1,867,781
Fundraising	1,298,609	-	1,298,609
Total Expenses	11,543,763	-	11,543,763
Change in Net Assets	996,500	520,599	1,517,099
Net Assets, beginning	6,540,197	20,050,162	26,590,359
Net Assets, ending	$ 7,536,697	$ 20,570,761	$ 28,107,458

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

Statement of Functional Expenses

Year Ended June 30, 2023

	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	$ 1,783,981	$ 975,298	$ 1,124,874	$ 969,637	$ 187,792	$ 5,041,582	$ 558,429	$ 755,395	$ 1,313,824	$ 6,355,406
Payroll taxes	139,418	75,138	86,617	74,836	14,649	390,658	38,380	55,224	93,604	484,262
Employee benefits	86,721	55,367	74,915	66,810	13,718	297,531	135,987	44,909	180,896	478,427
	2,010,120	1,105,803	1,286,406	1,111,283	216,159	5,729,771	732,796	855,528	1,588,324	7,318,095
Other Expenses:										
Advertising, graphics, postage, and printing	1,683	14,537	6,879	12,432	85	35,616	13,066	77,127	90,193	125,809
Bank fees	-	167	-	1,312	-	1,479	3,333	36,774	40,107	41,586
Business meals and travel	4,677	1,646	364	1,195	666	8,548	1,814	425	2,239	10,787
Client services	146,721	64,426	3,400	215	483,808	698,570	4,700	289	4,989	703,559
Community events and outreach	2,282	38,667	838	-	-	41,787	8,960	3,119	12,079	53,866
Conferences and summits	1,624	1,574	3,179	-	-	6,377	4,800	952	5,752	12,129
Depreciation and amortization	150,605	-	-	-	-	150,605	106,840	2,736	109,576	260,181
Fundraising	-	-	-	-	-	-	-	176,874	176,874	176,874
Grant allocations	-	385,200	-	-	-	385,200	-	82,189	82,189	467,389
Insurance	51,069	18,023	20,375	17,316	3,810	110,593	27,183	11,575	38,758	149,351
Interest	116,362	-	-	-	-	116,362	-	-	-	116,362
Internet, telephone, and utilities	79,100	2,846	2,956	405	240	85,547	114,416	341	114,757	200,304
Loss on disposal of property and equipment	-	-	-	-	-	-	159,206	-	159,206	159,206
Memberships, dues, and subscriptions	372	1,196	120	400	-	2,088	9,664	1,392	11,056	13,144
Miscellaneous	99	-	-	-	-	99	3,251	-	3,251	3,350
Permits, fees, and property taxes	4,875	449	1,041	1,456	45	7,866	16,436	1,362	17,798	25,664
Professional fees and contracted services	347,463	22,478	87,609	6,532	2,767	466,849	427,476	8,705	436,181	903,030
Rent	115,342	-	-	2,600	4,579	122,521	8,841	1,200	10,041	132,562
Repairs and maintenance	26,953	-	-	-	-	26,953	34,478	-	34,478	61,431
Software, licensing, and maintenance	15,529	12,871	3,705	16,431	3,452	51,988	60,279	29,237	89,516	141,504
Staff development, training, and appreciation	1,790	2,139	9,382	6,381	75	19,767	37,185	5,585	42,770	62,537
Supplies	181,069	47,421	72,141	7,777	379	308,787	93,057	3,199	96,256	405,043
	$ 3,257,735	$ 1,719,443	$ 1,498,395	$ 1,185,735	$ 716,065	$ 8,377,373	$ 1,867,781	$ 1,298,609	$ 3,166,390	$ 11,543,763

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

Statement of Cash Flows

Year Ended June 30, 2023

Cash Flows from Operating Activities:	
Change in net assets	$ 1,517,099
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	260,181
Loss on disposal of property and equipment	159,206
Noncash operating lease expense	7,858
Change in value of beneficial interests in assets held by others - endowment funds	(56,785)
Accrued interest	12,000
Changes in operating assets and liabilities:	
Accounts receivable	(6,450)
Government grants receivable	(383,197)
Promises to give	(481,894)
Prepaid expenses	(120,061)
Accounts payable and accrued expenses	299,253
Refundable advances	350,705
Net Cash Provided by Operating Activities	1,557,915
Cash Flows Used by Investing Activities:	
Purchases of property and equipment	(127,327)
Net Increase in Cash and Restricted Cash	1,430,588
Cash and Restricted Cash, beginning	13,680,196
Cash and Restricted Cash, ending	$ 15,110,784
Cash and Restricted Cash Consist of the Following:	
Cash	$ 4,834,740
Restricted cash	10,276,044
	$ 15,110,784

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 a 13-member Board of Directors, employing more than 90 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 Pronouncement
The Center adopted Accounting Standards Update (ASU) 2016-02, *Leases*, as of July 1, 2022. The standard provides guidance on the recognition, measurement, presentation and disclosures of leases. The new standard supersedes previous accounting principles generally accepted in the United States of America (U.S. GAAP) guidance on leases and requires substantially all leases to be reported on the statement of financial position as right-of-use assets and lease liabilities, as well as additional disclosures (see Note 6). The Center adopted this standard using the modified retrospective approach. Upon adoption, The Center recognized right-of-use assets of $275,713 and operating lease liabilities of $275,713.

Financial Statement Presentation
The financial statements of The Center have been prepared in accordance with U.S. 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 U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and 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, 2023 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, 2023 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, except for certain gifts with an undetermined future collection date. 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, 2023 because management believes all amounts are collectable.

Property and Equipment
The Center capitalizes all expenditures for property and equipment in excess of $5,000. 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 32 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, 2023, 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 statement of financial position. Changes in the value of the Funds are reported as operating items in the statement 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.

Leases
The Center adheres to the accounting standard for leases, which provides detailed guidance for financial statement recognition, measurement, and disclosure of leases.

The Center determines if an arrangement is or contains a lease at contract inception. The Center recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how The Center determines the discount rate, the lease term, and the lease payments.

The exercise of lease renewal options is generally at The Center’s sole discretion. Options that are reasonably certain to be exercised, considering all relevant economic and financial factors, are included in the lease term. Leases with an initial term of 12 months or less are not recorded on the statement of financial position. Lease expense is recognized for these leases on a straight-line basis over the lease term. The Center elected the package of practical expedients permitted under the transition guidance within the standard, which among other things, allowed The Center to carry forward the historical lease classification.

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

Leases, continued
The Center has elected the practical expedient to account for the lease and non-lease components as a single lease component (e.g. maintenance and operating services). Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract. All variable payments not based on a market rate or an index are expensed as incurred. When the discount rate implicit in a lease is not readily determinable, The Center calculates the lease liability using the risk-free rate.

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 consists of government grants, other grants, and contributions.

The Center recognizes revenue from contracts with customers when its performance 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.

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 statement 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 as an increase in 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.

Contributed Nonfinancial Assets
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.

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

Functional Expense Allocations, continued
Expenses allocated to staff that work at The Center are allocated by FTE to advertising, graphics, postage and printing, internet, telephone, software, licensing and maintenance, supplies or square footage to utilities, and 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 salaries and wages 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, 2023, The Center contributed $385,200 to such organizations. In addition, $82,189 was granted to several nonprofit organizations participating in Aids Walk San Diego. The Center has not made any unfunded long-term grant commitments as of June 30, 2023, therefore, no liability has been recorded.

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 its exempt purpose.

The Center follows U.S. 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, 2023, and therefore, no amounts have been accrued.

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 U.S. 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, 2023, 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, 2023.

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

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

Future Accounting Standard
In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13 *Financial Instruments-Credit Losses*. The standard requires timelier recording of credit losses on loans and other financial instruments by transitioning from an incurred-loss model to expected loss model. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new guidance affects, loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash, but does not require a specific credit loss method, allowing an organization to use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for fiscal years beginning after December 15, 2022. The Center is still evaluating the effects that the provisions of ASU 2016-13 will have on its financial statements and related disclosures.

Subsequent Events
The Center has evaluated subsequent events through June 28, 2024, 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 statement of financial position date, reduced by amounts not available for general use because of contractual obligations within one year of the statement of financial position date.

Cash and restricted cash	$	15,110,784
Accounts receivable		39,657
Government grants receivable		1,256,312
Promises to give		687,549
Total financial assets		17,094,302
Less amounts not available to be used within one year:		
Restricted by donor with purpose or time restrictions		(10,587,237)
Internally designated funds		(2,871,603)
		(13,458,840)
Financial assets available to meet cash needs for general expenditures within one year	$	3,635,462

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.

Restricted cash of $10,276,044 is restricted by the donor for senior services. Internally designated funds are set aside by management for adult housing services, capital and other facilities projects. In the event of an unanticipated liquidity need, these funds could be utilized for general operations.

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 100% of accounts receivable, one grantor comprised 16% of government grants receivable, and one donor comprised 93% of promises to give at June 30, 2023. One grantor comprised 12% of government grants, one donor comprised 61% of contributions, and one grantor comprised 25% of other grants for the year ended June 30, 2023.

Note 4 - Property and Equipment

Property and equipment consist of the following for the year ended June 30, 2023:

Building and improvements	$ 10,067,023
Furniture and fixtures	56,687
Intangible assets	5,000
	10,128,710
Less accumulated depreciation and amortization	(3,650,962)
	$ 6,477,748

Note 5 - 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, 2023:

Fair value, beginning	$ 809,061
Investment return, net	56,785
Fair value, ending	$ 865,846

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.

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 6 - Leases

The Center has operating leases of office buildings, residential buildings, and copiers under agreements with contractual periods ranging from 1 to 5 years. The buildings are located in the San Diego region. Certain lease agreements contain scheduled rent escalation clauses and others include rental payments adjusted periodically depending on an index or rate. Some of the leases contain one or more options to extend. The lease agreements do not contain any material residual value guarantees.

Note 6 - Leases, continued

The following summarizes the operating leases as of June 30, 2023:

Operating lease right-of-use assets	$	287,206
Current portion of operating lease liabilities	$	267,439
Operating lease liabilities, net of current portion		27,625
Total operating lease liabilities	$	295,064

The amounts contractually due on lease liabilities as of June 30, 2023 were as follows:

2024	$	272,649
2025		11,618
2026		11,618
2027		5,807
Total lease payments		301,692
Less interest		(6,628)
Present value of lease liabilities	$	295,064

The following summarizes the line items in the statement of activities which include the components of lease expense for the year ended June 30, 2023:

Operating lease expense, included in advertising, graphics, postage, and printing, client services, and rent	$	288,007
Short-term lease expense, included in client services and rent		372,789
Total lease cost	$	660,796

Supplemental cash flow information related to leases was as following for the year ended June 30, 2023:

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	$	257,375
Lease assets obtained in exchange for lease liabilities		
Operating leases	$	543,741

Supplemental statement of financial position information related to leases as of June 30, 2023 was as follows:

Weighted average remaining lease term	1.1
Weighted average discount rate	4.28%

Note 6 - Leases, continued

Under previous leasing standards, future minimum lease payments for non-cancellable operating lease at June 30, 2022 were as follows:

Year Ending June 30,		
2023	$	42,627
2024		21,576
Thereafter		-
	$	64,203

Note 7 - Notes Payable

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, California 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.

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 contributed nonfinancial asset revenue and expense, recorded within contributed nonfinancial assets 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.

Note 7 - Notes Payable, continued

San Diego Housing Commission, continued
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 contributed nonfinancial asset revenue and expense, recorded within contributed nonfinancial assets 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 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, 2023 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, 2023 was $212,000. The contributed nonfinancial asset in the form of interest related to the loans from the CCDC and SDHC totaled $104,362 for the year ended June 30, 2023.

Note 8 - Restrictions on Net Assets

Net assets with donor restrictions consist of the following:

Purpose Restrictions:		
Senior services	$	18,957,715
Unappropriated endowment earnings		517,576
Crisis services		456,000
Engage San Diego		201,200
Property, plant, and equipment and capital improvements		50,000
Youth drop-in and housing services		40,000
		20,222,491
Perpetual in Nature:		
Beneficial interests in assets held by others		348,270
	$	20,570,761

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:		
Youth drop-in and housing services	$	119,515
Senior services		81,675
Engage San Diego		63,547
Property, plant, and equipment and capital improvements		18,649
	$	283,386

Note 9 - 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 employees of The Center 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 $117,595 for the year ended June 30, 2023.

Note 10 - 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 U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 10 - 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, 2023, 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	$ -	$ 348,270	$ 348,270
Accumulated investment gains	-	517,576	517,576
Total endowment funds	$ -	$ 865,846	$ 865,846

Changes in endowment net assets for the year ended June 30, 2023 consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 809,061	$ 809,061
Investment return, net	-	56,785	56,785
Endowment net assets, end of year	$ -	$ 865,846	$ 865,846

Note 11 - Contingencies

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, 2023, no notice of any disallowance has been received.

Note 11 - Contingencies, continued

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.

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 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 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 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 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, 2022, the Youth Housing Project had unaudited net income of $86,953, before cash and replacement reserves of $77,400 for the year ended December 31, 2022.

		December 31, 2022 (Unaudited)
Total revenue	$	363,519
Total expenses		276,566
Net income		86,953
Cash reserve		1,200
Replacement reserve		76,200
Total reserve		77,400
Adjusted residual income	$	9,553

Aldrich CPAs + Advisors LLP
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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, 2023, 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 June 28, 2024.

Report on 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response to the findings identified in our audit and 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
June 28, 2024

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

Opinion on 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 identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's internal control over compliance. Accordingly, no such opinion is expressed.

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

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 2023-002. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response to the noncompliance finding identified in our compliance audit 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 other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003, to be significant deficiencies.

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

Government Auditing Standards requires the auditor to perform limited procedures on The San Diego Lesbian, Gay, Bisexual and Transgender Community Center's response to the internal control over compliance findings identified in our compliance audit 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 other 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
June 28, 2024

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal/Pass-Through Grantor and Program or Cluster Title	Federal Assistance Listing Number	Agency or Pass-Through Grantor Number	Expenditures	Expenditures to Subrecipients
CDBG - Entitlement Grants Cluster:				
U.S. Department of Housing and Urban Development				
Pass-through City of San Diego:				
CDBG Grants/Entitlement Grants	14.218	PS-FY23-014-01	$ 135,942	$ -
Total CDBG - Entitlement Grants Cluster			135,942	-
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	75,858	-
Total Research and Development Cluster			75,858	-
U.S. Department of Housing and Urban Development				
Pass-through San Diego Housing Commission:				
Continuum of Care Program	14.267	HHI-23-07, HHI-23-06, HHI-20-09.3	833,620	-
Pass-through Regional Task Force on The Homeless:				
Youth Homelessness Demonstration Program	14.276	YHDP-2020-Center-2, YHDP-2020-Center-1, YHDP-2020-Center-3	283,142	-
Total U.S. Department of Housing and Urban Development			1,116,762	-
U.S. Department of Justice				
Pass-through North County Lifeline:				
Services for Trafficking Victims	16.320	2019-VT-BX-0070	3,400	-
Pass-through Cal OES:				
Crime Victim Assistance	16.575	AT21 02 1307, KE21 04 1307	530,972	151,025
Total U.S. Department of Justice			534,372	151,025
U.S. Department of Education				
Pass-through San Diego County of Education:				
Education Stabilization Fund	84.425	21221242	56,065	-
U.S. Department of Health and Human Services				
Pass-through Substance Abuse and Mental Health Services Administration:				
SAMHSA HIV Prevention, Training Institute, Minority AIDS Project	93.243	1H79SP082172-01, 1H79SM084562-01, 1H79SM086229-01	523,693	-
Pass-through Cal OES:				
Domestic Violence Shelter and Supportive Services	93.671	RP21 01 1307	30,743	-
Pass-through Sierra Health Foundation:				
Opioid STR	93.788	CA22MAT016	114,977	-
Pass-through County of San Diego:				
Clinical Quality Management	93.914	566515, 566517	288,502	-
Pass-through Family Health Centers of San Diego:				
HIV Emergency Relief Project Grants	93.914	559094	319,608	-
Special Projects of National Significance	93.928	H9746078	64,167	-
HIV Prevention Activities	93.939	PS21-2102	90,994	-
Pass-through County of San Diego:				
Ryan White Treatment Modernization Act Funds	93.940	562137, 563738, 563861	381,699	51,253
Total U.S. Department of Health and Human Services			1,814,383	51,253
Total Expenditures of Federal Awards			$ 3,733,382	$ 202,278

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 Center under programs of the federal government for the year ended June 30, 2023. 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 did not elect 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
93.242	Research and Development Cluster – Mental Health Research Grants
14.267	Continuum of Care Program
93.914	Clinical Quality Management, HIV Emergency Relief Project Grants

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?	No

Section II - Financial Statement Findings

Significant Deficiencies

2023-001 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, whichever is earlier. 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 2023 to be delayed, as well as delayed submissions to the Federal Audit Clearinghouse and The Registry of Charitable Trusts, State of California.

Context: The Center was delayed in performing the fiscal year 2023 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: Yes; 2022-001.

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.

Section III - Federal Award Findings and Questioned Costs

Significant Deficiencies

2023-002	Program Income
Program:	14.267 Continuum of Care Program
Criteria:	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. 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 via the Tenant Income Certification or Re-certification of Permanent Supportive Housing – Eligibility and Rent Determination forms which are approved by the San Diego Housing Commission. Housing program tenants are required to pay up to 30% of their income for rent.
Condition:	For one out of 12 transactions tested, The Center collected $344.40 which could not be directly traced to an individual tenant. Because it could not be directly traced, the Tenant Income Certification or Re-certification of Permanent Supportive Housing – Eligibility and Rent Determination forms could not be identified and tested for accuracy or completeness and compliance with the tenant's share of the rental payment could not be determined.
Cause:	There is no process to regularly review tenant rent payments to ensure that amounts received are matched with a specified tenant and that amounts collected are accurate and agree with the Eligibility and Rent Determination form.
Effect:	Rent payment was not attributed to an individual tenant. Rent was underpaid by one tenant for multiple months.
Questioned Costs:	The conditions did not result in questioned costs greater than $25,000.
Context:	After further investigation, it was determined that one tenant did not pay rent for certain months during fiscal year 2023. Based on a review of client payments and files, it was plausible that the payment received was back rent for this tenant.
Repeat Finding:	No.
Recommendation:	The Center should develop a policy for handling payment of tenant rent, including underpayments and overpayments. 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.

2023-003	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:	Yes; 2022-003.
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

Findings - Financial Statement Audit

2022-001 Financial Close Process

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.

Status: Not corrected, see finding 2023-001.

Findings - Single Audit

2022-002 Program Income

Program: 14.267 Continuum of Care Program

Condition: For two out of 10 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.

Status: No similar findings identified in 2023 audit.

2022-003 Suspension and Debarment Policy

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.

Status: Not corrected, see finding 2023-003.

THE CENTER

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

June 28, 2024

Aldrich CPAs + Advisors LLP
7676 Hazard Center Drive, Suite 550
San Diego, CA 92108

RE: Corrective Action Plan

Dear Aldrich,

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, 2023:

1) Finding 2023-001
   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, whichever is earlier. 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 has implemented 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 VP 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 VP of Accounting.
   d. The accounting department is in the process of implementing a month-end close process, in addition 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 VP of Accounting by the month-end close deadline.

   Contact person responsible for corrective action:
   a. Naveen Rustagi, Consultant (BDO)

   Anticipated completion date:
   a. September 30, 2024

2) Finding 2023-002
   a. Program Information: 14.267 Continuum of Care Program
   b. Criteria: 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. 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 via the Tenant Income Certification or Re-certification of Permanent Supportive Housing – Eligibility and Rent Determination forms which are approved by the San Diego Housing Commission. Housing program tenants are required to pay up to 30% of their income for rent.
   c. Condition: For one out of 12 transactions tested, The Center collected $344.40 which could not be directly traced to an individual tenant. Because it could not be directly traced, the Tenant Income Certification or Re-certification of

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facebook.com/At.The.Center
Tax ID #: 23-7332048

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Permanent Supportive Housing – Eligibility and Rent Determination forms could not be identified and tested for accuracy or completeness and compliance with the tenant's share of the rental payment could not be determined.

Response:

a. The Center has purchased a two-year subscription to Yardi software to assist with the tracking of paperwork and payments for housing clients.
b. All the client checks/money orders will be clearly identified with client name on them.
c. Each month, the accounting department will share a list of checks/money orders deposited with the program team. That list will include information like client name and amount. This list will be reviewed and approved by the Senior Director of Housing Services.

Contact persons responsible for corrective action:

a. Victor Esquivel, Senior Director of Housing Services
b. Naveen Rustagi, Consultant (BDO)

Anticipated completion date:

a. September 20, 2024

3) Finding 2023-003
   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 has been using the Verify Comply platform since October 2023. This platform does the suspension and debarment checks on vendors including landlords on a monthly basis.

Contact person responsible for corrective action:

a. Naveen Rustagi, Consultant (BDO)

Completion date:

a. October 31, 2023

Sincerely,

Caroline (Cara) Dessert, Esq.
Chief Executive Officer

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