



Solutions for Change

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018



Leaf & Cole, LLP
Certified Public Accountants

SOLUTIONS FOR CHANGE, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Independent Auditor's Report

To the Board of Directors
Solutions for Change, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Solutions for Change, Inc., which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Solutions for Change, Inc. as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 32 to 37 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2020, on our consideration of Solutions for Change, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Solution for Change, Inc.'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 Solutions for Change, Inc.'s internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
September 21, 2020

SOLUTIONS FOR CHANGE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
<u>Current Assets:</u> (Notes 2 and 4)		
Cash and cash equivalents	\$ 291,504	\$ 450,674
Grants and other receivables, net	202,606	95,128
Pledges receivable	15,840	16,000
Prepaid expenses and other assets	37,176	12,053
Tenant trust funds	82,942	69,534
Tenant security deposits	54,260	49,775
Deposits	7,094	-
Total Current Assets	<u>691,422</u>	<u>693,164</u>
<u>Noncurrent Assets:</u> (Notes 2, 4, 5, 6, 7, 8 and 9)		
Pledges receivable	-	7,840
Related party receivables	1,996,563	2,585,728
Restricted reserves	402,777	362,444
Investment in partnerships	74	97
Property and equipment, net	21,227,960	16,057,373
Total Noncurrent Assets	<u>23,627,374</u>	<u>19,013,482</u>
TOTAL ASSETS	<u>\$ 24,318,796</u>	<u>\$ 19,706,646</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2 and 9)		
Accounts payable	\$ 155,174	\$ 117,521
Accrued expenses	155,085	129,697
Deferred revenue	13,722	124,108
Interest payable	27,854	23,949
Related party payables	131,798	-
Tenant trust funds	82,942	69,534
Tenant security deposits	51,564	49,775
Current portion of notes payable	342,976	1,180,959
Total Current Liabilities	<u>961,115</u>	<u>1,695,543</u>
<u>Noncurrent Liabilities:</u> (Notes 7 and 9)		
Share of deficiency in partnerships	1,828	1,715
Notes payable, net	19,487,325	14,991,061
Interest payable	2,432,973	2,201,887
Total Noncurrent Liabilities	<u>21,922,126</u>	<u>17,194,663</u>
Total Liabilities	<u>22,883,241</u>	<u>18,890,206</u>
<u>Commitments and Contingencies</u> (Notes 11 and 12)		
<u>Minority Interest in Subsidiary</u>	<u>(10,463)</u>	<u>(7,802)</u>
<u>Net Assets:</u> (Notes 2 and 10)		
Without donor restrictions	1,313,815	660,246
With donor restrictions	132,203	163,996
Total Net Assets	<u>1,446,018</u>	<u>824,242</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,318,796</u>	<u>\$ 19,706,646</u>

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

SOLUTIONS FOR CHANGE, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue:</u>						
Contributions	\$ 1,389,548	\$ 124,363	\$ 1,513,911	\$ 2,176,814	\$ 142,840	\$ 2,319,654
Developer fees	-	-	-	755,000	-	755,000
Grants	75,000	-	75,000	243,418	-	243,418
Interest and miscellaneous	63,590	-	63,590	22,104	-	22,104
Rental income	755,772	-	755,772	790,239	-	790,239
Social enterprise	20,159	-	20,159	49,083	-	49,083
Special event revenue (net of direct donor benefit costs of \$48,070 and \$74,900 in 2019 and 2018, respectively)	325,218	-	325,218	531,656	-	531,656
Supporting services	130,514	-	130,514	41,369	-	41,369
Net assets released from restriction	156,156	(156,156)	-	82,141	(82,141)	-
Total Support and Revenue	<u>2,915,957</u>	<u>(31,793)</u>	<u>2,884,164</u>	<u>4,691,824</u>	<u>60,699</u>	<u>4,752,523</u>
<u>Operating Expenses:</u>						
Program services	3,040,726	-	3,040,726	2,891,838	-	2,891,838
Management and general	396,511	-	396,511	346,956	-	346,956
Fundraising	185,478	-	185,478	523,869	-	523,869
Total Operating Expenses	<u>3,622,715</u>	<u>-</u>	<u>3,622,715</u>	<u>3,762,663</u>	<u>-</u>	<u>3,762,663</u>
Change in Net Assets Before Nonoperating Revenue and (Expenses)	(706,758)	(31,793)	(738,551)	929,161	60,699	989,860
<u>Nonoperating Revenue and (Expenses):</u>						
Depreciation	(547,191)	-	(547,191)	(564,939)	-	(564,939)
Interest - residual receipts debt	(209,588)	-	(209,588)	(209,660)	-	(209,660)
Minority interest excess of expenses over revenue and support of subsidiary	2,661	-	2,661	2,347	-	2,347
Partnership income (loss)	(136)	-	(136)	(109)	-	(109)
Total Nonoperating Revenue and (Expenses)	<u>(754,254)</u>	<u>-</u>	<u>(754,254)</u>	<u>(772,361)</u>	<u>-</u>	<u>(772,361)</u>
Change in Net Assets	(1,461,012)	(31,793)	(1,492,805)	156,800	60,699	217,499
Net Assets at Beginning of Year	660,246	163,996	824,242	503,446	103,297	606,743
Property Transfer (Note 2)	2,114,581	-	2,114,581	-	-	-
NET ASSETS AT END OF YEAR	<u>\$ 1,313,815</u>	<u>\$ 132,203</u>	<u>\$ 1,446,018</u>	<u>\$ 660,246</u>	<u>\$ 163,996</u>	<u>\$ 824,242</u>

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

SOLUTIONS FOR CHANGE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services					Supporting Services			
	Solutions For Change, Inc. Programs	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Total Program Services	Management and General	Fundraising	
Salaries and Related Expenses:									
Salaries and wages	\$ 1,520,844	\$ 41,941	\$ 79,994	\$ -	\$ 577	\$ 1,643,356	\$ 163,869	\$ 89,272	\$ 1,896,497
Payroll taxes	115,313	2,977	7,349	-	2	125,641	26,254	10,303	162,198
Employee benefits	107,142	6,318	7,317	-	1	120,778	24,720	9,573	155,071
Total Salaries and Related Expenses	<u>1,743,299</u>	<u>51,236</u>	<u>94,660</u>	<u>-</u>	<u>580</u>	<u>1,889,775</u>	<u>214,843</u>	<u>109,148</u>	<u>2,213,766</u>
Nonsalary Related Expenses:									
Advertising	12,653	-	133	-	-	12,786	137	-	12,923
Automobile and truck	20,041	308	-	-	84	20,433	-	-	20,433
Bad debt expense	-	-	1,479	-	-	1,479	-	-	1,479
Cost of goods sold	-	-	58,879	-	-	58,879	-	-	58,879
Dues and subscriptions	22,477	-	21	-	-	22,498	-	-	22,498
Insurance	33,156	15,539	10,051	10,041	5,872	74,659	6,570	4,093	85,322
Interest	118,844	613	156	263	483	120,359	-	-	120,359
Meetings and seminars	15,540	105	68	-	-	15,713	23,413	-	39,126
Miscellaneous	-	-	-	418	42	460	-	-	460
Office expense	61,479	-	-	-	574	62,053	6,895	-	68,948
Other expense	-	-	1,532	-	-	1,532	7	-	1,539
Payroll processing	2,907	-	1,223	-	-	4,130	839	623	5,592
Postage and printing	4,502	-	-	422	41	4,965	-	-	4,965
Professional fees	110,218	-	8,392	2,081	2,081	122,772	49,720	-	172,492
Property fees	-	20,014	-	-	-	20,014	21,301	-	41,315
Rent	87,101	-	-	-	-	87,101	-	-	87,101
Repairs and maintenance	135,477	40,004	16,639	20,803	13,664	226,587	20,731	-	247,318
Special event expenses	-	-	-	-	-	-	-	71,614	71,614
Supplies	36,803	4,208	4,035	5,572	-	50,618	-	-	50,618
Taxes, licenses and fees	-	-	-	-	-	-	34,291	-	34,291
Telephone	22,549	5,375	1,207	2,114	-	31,245	2,875	-	34,120
Utilities and refuse removal	58,214	78,687	23,899	16,630	35,238	212,668	14,889	-	227,557
Total Nonsalary Related Expenses	<u>741,961</u>	<u>164,853</u>	<u>127,714</u>	<u>58,344</u>	<u>58,079</u>	<u>1,150,951</u>	<u>181,668</u>	<u>76,330</u>	<u>1,408,949</u>
Total Operating Expenses	<u>2,485,260</u>	<u>216,089</u>	<u>222,374</u>	<u>58,344</u>	<u>58,659</u>	<u>3,040,726</u>	<u>396,511</u>	<u>185,478</u>	<u>3,622,715</u>
Nonoperating Expenses:									
Depreciation	232,201	157,951	98,047	15,965	43,027	547,191	-	-	547,191
Interest - residual receipts debt	102,253	106,545	-	-	790	209,588	-	-	209,588
Total Nonoperating Expenses	<u>334,454</u>	<u>264,496</u>	<u>98,047</u>	<u>15,965</u>	<u>43,817</u>	<u>756,779</u>	<u>-</u>	<u>-</u>	<u>756,779</u>
TOTAL EXPENSES	<u>\$ 2,819,714</u>	<u>\$ 480,585</u>	<u>\$ 320,421</u>	<u>\$ 74,309</u>	<u>\$ 102,476</u>	<u>\$ 3,797,505</u>	<u>\$ 396,511</u>	<u>\$ 185,478</u>	<u>\$ 4,379,494</u>

SOLUTIONS FOR CHANGE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services			
	Solutions For Change, Inc. Programs	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Total Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:									
Salaries and wages	\$ 1,448,927	\$ 23,004	\$ 64,318	\$ -	\$ -	\$ 1,536,249	\$ 146,358	\$ 92,937	\$ 1,775,544
Payroll taxes	108,524	4,008	6,101	-	-	118,633	24,165	9,696	152,494
Employee benefits	118,310	5,004	9,417	-	-	132,731	28,188	10,570	171,489
Total Salaries and Related Expenses	<u>1,675,761</u>	<u>32,016</u>	<u>79,836</u>	<u>-</u>	<u>-</u>	<u>1,787,613</u>	<u>198,711</u>	<u>113,203</u>	<u>2,099,527</u>
Nonsalary Related Expenses:									
Advertising	6,802	-	3,005	-	-	9,807	140	-	9,947
Automobile and truck	24,205	-	77	25	-	24,307	-	-	24,307
Bad debt expense	-	-	2,690	-	-	2,690	-	-	2,690
Cost of goods sold	-	-	68,068	-	-	68,068	-	-	68,068
Dues and subscriptions	22,599	-	-	-	-	22,599	-	-	22,599
Insurance	38,226	13,618	9,391	3,162	5,631	70,028	6,268	4,719	81,015
Interest	181,049	90	12,758	-	-	193,897	-	-	193,897
Meetings and seminars	24,006	-	186	-	-	24,192	1,786	-	25,978
Miscellaneous	1,824	-	-	85	381	2,290	389	-	2,679
Office expense	66,028	-	-	-	-	66,028	7,337	-	73,365
Other expense	3,075	-	-	-	-	3,075	-	-	3,075
Payroll processing	3,012	-	891	-	-	3,903	802	645	5,350
Postage and printing	3,820	-	-	-	17	3,837	-	-	3,837
Professional fees	130,630	-	8,444	1,303	2,081	142,458	62,281	-	204,739
Property fees	-	-	-	-	-	-	11,276	-	11,276
Rent	18,045	-	-	-	-	18,045	-	-	18,045
Repairs and maintenance	119,348	22,606	5,478	12,654	18,060	178,146	17,283	-	195,429
Special event expenses	-	-	-	-	-	-	-	405,302	405,302
Supplies	36,120	1,860	1,439	4,204	-	43,623	-	-	43,623
Taxes, licenses and fees	-	-	-	-	-	-	25,098	-	25,098
Telephone	26,888	14,481	1,096	2,083	-	44,548	3,341	-	47,889
Utilities and refuse removal	56,351	72,483	23,672	5,946	24,232	182,684	12,244	-	194,928
Total Nonsalary Related Expenses	<u>762,028</u>	<u>125,138</u>	<u>137,195</u>	<u>29,462</u>	<u>50,402</u>	<u>1,104,225</u>	<u>148,245</u>	<u>410,666</u>	<u>1,663,136</u>
Total Operating Expenses	<u>2,437,789</u>	<u>157,154</u>	<u>217,031</u>	<u>29,462</u>	<u>50,402</u>	<u>2,891,838</u>	<u>346,956</u>	<u>523,869</u>	<u>3,762,663</u>
Nonoperating Expenses:									
Depreciation	267,017	157,951	97,402	-	42,569	564,939	-	-	564,939
Interest - residual receipts debt	102,253	106,545	-	-	862	209,660	-	-	209,660
Total Nonoperating Expenses	<u>369,270</u>	<u>264,496</u>	<u>97,402</u>	<u>-</u>	<u>43,431</u>	<u>774,599</u>	<u>-</u>	<u>-</u>	<u>774,599</u>
TOTAL EXPENSES	<u>\$ 2,807,059</u>	<u>\$ 421,650</u>	<u>\$ 314,433</u>	<u>\$ 29,462</u>	<u>\$ 93,833</u>	<u>\$ 3,666,437</u>	<u>\$ 346,956</u>	<u>\$ 523,869</u>	<u>\$ 4,537,262</u>

SOLUTIONS FOR CHANGE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (1,492,805)	\$ 217,499
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	547,191	564,939
Amortization of debt issuance costs	1,284	1,523
Interest - residual receipts debt	209,588	209,660
Related party receivable - developer fee	-	(755,000)
Minority interest (excess) deficit of support and revenue over expenses of subsidiary	(2,661)	(2,347)
Partnership loss (income)	136	109
(Increase) Decrease in:		
Grants and other receivables	(107,478)	121,681
Pledges receivable	8,000	(7,840)
Prepaid expenses and other assets	(25,123)	(356)
Increase (Decrease) in:		
Accounts payable	50,858	(86,800)
Accrued expenses	25,388	33,916
Deferred revenue	(110,386)	124,108
Interest payable	25,403	(4,277)
Tenant trust funds	13,408	22,199
Tenant security deposits	1,789	8,315
Net Cash (Used in) Provided by Operating Activities	<u>(855,408)</u>	<u>447,329</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(3,616,402)	(315,528)
Related party receivables repayment	589,165	113,664
Related party payables advances	131,798	-
Payment for deposits	(7,094)	-
Net Cash Used in Investing Activities	<u>(2,902,533)</u>	<u>(201,864)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds from notes payable	4,870,919	91,783
Payments on notes payable	(1,213,922)	(176,588)
Net Cash Provided by (Used in) Financing Activities	<u>3,656,997</u>	<u>(84,805)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(100,944)	160,660
Cash and Cash Equivalents and Restricted Cash at Beginning of Year	<u>932,427</u>	<u>771,767</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>\$ 831,483</u>	<u>\$ 932,427</u>
<u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid for interest, net of capitalized interest (Note 2)	<u>\$ 93,672</u>	<u>\$ 196,651</u>
<u>Supplemental Disclosure of Noncash Investing and Financing Activities:</u>		
Property and equipment transferred to related entity (Note 2)	<u>\$ 2,114,581</u>	<u>\$ -</u>

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

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Organization:

The consolidated financial statements include the accounts of the following entities, which are collectively referred to as the “Organization.”

Solutions for Change, Inc.

Solutions for Change, Inc. (“Solutions for Change”) was incorporated in the State of California on November 15, 1999. The mission of Solutions for Change is to solve family homelessness one family, one community at a time. Solutions for Change is supported primarily through donor contributions and grants.

Solutions Family Center, L.P.

Solutions Family Center, L.P. (the “Partnership”) was formed as a limited partnership under the laws of the State of California on December 18, 2000. The Partnership was established for the purpose and intent of constructing and operating a rental housing project. The rental housing project was placed into service in November 2004, and is located in Vista, California. The project consists of 33 units. Solutions for Change is the General Partner and owns 99% of the Partnership.

Solutions Farms, LLC

Solutions Farms, LLC (“Solutions Farms”) is an integral part of Solutions for Change. It functions as a laboratory for teaching important work values and preparing people for re-entry into the workforce. This is the social enterprise function: accomplishing a worthwhile social purpose, while also being a functioning business. Solutions Farms raises hope, as well as produce. Solutions Farms is unique in many ways. It is an aquaponic farm where nutrient-rich water from fish culture is used to nourish produce, which in turn purifies the water so it can be returned to the fish. Everything is done within the controlled environment of a greenhouse. It is currently one of the largest aquaponic facilities in the West. Its sole member is Solutions for Change.

Solutions Escondido Boulevard, LLC

Solutions Escondido Boulevard, LLC (“Escondido”) was formed to serve as the managing general partner of one or more limited partnerships that own, operate, and manage various multifamily affordable housing projects located in California. Its sole member is Solutions for Change.

Escondido has a .0095% interest in Solutions Escondido Boulevard 33 LP (“EB33”), which has been recorded on the equity method. In addition, Escondido acquired land and incurred predevelopment costs that were acquired by EB33 in March 2017.

SFC Weitzel, LLC

SFC Weitzel, LLC (“Weitzel”) had a 99% interest in SFC Weitzel, LP. Weitzel was formed to serve as the managing general partner of one or more limited partnerships that own, operate, and manage various multifamily affordable housing projects located in California. Its sole member is Solutions for Change. Effective April 28, 2017, SFC Weitzel, L.P. admitted a new unrelated partner, and Weitzel now has a 0.01% interest in SFC Weitzel, L.P. SFC Weitzel, L.P. completed construction of a 32-unit apartment complex in Oceanside, CA in 2018.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 1 - Organization: (Continued)

Solutions Chestnut, LLC

Solutions Chestnut, LLC (“Chestnut”) was formed to serve as the managing general partner of one or more limited partnerships that own, operate, and manage various multifamily affordable housing projects located in California. On December 26, 2014, Chestnut acquired a 16-unit apartment complex in the City of Carlsbad. Its sole member is Solutions for Change.

Solutions Vista Terrace, LLC

Solutions Vista Terrace, LLC (“Vista Terrace”) has a 0.005% interest in SFC Vista Terrace, L.P., which has been recorded on the equity method. Its sole member is Solutions for Change.

Solutions Parkview, LLC

Solutions Parkview, LLC (“Parkview”) has a .001% interest in Parkview San Marcos II, L.P., which has been recorded on the equity method. Its sole member is Solutions for Change.

Solutions EV, LLC

Solutions EV, LLC (“EV”) has a 0.005% interest in EVW. EV was formed to serve as the managing general partner of one or more limited partnerships that own, operate, and manage various multifamily affordable housing projects located in California. Its sole member is Solutions for Change.

Solutions East Vista Way, LP

Solutions East Vista Way, LP (“EVW”) was formed as a limited partnership under the laws of the State of California on September 21, 2017. The Partnership was established for the purpose and intent of constructing and operating a rental housing project. EVW has a managing general partner: EV, which has a .005% interest; an administration general partner: Kingdom EV, LLC, which has a .005% interest; and a limited partner: Solutions for Change, which has a 99.99% interest.

Solutions for Change - Our Mission and Our Model

The mission of Solutions for Change is to solve family homelessness – one family, one community at a time. With this goal, Solutions has pioneered an innovative and sustainable solution for homeless families in our community – an effort that has led more than 900 families and 2,400 children out of homelessness since 1999. The Solutions model is built on three pillars—Solutions University, Solutions Farms, and Solutions in the Community. Solutions University evaluates each family’s needs, then addresses them through an individualized and holistic personal development engagement intended to permanently end dependency and improve well-being. Solutions Farms is a social enterprise that combines employment training for Solutions University residents while growing certified organic produce using cutting-edge aquaponics technology. The produce is supplied to local school districts, where tens of thousands of school children consume the food. Meanwhile, Solutions in the Community is an intentional means to re-connect resident families to their communities of origin. Through opportunities of service and engagement, families develop healthy connections and relationships that provide a sense of belonging. Solutions in the Community is also a partnership to improve distressed areas through the development of affordable rental housing, community revitalization and renewal.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies:

Consolidated Financial Statements

The consolidated financial statements include the accounts of Solutions for Change, Inc.; Solutions Family Center, L.P.; Solutions Farms, LLC; Solutions Escondido Boulevard, LLC; SFC Weitzel, LLC; Solutions Chestnut, LLC; Solutions Vista Terrace, LLC; Solutions Parkview, LLC; Solutions EV, LLC, and Solutions East Vista Way, L.P., which are collectively referred to as the “Organization.” All material intercompany transactions have been eliminated in consolidation.

Accounting Method

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations, and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

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

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy), and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at December 31, 2019 and 2018.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful grants and other receivables totaled \$1,464 and \$-0- for the years ended December 31, 2019 and 2018, respectively. Management believes that all pledges receivable were fully collectible; therefore, no allowance for doubtful pledges receivable was recorded at December 31, 2019 and 2018.

Inventory

Inventory consists of operating supplies related to the operations of Solutions Farms. Inventory is valued at the lower cost (first-in, first-out) or net realizable value. Inventory totaling \$7,500 and \$1,805 is included in the prepaid expenses and other assets at December 31, 2019 and 2018, respectively.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$2,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment is depreciated using the straight-line method over the estimated useful asset lives, as follows:

Land improvements	20 years
Buildings and improvements	5 - 40 years
Machinery and equipment	5 - 7 years
Furniture and fixtures	7 - 10 years
Vehicles	5 years

Depreciation totaled \$547,191 and \$564,939 for the years ended December 31, 2019 and 2018, respectively.

Interest totaling \$271,398 and \$-0- has been capitalized, and is included in construction-in-progress for the years ended December 31, 2019 and 2018, respectively.

Maintenance and repairs are charged to operations as incurred. Major renewals or improvements are capitalized.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Impairment of Real Estate

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the rental property, including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of real estate exceeds the fair value of such property. There were no impairment losses recognized in 2019 and 2018.

Investments in Limited Partnerships

Solutions for Change is the sole member of limited liability companies that own a general partner interest in limited partnerships. These ownership interests range from .005% to .01%, and are accounted for on the equity method.

Compensated Absences

Accumulated unpaid vacation totaling \$69,549 and \$56,905 at December 31, 2019 and 2018, respectively, is accrued as earned and included in accrued expenses.

Tenant Trust Funds

Tenant trust funds represent amounts held on behalf of tenants in savings accounts for program participants. Tenant trust funds totaled \$82,942 and \$69,534 at December 31, 2019 and 2018, respectively.

Tenant Security Deposits

Tenant security deposits are restricted to the extent of the tenant security deposit liability totaling \$54,260 and \$49,775 at December 31, 2019 and 2018, respectively.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain permanent financing. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized deferred financing costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense, and totaled \$1,284 and \$1,523 for the years ended December 31, 2019 and 2018, respectively.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Solutions for Change provides development services in connection with agreements for the development and construction of affordable low-income housing projects. Solutions for Change earns fees based on the fixed-fee agreements and recognizes revenue upon completion of each performance milestone defined in the agreement, for example: closing of construction financing, initial ground-breaking, percentage of completion of construction or rehabilitation and certificate of occupancy.

Grant revenue is recognized in the period in which the related work is performed, in accordance with the terms of the grant. Grants receivable are recorded when revenue earned under a grant exceeds the cash received.

Rental income is recognized for apartment rents as it accrues. Advance receipts of rental income are deferred or classified as liabilities until earned. Deferred rental income totaled \$933 and \$-0- at December 31, 2019 and 2018, respectively.

Revenues from the sale of products sold through the social enterprise are recognized at the point of sale.

Supporting services are provided in accordance with agreements with affordable low-income housing projects. Solutions for Change recognizes revenue as the services are performed in accordance with the agreements. Deferred supporting services fees totaled \$12,789 and 124,108 at December 31, 2019 and 2018, respectively.

Sales of property and equipment are recognized on the date the sale occurs. Upon the sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense unless the sale is the result of a related party transaction. In 2019 Solutions for Change sold property and equipment to EVW at a gain totaling \$2,114,581, which has been accounted for as a transfer of property between the two entities and is included in the change in net assets without donor restrictions in the consolidated statement of activities for the year ended December 31, 2019.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Net Assets Without Donor Restriction

The Organization's net assets without donor restriction include depreciation on property and equipment, amortization of capitalized costs, and accrued interest on loans for which the interest may only be paid from residual receipts. The amounts included in the net assets without donor restrictions are as follows at December 31:

	<u>2019</u>	<u>2018</u>
Accumulated depreciation	\$ 4,862,128	\$ 4,805,275
Interest payable – residual receipts	2,347,240	2,201,887
Accumulated amortization of debt issuance costs	7,608	6,324
	<u>\$ 7,216,966</u>	<u>\$ 7,013,486</u>

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements, unless the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2019 and 2018 did not meet the requirements above; therefore, no amounts were recognized in the consolidated financial statements.

The Organization received in-kind contributions of auction items for its special event, totaling \$35,595 and \$115,077 for the years ended December 31, 2019 and 2018, respectively, which have been recorded as special event revenue and special event expenses in the consolidated statements of activities.

Functional Allocation of Expenses

The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of expenses that benefit multiple functional areas have been allocated between programs and supporting services, based on a cost allocation plan that allocates costs based on the proportion of full-time employee equivalents, space utilization, and estimates made by the Organization's management.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Income Taxes

Solutions for Change is a public charity, and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Solutions for Change believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. Solutions for Change is not a private foundation.

No provision or benefit for income taxes for the Limited Liability Companies and Limited Partnerships have been included in these consolidated financial statements since taxable income (loss) passes through to, and is reportable by, the Member/Partners individually.

Solutions for Change's Return of Organization Exempt from Income Tax, Partnership and LLC tax returns for the years ended December 31, 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents and Restricted Cash

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Certificates of deposits that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated statements of financial position that sum to the total in the statements of cash flows at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 291,504	\$ 450,674
Tenant trust funds	82,942	69,534
Tenant security deposits	54,260	49,775
Restricted reserves	402,777	362,444
Total Cash and Cash Equivalents and Restricted Cash	<u>\$ 831,483</u>	<u>\$ 932,427</u>

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Accounting Pronouncements Adopted

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions, or opening net assets with donor restrictions, as of January 1, 2019. There was no effect of adopting the new accounting principles on contributions in 2019.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis, which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended December 31, 2019.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended December 31, 2019 required a restatement of cash and cash equivalents for December 31, 2018 and 2017. Amounts generally described as restricted cash and restricted cash equivalents have been included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 21, 2020, the date the consolidated financial statements were available to be issued, and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 13.

Reclassification

The Organization has reclassified certain prior-year information to conform with the current-year presentation.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 3 - Liquidity and Availability:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. The Organization considers contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programs as well as the conduct of services undertaken to support those activities to be general expenditures.

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

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 291,504	\$ 450,674
Grant and other receivables, net	202,606	95,128
Pledges receivable	15,840	23,840
Pledges receivable subject to the passage of time	-	(7,840)
Financial assets available for general expenditures within one year	<u>\$ 509,950</u>	<u>\$ 561,802</u>

In addition, the Organization operates with a balanced budget, and anticipates collecting sufficient revenue to cover general expenditures.

Note 4 - Pledges Receivable:

Pledges receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Pledges due in less than one year	\$ 15,840	\$ 16,000
Pledges due in one-to-five years	-	7,840
Total Pledges Receivable	<u>\$ 15,840</u>	<u>\$ 23,840</u>

Note 5 - Related Party Receivables:

Related party receivables consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
The note receivable, which originated on July 1, 2012 and was amended effective April 11, 2013, from SFC Vista Terrace, L.P., in the original amount of \$400,000 bears interest at 3% per annum. Principal and interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal and accrued interest are due July 1, 2067. Secured by a deed of trust. Accrued interest totaled \$77,490 and \$65,490 at December 31, 2019 and 2018, respectively, and is included in the receivable. In addition, \$73,081 was advanced which is noninterest bearing, payable from residual receipts.	\$ 520,250	\$ 538,571

(Continued)

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 5 - Related Party Receivables: (Continued)

	<u>2019</u>	<u>2018</u>
The note receivable, which originated on October 12, 2017, from Solutions Escondido Boulevard 33. L.P., in the original amount of \$80,000. The note is noninterest bearing. Principal and interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal is due October 11, 2072. Secured by a deed of trust.	\$ 88,000	\$ 88,000
Developer fee receivable from SFC Vista Terrace, L.P. in the original amount of \$612,000. The developer fee is paid from Limited Partner capital installments with any unpaid amounts payable from available cash flow. Interest is accrued at 4% compounded annually. Accrued interest totaled \$-0- and \$960 at December 31, 2019 and 2018, respectively, and is included in the receivable.	-	7,355
Developer fee receivable from Solutions Escondido Boulevard 33, L.P. in the original amount of \$1,289,802. The developer fee will be paid from limited partner capital installments, with any unpaid amounts payable from available cash flow.	1,196,802	1,196,802
Developer fee receivable from SFC Weitzel, L.P. in the original amount of \$755,000 (net of amount due to consultant of \$755,000). The developer fee is paid from Limited Partner capital installments, with any unpaid amounts payable from available cash flow.	191,511	755,000
	<u>\$ 1,996,563</u>	<u>\$ 2,585,728</u>

In addition, current related party receivables totaling \$138,498 and \$79,106 at December 31, 2019 and 2018, respectively, are included in grants and other receivables.

Note 6 - Restricted Reserves:

According to the partnership, loan and other regulatory agreements, the Partnership and Organization are required to maintain the following reserves:

Operating Reserve

The Partnership is required to fund an operating reserve up to the amount of \$89,200. There is no annual funding requirement for this reserve. The operating reserve balance totaled \$89,200 and \$89,200 at December 31, 2019 and 2018, respectively.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 6 - Restricted Reserves: (Continued)

Replacement Reserves

The Partnership is required to fund a replacement reserve in the initial amount of \$20,000 in accordance with the regulatory agreement with the City of Vista. In accordance with the operating budget approved by the Department of Housing and Community Development, the Partnership was required to fund a replacement reserve of \$16,386 annually from March 24, 2005, through April 8, 2014. Beginning April 8, 2014, the Partnership is required to fund a replacement reserve of \$19,800 annually. The replacement reserve balance totaled \$138,750 and \$118,950 at December 31, 2019 and 2018, respectively.

The Organization is required to maintain replacement reserve accounts for each property obtained through Neighborhood Stabilization Program and HOME Investment Partnership Program funding. These amounts vary by property and must be funded annually beginning two months subsequent to the completion of rehabilitation. The replacement reserve balance totaled \$174,827 and \$154,294 at December 31, 2019 and 2018, respectively.

Note 7 - Investment in Partnerships:

Solutions for Change is the sole member of three limited liability companies. The limited liability companies own general partner interests in partnerships that they account for on the equity method, which are their entire assets and liabilities. The following are the balances in the limited liability companies' partnership capital accounts of the partnerships at December 31:

	<u>2019</u>	<u>2018</u>
<u>Investment in Partnerships</u>		
Parkview San Marcos II, L.P. (.001%)	\$ 74	\$ 78
Solutions Escondido Boulevard 33, L.P. (.0095%)	-	19
Total Investment in Partnerships	\$ 74	\$ 97
 <u>Share of Deficiency in Partnerships</u>		
Solutions Escondido Boulevard 33, L.P. (.0095%)	(25)	-
SFC Vista Terrace, L.P. (.005%)	\$ (124)	\$ (107)
SFC Weitzel, L.P. (.01%)	(1,679)	(1,608)
Total Share of Deficiency in Partnerships	\$ (1,828)	\$ (1,715)

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 7 - Investment in Partnerships: (Continued)

Solutions for Change provided development and management/admin fees and other services (included in rental income) to the partnerships for which it earned the following amounts for the years ended December 31:

	<u>2019</u>		
	<u>Management/ Admin Fees</u>	<u>Other Services</u>	<u>Developer Fees</u>
SFC Vista Terrace, L.P.	\$ 2,640	\$ -	\$ -
Parkview San Marcos II, L.P.	4,437	4,599	-
Solutions Escondido Boulevard 33, L.P.	15,300	-	-
SFC Weitzel, L.P.	25,750	-	-
	<u>\$ 48,127</u>	<u>\$ 4,599</u>	<u>\$ -</u>
	 <u>2018</u>		
	<u>Management/ Admin Fees</u>	<u>Other Services</u>	<u>Developer Fees</u>
SFC Vista Terrace, L.P.	\$ 58,248	\$ 72,468	\$ -
Parkview San Marcos II, L.P.	4,369	4,533	-
Solutions Escondido Boulevard 33, L.P.	15,000	-	-
SFC Weitzel, L.P.	25,000	-	755,000
	<u>\$ 102,617</u>	<u>77,001</u>	<u>755,000</u>

Note 8 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 10,208,194	\$ 5,131,800
Land improvements	356,395	356,395
Buildings and improvements	13,957,648	14,609,799
Construction-in-progress	1,034,674	231,477
Machinery and equipment	259,868	259,868
Furniture and fixtures	144,615	144,615
Vehicles	128,694	128,694
Subtotal	<u>26,090,088</u>	<u>20,862,648</u>
Less: Accumulated depreciation	<u>(4,862,128)</u>	<u>(4,805,275)</u>
Property and Equipment, Net	<u>\$ 21,227,960</u>	<u>\$ 16,057,373</u>

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable:

Notes payable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
<u>Solutions for Change, Inc.</u>		
The loan payable, which originated September 24, 2009, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$357,762. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of September 24, 2024. Secured by a deed of trust.	\$ 349,954	\$ 349,954
The loan payable, which originated November 16, 2009, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$79,156. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of November 16, 2024. Secured by a deed of trust.	78,914	78,914
The loan payable, which originated September 3, 2009, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$301,084. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of September 3, 2024. Secured by a deed of trust.	290,825	290,825
The loan payable, which originated February 3, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$461,369. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of February 3, 2025. Secured by a deed of trust.	456,518	456,518
The loan payable, which originated February 26, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$132,704. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of February 26, 2025. Secured by a deed of trust.	128,643	128,643
The loan payable, which originated January 7, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$286,010. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of January 7, 2025. Secured by a deed of trust.	277,018	277,018

(Continued)

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions for Change, Inc. (Continued)

The loan payable, which originated August 4, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$332,847. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of August 4, 2025. Secured by a deed of trust.

	<u>2019</u>	<u>2018</u>
	\$ 323,095	\$ 323,095

The loan payable, which originated July 22, 2010, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$392,272. The loan is non-interest bearing. In the event that all terms and obligations of the regulatory agreement have been met, the loan will be forgiven at the maturity date of July 22, 2025. Secured by a deed of trust.

	373,712	373,712
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The loan payable, which originated April 13, 2011, is held by the County of San Diego Department of Housing and Community Development in the original amount of \$3,421,452. The loan bears interest at 3% per annum. Principal and accrued interest are payable from residual receipts (50%) from the Primrose property, with the remaining residual receipts (50%) to be held in a segregated operating reserve account. Principal and accrued interest are due April 1, 2066. Secured by a deed of trust. Accrued interest totaled \$842,589 and \$740,336 at December 31, 2019 and 2018, respectively.

	3,408,032	3,408,032
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The loan payable, which originated April 1, 2011, is held by the Clearinghouse Community Development Financial Institution in the original amount of \$1,100,000. Principal and accrued interest are payable in monthly installments of \$6,419 including interest at 5.75% beginning March 1, 2012. Principal and accrued interest are due May 1, 2021. Secured by a deed of trust. Accrued interest totaled \$3,066 and \$4,301 at December 31, 2019 and 2018, respectively.

	884,682	910,048
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The loan payable, which originated on October 23, 2012, is held by Veritas Services LLC in the original amount of \$120,000. Payable in monthly interest-only payments at 8.5%. Principal and accrued interest were due November 1, 2014, but payment has not been required. Secured by a deed of trust.

	-	120,000
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SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions for Change, Inc. (Continued)

The loan payable, which originated November 1, 2014, is held by Veritas Service in the original amount of \$185,000. Interest is accrued at 10.5% per annum, and payable in monthly installments of \$1,619. Principal and accrued interest are due October 1, 2019. Secured by a deed of trust.

	<u>2019</u>		<u>2018</u>
	\$ -	\$	185,000

The loan payable, which originated September 10, 2014, is held by Silvergate Bank in the original amount of \$185,000. Principal and accrued interest are payable in monthly installments of \$966 including interest at 4.69%. Principal and accrued interest are due October 5, 2019. Secured by a deed of trust. Accrued interest totaled \$0- and \$580 at December 31, 2019 and 2018, respectively.

	-		171,300
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The loan payable, which originated October 23, 2015, is held by Local Initiatives Support Corporation in the original amount of \$600,000. Interest is accrued at 6.0% per annum, and payable in monthly installments of \$3,000. Principal of \$150,000 is due December 1, 2016 and 2017, with the balance of the principal and accrued interest due November 1, 2018. Secured by a deed of trust. Accrued interest totaled \$0- and \$6,000 at December 31, 2019 and 2018, respectively.

	-		600,000
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The loan payable, which was assumed January 30, 2017, originated March 23, 2010, is held by the City of Oceanside in the original amount of \$154,000. Interest is accrued at 3.0% per annum, payments deferred for 15 years and then amortized over 35 years. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven at January 30, 2032. Secured by a deed of trust. Accrued interest totaled \$13,189 and \$8,619 at December 31, 2019 and 2018, respectively.

	152,324		152,324
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The loan payable, which was assumed January 30, 2017, originated May 11, 2010, is held by the City of Oceanside in the original amount of \$70,708. Interest is accrued at 3.0% per annum, payments deferred for 15 years. Thereafter, payment of principal and interest is due and payable in full on June 1, 2050. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven. Secured by a deed of trust. Accrued interest totaled \$5,962 and \$3,896 at December 31, 2019 and 2018, respectively.

	68,855		68,855
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(Continued)

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions for Change, Inc. (Continued)

The loan payable, which was assumed January 30, 2017, originated March 23, 2010, is held by the City of Oceanside in the original amount of \$309,000. Interest is accrued at 3.0% per annum, payments deferred for 15 years and then amortized over 35 years. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven at January 30, 2032. Secured by a deed of trust. Accrued interest totaled \$26,463 and \$17,294 at December 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
	\$ 305,637	\$ 305,637

The loan payable, which was assumed January 30, 2017, originated May 11, 2010, is held by the City of Oceanside in the original amount of \$50,684. Interest is accrued at 3.0% per annum, payments deferred for 15 years. Thereafter, payment of principal and interest is due and payable in full on June 1, 2050. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven. Secured by a deed of trust. Accrued interest totaled \$4,273 and \$2,793 at December 31, 2019 and 2018, respectively.

	49,356	49,356
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The loan payable, which was assumed January 30, 2017, originated October 21, 2009, is held by the City of Oceanside in the original amount of \$203,571. Interest is accrued at 3.0% per annum, payments deferred for 15 years and then amortized over 35 years. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven at January 30, 2032. Secured by a deed of trust. Accrued interest totaled \$16,924 and \$11,060 at December 31, 2019 and 2018, respectively.

	195,459	195,459
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The loan payable, which was assumed January 30, 2017, originated January 14, 2010, is held by the City of Oceanside in the original amount of \$58,650. Interest is accrued at 3.0% per annum, payments deferred for 15 years. Thereafter, payment of principal and interest is due and payable in full on February 1, 2050. In the event that all terms and obligations of the regulatory agreement have been met, the loan and interest will be forgiven. Secured by a deed of trust. Accrued interest totaled \$4,931 and \$3,322 at December 31, 2019 and 2018, respectively.

	56,947	56,947
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The note payable, which originated on May 15, 2017, is held by Kingdom Development, Inc. in the original amount of \$75,000. Interest is accrued at 7.0% per annum. Principal and interest are due January 15, 2019. Unsecured. Accrued interest totaled \$0- and \$7,875 at December 31, 2019 and 2018, respectively.

	-	75,000
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(Continued)

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions for Change, Inc. (Continued)

The note payable which originated April 26, 2018 is held by Solutions Escondido Boulevard 33, L.P. in the original amount of \$91,783. Interest is accrued at 1%, compounded annually. Secured by a deed of trust. Accrued interest totaled \$1,536 and \$612 at December 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
\$	91,783	\$ 91,783

The loan payable, which originated April 18, 2019, is held by Pacific Coast Realty in the original amount of \$120,000. The loan bears interest at 7% per annum. Principal and accrued interest are payable in monthly installments of \$1,393 beginning June 1, 2019. The loan and accrued interest are due upon May 1, 2021. Secured by a deed of trust. Accrued interest totaled \$670 and \$-0- at December 31, 2019 and 2018, respectively.

	115,062	-
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The loan payable, which originated December 31, 2019, is held by DSD Capital, LLC in the original amount of \$250,000. The loan bears interest at 5.5% per annum. Interest payments of \$4,168 are payable monthly beginning January 30, 2020 for 6 months. Principal due July 30, 2020. Unsecured.

Total Solutions for Change, Inc.

Less: Unamortized debt issuance costs

Total Solutions for Change, Net

	<u>250,000</u>	<u>-</u>
	7,856,816	8,668,420
	<u>-</u>	<u>(494)</u>
	<u><u>7,856,816</u></u>	<u><u>8,667,926</u></u>

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions Family Center, L.P.

The mortgage note, which was originated on March 8, 2005, is held by the California Department of Housing and Community Development in the original amount of \$2,044,512. The note bears interest at 3% per annum. Payments in the amount of forty-two hundredths of one percent (.42%) per annum on the unpaid principal balance of the loan are payable beginning December 31, 2005, and continuing annually thereafter up to the twenty-ninth anniversary of the interest payment date. Commencing on the thirtieth (30th) anniversary of the interest payment date and continuing annually thereafter, payments shall equal the lesser of (1) the full amount of interest accruing on the unpaid principal balance during the year, or (2) the amount determined by the lender as to be necessary to cover the costs of continued monitoring of the compliance requirements under the loan. In addition, the note may require additional payments from net cash flow under the terms of the regulatory agreement. The note is due March 2060. Secured by a deed of trust. Accrued interest totaled \$779,654 and \$726,906 at December 31, 2019 and 2018, respectively, and the required interest payments totaled \$8,587 and \$8,587 for the years ended December 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
	\$ 2,044,512	\$ 2,044,512

The mortgage note, which was originated on July 30, 2003, is held by the San Diego County Department of Housing and Community Development in the original amount of \$957,000. The note bears interest at 3% per annum. Principal and accrued interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal and accrued interest are due July 2058. Secured by a deed of trust. Accrued interest totaled \$460,921 and \$432,211 at December 31, 2019 and 2018, respectively.

	957,000	957,000
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The mortgage note, which was originated on July 28, 2003, is held by the City of Vista in the original amount of \$550,000. The note bears interest at 3% per annum. Principal and accrued interest are payable from residual receipts, as defined in the agreement, calculated annually. Principal and accrued interest are due July 2058. Secured by a deed of trust. Accrued interest totaled \$264,077 and \$247,576 at December 31, 2019 and 2018, respectively.

	550,000	550,000
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(Continued)

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions Family Center, L.P. (Continued)

The mortgage note, which was originated on July 31, 2003, is held by the City of Escondido in the original amount of \$375,100. The note is non-interest bearing. Principal is due July 2058. Secured by a deed of trust.

	<u>2019</u>	<u>2018</u>
\$	375,100	\$ 375,100

The mortgage note, which was originated on July 24, 2003, is held by the Bank of America for the Affordable Housing Program (AHP) in the original amount of \$176,700. The note is non-interest bearing, provided that all compliance requirements of the loan are met. Principal is due July 2021. Secured by a deed of trust.

	<u>176,700</u>	<u>176,700</u>
Total Solutions Family Center, L.P.	<u>4,103,312</u>	<u>4,103,312</u>

Solutions Farms, LLC

The loan payable, which was originated on August 1, 2018, is held by Alliance Healthcare Foundation in the original amount of \$755,572. The loan is noninterest bearing until April 1, 2020 after which interest accrues at 4.0% per annum and is payable monthly. Monthly principal payments of \$3,668 are due beginning September 1, 2020. The loan is due August 1, 2050. Secured by a deed of trust. Accrued interest totaled \$12,455 and \$12,455 at December 31, 2019 and 2018, respectively.

	<u>755,572</u>	<u>755,572</u>
Total Solutions Farms, LLC	<u>755,572</u>	<u>755,572</u>

Solutions Chestnut, LLC

The loan payable, which originated December 24, 2014, is held by the City of Carlsbad in the original amount of \$2,646,000. The loan is noninterest bearing for the first five years, after which interest will accrue at 3.0% per annum. Beginning on January 1, 2020 and annually thereafter, payments equal to 70% of residual receipts. Principal and accrued interest are due on December 24, 2074. Secured by a deed of trust.

Total Solutions Chestnut, LLC

Less: Unamortized debt issuance costs

Total Solutions Chestnut, LLC, Net

	<u>2,646,000</u>	<u>2,646,000</u>
Total Solutions Chestnut, LLC	<u>2,646,000</u>	<u>2,646,000</u>
Less: Unamortized debt issuance costs	-	(790)
Total Solutions Chestnut, LLC, Net	<u>2,646,000</u>	<u>2,645,210</u>

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 - Notes Payable: (Continued)

Solutions East Vista Way, L.P.

The acquisition/bridge loan payable, which originated April 12, 2019, is held by the Century Housing Corporation in the original amount of \$4,700,000 (\$4,000,919 advanced as of December 31, 2019). The loan bears interest at a variable interest rate equal to one month London Interbank Offered Rate plus 4.5%, with a floor of 7%, adjusted monthly. Beginning May 1, 2019, monthly interest payments are due paid from interest reserve. Secured by a deed of trust. Accrued interest totaled \$24,117 and \$-0- at December 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
	\$ 4,000,919	\$ -

The loan payable, which originated April 12, 2019, is held by Katherine R. Muderrig in the original amount of \$500,000. The loan bears interest at 5.5% per annum. Principal and accrued interest are payable in monthly installments of \$6,450 beginning June 1, 2019. Secured by a deed of trust. Accrued interest totaled \$-0- at December 31, 2019 and 2018.

Total Solutions East Vista Way, L.P.

467,682	-
4,468,401	-

Total Notes Payable, Net

Less: Current Portion

Notes Payable, Long-Term, Net

19,830,301	16,172,020
(342,976)	(1,180,959)
\$ 19,487,325	\$ 14,991,061

Debt issuance costs total \$7,608, less accumulated amortization of \$7,608 and \$6,324 at December 31, 2019 and 2018, respectively.

The future principal payments on the notes payable are as follows:

Years Ended December 31	Solutions for Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions Chestnut, LLC	Solutions East Vista Way, L.P.	Total
2020	\$ 287,048	\$ -	\$ 7,460	\$ -	\$ 48,468	\$ 342,976
2021	962,695	176,700	13,710	-	4,056,649	5,209,754
2022	-	-	14,269	-	58,874	73,143
2023	-	-	14,850	-	62,195	77,045
2024	-	-	15,456	-	65,703	81,159
Thereafter	6,607,073	3,926,612	689,827	2,646,000	176,712	14,046,224
Total	\$ 7,856,816	\$ 4,103,312	\$ 755,572	\$ 2,646,000	\$ 4,468,601	\$ 19,830,301

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 10 - Net Assets With Donor Restrictions:

Net assets with donor restrictions are available for the following purposes at December 31:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Solutions for Change - Program services	\$ 116,363	\$ 140,156
Subject to the Passage of Time:		
Pledges receivable - Operations	15,840	23,840
Total Net Assets with Donor Restrictions	\$ 132,203	\$ 163,996

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Purpose Restrictions Accomplished:		
Program services	\$ 156,156	\$ 82,141
Total Net Assets Released From Restrictions	\$ 156,156	\$ 82,141

Note 11 - Contingencies:

Loan Agreements

The Partnership entered into loan agreements with several agencies for the purpose of building and maintaining the tenant housing facilities. These agreements specify requirements for the building maintenance. The loans will be forgiven at the end of the loan term if all requirements have been met. In the event that the Partnership does not comply with the agreement, sells the property, or desists using the facility for its original intended purposes, these notes may be called.

Grant Agreement

Chestnut received a grant totaling \$454,000 from the City of Carlsbad on December 24, 2014. Funds were used for the acquisition the property located at 945 Chestnut Avenue. The grant requires that seven (7) low-income restricted units for affordable housing purposes for homeless families be maintained for no less than fifty-five (55) years from the date of acquisition. The grant funds shall be reimbursed to the City of Carlsbad in full upon (1) the date the property is first sold or transferred without prior written approval of the City Council, or (2) upon failure of Chestnut to operate affordable housing for low-income households on the property as stated above.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 12 - Commitments:

403(b) Pension Plan

The Organization sponsors a 403(b) pension plan covering, substantially, all of its employees. Each employee's total contribution may not exceed the maximum allowable under current regulations. The Organization matches the first 2% of eligible compensation contributed by the employee. The Organization also pays all administrative costs of this plan. All beneficiaries of the 403(b) plan are responsible for their own plan investment decisions. Matching contributions under this plan totaled \$4,602 and \$6,188 for the years ended December 31, 2019 and 2018, respectively.

Leases

Office Space

In 2004, the Organization began occupying approximately 7,200 square feet of donated office space at the Center's facility located at 702 West California Avenue, Vista, California. Estimated fair market value of the donated facilities in 2019 and 2018 was \$129,600. Due to the elimination of intercompany transactions during the consolidation process, the rent accrual and expense are not reflected in the consolidated financial statements.

Vehicles

The Organization leases a vehicle under a three-year lease agreement beginning April 2016, with a monthly payment of \$331. Rent expense totaled \$993 and \$3,962 for the years ended December 31, 2019 and 2018, respectively. The Organization entered into a lease for a vehicle under a three-year lease agreement beginning December 31, 2017, with a monthly payment of \$468. Rent expense totaled \$5,616 and \$6,615 for the years ended December 31, 2019 and 2018, respectively.

The following is a schedule of future minimum payments related to the leases:

<u>Years Ended</u> <u>December 31</u>	
2020	\$ <u>5,616</u>
Total	\$ <u>5,616</u>

Contracts

The Organization has an employment contract with the President, which provides a base salary, plus an annual bonus based on performance and not to exceed 20% of the current salary. The contract is renewable annually.

SOLUTIONS FOR CHANGE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 13 - Subsequent Events:

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China, and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. The potential impacts to the Organization include disruptions or restrictions on employees' ability to work, suspension of programming, reduction in contributions from donors, and reduced revenue from rental income. Changes to the operating environment may also be impacted and may have an impact on operating costs. The future effects of these issues are unknown.

CARES Act Paycheck Protection Program Loan

In April 2020, the Organization obtained loans totaling \$419,024 from the U.S. Small Business Administration under the CARES Act Paycheck Protection Program ("PPP"). The loans are forgivable to the extent that the Organization meets the terms and conditions of the PPP. Any portion of the loan that is not forgiven bears interest at 1% and is due in April 2022.

SOLUTIONS FOR CHANGE, INC.
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

	Solutions For Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Eliminations	Consolidated
<u>Current Assets:</u>							
Cash and cash equivalents	\$ 91,363	\$ 95	\$ 1,477	\$ 151,928	\$ 46,641	\$ -	\$ 291,504
Grants and other receivables, net	192,372	4,482	2,983	1,769	1,000	-	202,606
Intercompany receivables	3,668,316	3,500	-	-	432,488	(4,104,304)	-
Pledges receivable	15,840	-	-	-	-	-	15,840
Prepaid expenses and other assets	25,325	-	11,851	-	-	-	37,176
Tenant trust funds	82,942	-	-	-	-	-	82,942
Tenant security deposits	27,189	1,701	-	7,050	18,320	-	54,260
Deposits	500	3,161	2,933	-	500	-	7,094
Total Current Assets	<u>4,103,847</u>	<u>12,939</u>	<u>19,244</u>	<u>160,747</u>	<u>498,949</u>	<u>(4,104,304)</u>	<u>691,422</u>
<u>Noncurrent Assets:</u>							
Investment in subsidiary	(1,437,304)	-	-	-	-	1,437,304	-
Related party receivables	1,996,563	-	-	-	-	-	1,996,563
Restricted reserves	174,827	227,950	-	-	-	-	402,777
Investment in partnerships	74	-	-	-	-	-	74
Property and equipment, net	6,232,364	3,963,590	1,008,213	7,090,036	2,933,757	-	21,227,960
Total Noncurrent Assets	<u>6,966,524</u>	<u>4,191,540</u>	<u>1,008,213</u>	<u>7,090,036</u>	<u>2,933,757</u>	<u>1,437,304</u>	<u>23,627,374</u>
TOTAL ASSETS	<u>\$ 11,070,371</u>	<u>\$ 4,204,479</u>	<u>\$ 1,027,457</u>	<u>\$ 7,250,783</u>	<u>\$ 3,432,706</u>	<u>\$ (2,667,000)</u>	<u>\$ 24,318,796</u>

SOLUTIONS FOR CHANGE, INC.
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2019

LIABILITIES AND NET ASSETS

	Solutions For Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Eliminations	Consolidated
<u>Current Liabilities:</u>							
Accounts payable	\$ 82,103	\$ 43,952	\$ 17,228	\$ 2,172	\$ 9,719	\$ -	\$ 155,174
Accrued expenses	149,308	-	5,777	-	-	-	155,085
Deferred revenue	12,789	273	-	-	660	-	13,722
Interest payable	3,737	-	-	24,117	-	-	27,854
Intercompany payables	493,988	-	1,001,945	2,608,299	72	(4,104,304)	-
Related party payables	-	-	-	131,798	-	-	131,798
Tenant trust funds	82,942	-	-	-	-	-	82,942
Tenant security deposits	24,482	1,712	-	7,050	18,320	-	51,564
Current portion of notes payable	287,048	-	7,460	48,468	-	-	342,976
Total Current Liabilities	<u>1,136,397</u>	<u>45,937</u>	<u>1,032,410</u>	<u>2,821,904</u>	<u>28,771</u>	<u>(4,104,304)</u>	<u>961,115</u>
<u>Noncurrent Liabilities:</u>							
Share of deficiency in partnerships	1,828	-	-	-	-	-	1,828
Notes payable, net	7,569,768	4,103,312	748,112	4,420,133	2,646,000	-	19,487,325
Interest payable	915,866	1,504,651	12,456	-	-	-	2,432,973
Total Noncurrent Liabilities	<u>8,487,462</u>	<u>5,607,963</u>	<u>760,568</u>	<u>4,420,133</u>	<u>2,646,000</u>	<u>-</u>	<u>21,922,126</u>
Total Liabilities	<u>9,623,859</u>	<u>5,653,900</u>	<u>1,792,978</u>	<u>7,242,037</u>	<u>2,674,771</u>	<u>(4,104,304)</u>	<u>22,883,241</u>
<u>Minority Interest in Subsidiary</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,463)</u>	<u>(10,463)</u>
<u>Net Assets (Deficit):</u>							
Without donor restrictions	1,314,309	(1,449,421)	(765,521)	8,746	757,935	1,447,767	1,313,815
With donor restrictions	132,203	-	-	-	-	-	132,203
Total Net Assets (Deficit)	<u>1,446,512</u>	<u>(1,449,421)</u>	<u>(765,521)</u>	<u>8,746</u>	<u>757,935</u>	<u>1,447,767</u>	<u>1,446,018</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,070,371</u>	<u>\$ 4,204,479</u>	<u>\$ 1,027,457</u>	<u>\$ 7,250,783</u>	<u>\$ 3,432,706</u>	<u>\$ (2,667,000)</u>	<u>\$ 24,318,796</u>

SOLUTIONS FOR CHANGE, INC.
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

	Solutions For Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Eliminations	Consolidated
Current Assets:							
Cash and cash equivalents	\$ 369,990	\$ 1,143	\$ 3,243	\$ 58,836	\$ 17,462	\$ -	\$ 450,674
Grants and other receivables	86,640	-	8,488	-	-	-	95,128
Intercompany receivables	1,053,487	-	-	-	325,970	(1,379,457)	-
Pledges receivable	16,000	-	-	-	-	-	16,000
Prepaid expenses and other assets	2,344	-	6,120	-	3,589	-	12,053
Tenant trust funds	69,534	-	-	-	-	-	69,534
Tenant security deposits	27,722	6,233	-	-	15,820	-	49,775
Total Current Assets	<u>1,625,717</u>	<u>7,376</u>	<u>17,851</u>	<u>58,836</u>	<u>362,841</u>	<u>(1,379,457)</u>	<u>693,164</u>
Noncurrent Assets:							
Investment in subsidiary	(1,173,830)	-	-	-	-	1,173,830	-
Pledges receivable	7,840	-	-	-	-	-	7,840
Related party receivables	2,585,728	-	-	-	-	-	2,585,728
Restricted reserves	154,294	208,150	-	-	-	-	362,444
Investment in partnerships	97	-	-	-	-	-	97
Property and equipment, net	7,657,655	4,121,541	1,106,260	203,080	2,968,837	-	16,057,373
Total Noncurrent Assets	<u>9,231,784</u>	<u>4,329,691</u>	<u>1,106,260</u>	<u>203,080</u>	<u>2,968,837</u>	<u>1,173,830</u>	<u>19,013,482</u>
TOTAL ASSETS	<u>\$ 10,857,501</u>	<u>\$ 4,337,067</u>	<u>\$ 1,124,111</u>	<u>\$ 261,916</u>	<u>\$ 3,331,678</u>	<u>\$ (205,627)</u>	<u>\$ 19,706,646</u>

SOLUTIONS FOR CHANGE, INC.
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2018

LIABILITIES AND NET ASSETS

	Solutions For Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Eliminations	Consolidated
<u>Current Liabilities:</u>							
Accounts payable	\$ 86,466	\$ 4,115	\$ 5,266	\$ 18,889	\$ 2,785	\$ -	\$ 117,521
Accrued expenses	125,494	-	4,203	-	-	-	129,697
Deferred revenue	124,108	-	-	-	-	-	124,108
Interest payable	11,493	-	12,456	-	-	-	23,949
Intercompany payables	383,970	-	722,926	271,813	748	(1,379,457)	-
Tenant trust funds	69,534	-	-	-	-	-	69,534
Tenant security deposits	27,722	6,233	-	-	15,820	-	49,775
Current portion of notes payable	1,180,959	-	-	-	-	-	1,180,959
Total Current Liabilities	<u>2,009,746</u>	<u>10,348</u>	<u>744,851</u>	<u>290,702</u>	<u>19,353</u>	<u>(1,379,457)</u>	<u>1,695,543</u>
<u>Noncurrent Liabilities:</u>							
Share of deficiency in partnerships	1,715	-	-	-	-	-	1,715
Notes payable, net	7,486,967	4,103,312	755,572	-	2,645,210	-	14,991,061
Interest payable	795,194	1,406,693	-	-	-	-	2,201,887
Total Noncurrent Liabilities	<u>8,283,876</u>	<u>5,510,005</u>	<u>755,572</u>	<u>-</u>	<u>2,645,210</u>	<u>-</u>	<u>17,194,663</u>
Total Liabilities	<u>10,293,622</u>	<u>5,520,353</u>	<u>1,500,423</u>	<u>290,702</u>	<u>2,664,563</u>	<u>(1,379,457)</u>	<u>18,890,206</u>
<u>Minority Interest in Subsidiary</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,802)</u>	<u>(7,802)</u>
<u>Net Assets (Deficit):</u>							
Without donor restrictions	399,883	(1,183,286)	(376,312)	(28,786)	667,115	1,181,632	660,246
With donor restrictions	163,996	-	-	-	-	-	163,996
Total Net Assets (Deficit)	<u>563,879</u>	<u>(1,183,286)</u>	<u>(376,312)</u>	<u>(28,786)</u>	<u>667,115</u>	<u>1,181,632</u>	<u>824,242</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,857,501</u>	<u>\$ 4,337,067</u>	<u>\$ 1,124,111</u>	<u>\$ 261,916</u>	<u>\$ 3,331,678</u>	<u>\$ (205,627)</u>	<u>\$ 19,706,646</u>

SOLUTIONS FOR CHANGE, INC.
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Solutions For Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Eliminations	Consolidated
Net Assets Without Donor Restrictions							
Support and Revenue:							
Contributions	\$ 1,384,438	\$ -	\$ 5,110	\$ -	\$ -	\$ -	\$ 1,389,548
Grants	75,000	19,800	-	-	-	(19,800)	75,000
Interest and miscellaneous	63,082	508	-	-	-	-	63,590
Rental income	535,644	336,096	-	148,377	213,987	(478,332)	755,772
Social enterprise	-	-	20,159	-	-	-	20,159
Special event revenue (net of direct donor benefit costs of \$48,070)	325,218	-	-	-	-	-	325,218
Supporting services	130,514	-	-	-	-	-	130,514
Net assets released from restriction	156,156	-	-	-	-	-	156,156
Total Support and Revenue	<u>2,670,052</u>	<u>356,404</u>	<u>25,269</u>	<u>148,377</u>	<u>213,987</u>	<u>(498,132)</u>	<u>2,915,957</u>
Operating Expenses:							
Program services	2,805,080	345,689	240,374	87,056	58,659	(496,132)	3,040,726
Management and general	281,811	12,354	75,831	7,824	20,691	(2,000)	396,511
Fundraising	185,252	-	226	-	-	-	185,478
Total Operating Expenses	<u>3,272,143</u>	<u>358,043</u>	<u>316,431</u>	<u>94,880</u>	<u>79,350</u>	<u>(498,132)</u>	<u>3,622,715</u>
Change in Net Assets Without Donor Restrictions Before Nonoperating Revenue and (Expenses)	<u>(602,091)</u>	<u>(1,639)</u>	<u>(291,162)</u>	<u>53,497</u>	<u>134,637</u>	<u>-</u>	<u>(706,758)</u>
Nonoperating Revenue and (Expenses):							
Depreciation	(232,201)	(157,951)	(98,047)	(15,965)	(43,027)	-	(547,191)
Excess (deficit) of support and revenue over expenses of subsidiary	(263,474)	-	-	-	-	266,135	2,661
Interest - residual receipts debt	(102,253)	(106,545)	-	-	(790)	-	(209,588)
Partnership loss	(136)	-	-	-	-	-	(136)
Total Nonoperating Revenue and (Expenses)	<u>(598,064)</u>	<u>(264,496)</u>	<u>(98,047)</u>	<u>(15,965)</u>	<u>(43,817)</u>	<u>266,135</u>	<u>(754,254)</u>
Change in Net Assets Without Donor Restrictions	<u>(1,200,155)</u>	<u>(266,135)</u>	<u>(389,209)</u>	<u>37,532</u>	<u>90,820</u>	<u>266,135</u>	<u>(1,461,012)</u>
Net Assets With Donor Restrictions							
Contributions	124,363	-	-	-	-	-	124,363
Net assets released from restrictions	(156,156)	-	-	-	-	-	(156,156)
Change in Net Assets With Donor Restrictions	<u>(31,793)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,793)</u>
Total Change in Net Assets	<u>(1,231,948)</u>	<u>(266,135)</u>	<u>(389,209)</u>	<u>37,532</u>	<u>90,820</u>	<u>266,135</u>	<u>(1,492,805)</u>
Net Assets (Deficit) at Beginning of Year	563,879	(1,183,286)	(376,312)	(28,786)	667,115	1,181,632	824,242
Property Transfer	2,114,581	-	-	-	-	-	2,114,581
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 1,446,512</u>	<u>\$ (1,449,421)</u>	<u>\$ (765,521)</u>	<u>\$ 8,746</u>	<u>\$ 757,935</u>	<u>\$ 1,447,767</u>	<u>\$ 1,446,018</u>

SOLUTIONS FOR CHANGE, INC.
SUPPLEMENTARY CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Solutions For Change, Inc.	Solutions Family Center, L.P.	Solutions Farms, LLC	Solutions East Vista Way, LP	Solutions Chestnut, LLC	Eliminations	Consolidated
<u>Net Assets Without Donor Restrictions</u>							
<u>Support and Revenue:</u>							
Contributions	\$ 2,154,149	\$ -	\$ 22,665	\$ -	\$ -	\$ -	\$ 2,176,814
Developer fees	755,000	-	-	-	-	-	755,000
Grants	243,418	19,800	-	-	-	(19,800)	243,418
Interest and miscellaneous	19,136	2,968	-	-	-	-	22,104
Rental income	707,153	313,944	-	5,872	203,032	(439,762)	790,239
Social enterprise	2,684	-	46,399	-	-	-	49,083
Special event revenue (net of direct donor benefit costs of \$74,900)	531,656	-	-	-	-	-	531,656
Supporting services	41,369	-	-	-	-	-	41,369
Net assets released from restriction	82,141	-	-	-	-	-	82,141
Total Support and Revenue	<u>4,536,706</u>	<u>336,712</u>	<u>69,064</u>	<u>5,872</u>	<u>203,032</u>	<u>(459,562)</u>	<u>4,691,824</u>
<u>Operating Expenses:</u>							
Program services	2,725,751	286,754	235,031	29,462	50,402	(435,562)	2,891,838
Fundraising	523,794	-	75	-	-	-	523,869
Management and general	252,143	20,113	62,449	5,196	31,055	(24,000)	346,956
Total Operating Expenses	<u>3,501,688</u>	<u>306,867</u>	<u>297,555</u>	<u>34,658</u>	<u>81,457</u>	<u>(459,562)</u>	<u>3,762,663</u>
Change in Net Assets Without Donor Restrictions Before Nonoperating Revenue and (Expenses)	<u>1,035,018</u>	<u>29,845</u>	<u>(228,491)</u>	<u>(28,786)</u>	<u>121,575</u>	<u>-</u>	<u>929,161</u>
<u>Nonoperating Revenue and (Expenses):</u>							
Depreciation	(267,017)	(157,951)	(97,402)	-	(42,569)	-	(564,939)
Excess (deficit) of support and revenue over expenses of subsidiary	(232,304)	-	-	-	-	234,651	2,347
Interest - residual receipts debt	(102,253)	(106,545)	-	-	(862)	-	(209,660)
Partnership loss	(109)	-	-	-	-	-	(109)
Total Nonoperating Revenue and (Expenses)	<u>(601,683)</u>	<u>(264,496)</u>	<u>(97,402)</u>	<u>-</u>	<u>(43,431)</u>	<u>234,651</u>	<u>(772,361)</u>
Change in Net Assets Without Donor Restrictions	<u>433,335</u>	<u>(234,651)</u>	<u>(325,893)</u>	<u>(28,786)</u>	<u>78,144</u>	<u>234,651</u>	<u>156,800</u>
<u>Net Assets With Donor Restrictions</u>							
Contributions	142,840	-	-	-	-	-	142,840
Net assets released from restrictions	(82,141)	-	-	-	-	-	(82,141)
Change in Net Assets With Donor Restrictions	<u>60,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,699</u>
Total Change in Net Assets	494,034	(234,651)	(325,893)	(28,786)	78,144	234,651	217,499
Net Asset Transfers	(302,349)	-	302,349	-	-	-	-
Net Assets (Deficit) at Beginning of Year	<u>372,194</u>	<u>(948,635)</u>	<u>(352,768)</u>	<u>-</u>	<u>588,971</u>	<u>946,981</u>	<u>606,743</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 563,879</u>	<u>\$ (1,183,286)</u>	<u>\$ (376,312)</u>	<u>\$ (28,786)</u>	<u>\$ 667,115</u>	<u>\$ 1,181,632</u>	<u>\$ 824,242</u>

SOLUTIONS FOR CHANGE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Passed Through to Subrecipient</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:				
Pass-Through Programs:				
Community Development Block Grants/Entitlement Grants:	14.218			
County of San Diego Department of Housing and Community Development (Loan)		N/A	\$ -	\$ 472,556
Total Community Development Block Grants/Entitlement Grants			<u>-</u>	<u>472,556</u>
HOME Investment Partnerships Program:	14.239			
County of San Diego Department of Housing and Community Development (Loan)		N/A	-	2,935,477
City of Oceanside (Loan)		N/A	-	195,459
Total HOME Investment Partnerships Program			<u>-</u>	<u>3,130,936</u>
Neighborhood Stabilization Program:	14.256			
County of San Diego Department of Housing and Community Development (Loan)		N/A	-	2,278,679
City of Oceanside (Loan)		N/A	-	633,119
Total Neighborhood Stabilization Program			<u>-</u>	<u>2,911,798</u>
 Total Pass-Through Programs			<u>-</u>	<u>6,515,290</u>
 Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>6,515,290</u>
 Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 6,515,290</u>

SOLUTIONS FOR CHANGE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Solutions for Change, Inc. under programs of the federal government for the year ended December 31, 2019. 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 Solutions for Change, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Solutions for Change, Inc.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* or the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Solutions for Change, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

Note 3 - Loan Programs:

CFDA Number	Program Name	Loans Outstanding at December 31, 2018	Loans Awarded for the Year Ended December 31, 2019	Loan Principal Repaid for the Year Ended December 31, 2019	Loans Outstanding at December 31, 2019
14.218	Community Development Block Grants/Entitlement Grants:				
	County of San Diego Department of Housing and Community Development	\$ 472,556	\$ -	\$ -	\$ 472,556
	Total Community Development Block Grants/Entitlement Grants	<u>472,556</u>	<u>-</u>	<u>-</u>	<u>472,556</u>
14.239	HOME Investment Partnerships Program:				
	County of San Diego Department of Housing and Community Development	2,935,477	-	-	2,935,477
	City of Oceanside	195,459	-	-	195,459
	Total HOME Investment Partnerships Program	<u>3,130,936</u>	<u>-</u>	<u>-</u>	<u>3,130,936</u>
14.256	Neighborhood Stabilization Program:				
	County of San Diego Department of Housing and Community Development	2,278,679	-	-	2,278,679
	City of Oceanside	633,119	-	-	633,119
	Total Neighborhood Stabilization Program	<u>2,911,798</u>	<u>-</u>	<u>-</u>	<u>2,911,798</u>
	Total Loans	<u>\$ 6,515,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,515,290</u>



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

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Board of Directors
Solutions for Change, Inc.

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 Solutions for Change, Inc., which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated September 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Solutions for Change, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Solutions for Change, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Solutions for Change, Inc.'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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solutions for Change, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Leaf & Cole LLP

San Diego, California
September 21, 2020



Leaf & Cole, LLP
Certified Public Accountants
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**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
Solutions for Change, Inc.

Report on Compliance for the Major Federal Program

We have audited Solutions for Change, Inc.'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 Solutions for Change, Inc.'s major federal programs for the year ended December 31, 2019. Solutions for Change, Inc.'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 Solutions for Change, Inc.'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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Solutions for Change, Inc.'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 Solutions for Change, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Solutions for Change, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of Solutions for Change, Inc. 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 Solutions for Change, Inc.'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 Solutions for Change, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
September 21, 2020

**SOLUTIONS FOR CHANGE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the consolidated financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	No

Noncompliance material to consolidated financial statements noted? _____ Yes _____ X _____ No

Federal Awards

Type of auditor's report issued on compliance for the major program Unmodified

Internal control over major program:

Material weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	No

Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)? _____ Yes _____ X _____ No

Identification of the major program:

<u>CDEFA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants / Entitlement Grants
14.256	Neighborhood Stabilization Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ X _____ Yes _____ No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None