SHELTER SOLANO, INC.
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
JUNE 30, 2023

HCVT
HOLTHOUSE | CARLIN | VAN TRIGT LLP

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(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
SHELTER Solano, Inc.:

Opinion

We have audited the accompanying financial statements of SHELTER Solano, Inc. (a California nonprofit public benefit corporation) (SSI or the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SSI as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Holthouse Carlin & Van Trigt LLP

Encino, California
January 23, 2024

SHELTER SOLANO, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30,		**2023**
Assets		
Current Assets		
Cash and cash equivalents	$	227,097
Contracts receivable		579,983
Due from SHELTER		325,820
Contributed use of building, current portion		52,509
Inventory		55,005
Total current assets		1,240,414
Contributed use of building, net of current portion		1,929,710
Right-of-use asset		591,243
Property and equipment, net		4,832,243
Total assets	$	8,593,610
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$	126,995
Deferred revenue		78,918
Construction costs payable		254,472
Lease liability, current portion		19,663
Total current liabilities		480,048
Lease liability, net of current portion		570,880
Notes payable secured by real estate		1,500,000
Total liabilities		2,550,928
Net assets		
Without donor restrictons		3,867,731
With donor restrictions (Note 7)		2,174,951
Total net assets		6,042,682
Total liabilities and net assets	$	8,593,610

See accompanying notes to financial statements.

SHELTER SOLANO, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30,			**2023**
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenue and support			
Government contracts and grants	$ 3,279,618	$ -	$ 3,279,618
Private contributions (corporate, foundation and individuals)	124,333	-	124,333
Contributed goods and services	69,255	-	69,255
Other revenue	2,688	-	2,688
Total revenue and support	3,475,894	-	3,475,894
Net assets released from restrictions	75,777	(75,777)	-
Total public support and revenues, other revenues and net assets released from restrictions	3,551,671	(75,777)	3,475,894
Expenses			
Program services	2,352,592	-	2,352,592
Management and general	207,406	-	207,406
Fundraising	347	-	347
Total expenses	2,560,345	-	2,560,345
Operating income	991,326	(75,777)	915,549
Change in net assets	991,326	(75,777)	915,549
Net asset, beginning of year	2,876,405	2,250,728	5,127,133
Net assets, end of year	$ 3,867,731	$ 2,174,951	$ 6,042,682

See accompanying notes to financial statements.

SHELTER SOLANO, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30,				**2023**
	Program Services	**Management and General**	**Fundraising**	**Total**
Salaries, benefits, and taxes	$ 1,742,456	$ -	$ -	$ 1,742,456
Direct client assistance	224,017	-	-	224,017
Repairs and maintenance	84,699	-	-	84,699
Rent	80,064	-	-	80,064
Travel and conference cost	16,395	4,713	-	21,108
Other professional fees	33,276	-	-	33,276
Accounting fees	-	21,490	-	21,490
Office expenses	53,097	-	71	53,168
Utilities	19,752	-	-	19,752
Property taxes and insurance	81,161	-	-	81,161
Management fee	-	181,203	-	181,203
Depreciation	17,675	-	-	17,675
Cost of special events	-	-	276	276
Total expenses	$ 2,352,592	$ 207,406	$ 347	$ 2,560,345

See accompanying notes to financial statements.

SHELTER SOLANO, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30,	**2023**
Cash flows from operating activities	
Change in net assets	$ 915,549
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	17,675
In-kind rent	52,509
Donated inventory	(51,413)
Changes in operating assets and liabilities	
Contracts receivable	1,596,126
Due from SHELTER	(304,905)
Accounts payable and accrued expenses	58,544
Deferred revenue	(6,710)
Net cash provided by operating activities	2,277,375
Cash flows from investing activities	
Expenditures for property	(2,064,594)
Cash used in investing activities	(2,064,594)
Net change in cash and cash equivalents	212,781
Cash and cash equivalents, beginning of year	14,316
Cash and cash equivalents, end of year	$ 227,097

See accompanying notes to financial statements.

1. ORGANIZATION

Nature of Activities SHELTER Solano, Inc. (SSI or the Organization), a California nonprofit public benefit corporation, was formed on November 20, 2018 during negotiations with the City of Fairfield to transition operations of a year-round shelter from its Original Operator to SSI. Effective January 2019, SSI entered into a Transition Agreement between the City of Fairfield Housing Authority (FHA), the landowner, and the Original Operator (Transition Agreement). Under the terms of the Transition Agreement, SSI became the New Operator of the Shelter, as defined, for the remaining term of the existing ground lease which was concurrently assigned to SSI. See Note 10.

SSI is located in Solano County, California, under the terms of a Management Plan with FHA, to meet the emergency housing needs of individuals and families with accommodations, including dormitory style rooms, family-sized rooms, and separate apartment-style units. Participants at SSI receive intensive case management, housing assistance, life skills and wellness programs, vocational and employment services, and educational programs.

Members of the board of directors of SSI also serve on the board of directors of SHELTER, Inc. (SHELTER), a nonprofit social service agency and operator of affordable housing. The bylaws of the Organization provide that SHELTER appoints all board members and board members serve without compensation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Classes of Net Assets Net assets of SSI and changes therein are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes have been classified and are reported as follows:

- ***Net Assets Without Donor Restrictions*** - the part of the net assets of SSI that are not restricted by donor-imposed stipulations. The only limits on net assets without donor restrictions are broad limits resulting from the nature of SSI and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements. The board of directors can designate, from net assets without donor restrictions, net assets for an operating reserve or board-designated endowment. There were no board-designated net assets as of June 30, 2023.

- ***Net Assets With Donor Restrictions -*** the part of the net assets of SSI resulting from contributions and other inflows of assets whose use by SSI is limited by donor-imposed stipulations. 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 will be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions for which donor-imposed restrictions are satisfied within the same fiscal year are reflected as without donor restrictions in the accompanying statement of activities and change in net assets. The Organization's net assets with donor restrictions as of June 30, 2023 amounted to $2,174,951.

Cash and Cash Equivalents For purposes of the statement of financial position and cash flows, cash consists of cash and cash equivalents and highly liquid unrestricted investments with an original maturity of three months or less when purchased.

Revenue Recognition SSI recognizes grant funds as support and revenue as services are provided or conditions are met (i.e., when eligible costs are incurred or when eligible services have been rendered in compliance with specific contract or grant provisions). A receivable is recognized to the extent contract support earned exceeds cash advances. Conversely, a liability (refundable advance) is recorded when contract cash advances exceed support earned. The carrying value of contracts receivable, net of the allowance for doubtful accounts, represents the estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding contracts receivables, and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. SSI's contracts receivable are primarily reimbursements due from contracted government grant reimbursement requests. SSI provides for an allowance for uncollectible accounts based on historical experience. At June 30, 2023, the allowance for uncollectible accounts amounted to $0. Contracts receivable from federal and county awards of $579,983, which are expected to be received within one year. The Organization received cost-reimbursable grants that have not been recognized at June 30, 2023 because qualifying expenditures have not yet been incurred, with advance payments of $78,918, included in the accompanying statement of financial position as deferred revenue.

Unconditional contributions are recorded at estimated fair value and are recognized as revenue in the period received or pledged. SSI reports unconditional contributions as without donor restrictions if they are received without donor stipulations that limit the use of the donated assets. 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 or unconditional promises to give with payments due in future periods are discounted to present value and reported as donor-restricted revenue. Conditional promises to give, that is, those with a measurable performance barrier and a right of return, are not recognized until the conditions on which they depend have been met. SSI uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Functional Allocation of Expenses The costs of providing various programs and other activities are summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited based on the management estimate. General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of SSI. Salaries and related expenses are allocated based on employees' direct time spent on program or support activities or the best estimate of time spent. Given the collaborative manner in which SSI delivers its programs, rents are allocated based on staff hours devoted to each program or function. Expenses, other than salaries and related expense, which are not directly identifiable by program or support services, are allocated based on the best management's estimate.

The functional classifications are defined as follows:

- Program service expenses consist of costs incurred in connection with providing services and conducting programs.
- Management and general expenses consist of costs incurred in connection with the overall activities, which are not allocable to another functional expense category.
- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate revenue.

Property and Equipment Property and equipment and leasehold improvements, including construction in progress, are recorded at cost for purchased items and fair value for contributed items.

Depreciation and amortization of assets placed in service is calculated using the straight-line method over the following estimated useful lives:

Description	Useful Life
Leasehold land improvements	Lesser of life or lease
Furniture and equipment	5 to 10 years
Vehicles	5 years

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any profit or loss arising from such disposition is recorded as a gain or loss.

SSI reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. No impairment losses were recognized in 2023.

Income Taxes SSI is a not-for-profit organization that is exempt from federal income tax on income under Section 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701 (d). In addition, SSI does not have any income which they believe would subject it to unrelated business income taxes and has not taken an uncertain tax positions which would require recognition in the financial statements or which may have an effect on its tax-exempt status.

SSI's income tax returns remain subject to examination for all tax years ended on or after June 30, 2019 with regard to all tax positions and the results reported. No examinations are currently pending.

Property Tax Exemption SSI is generally exempt from real property taxes. In the event such exemption is not renewed or no longer available, SSI'S cash flow would be negatively impacted.

Contributed Goods and Services Contributions of donated noncash assets are recorded at fair value at date of donation using the price for comparable goods available for public purchase. During the year ended June 30, 2023, the Organization received $67,821 of contributed program supplies, of which approximately $54,927 was included in inventory as of June 30, 2023. Inventory is expected to be used in the Organization's emergency shelter program during 2024. The use of contributed goods are recorded in the functional expense classification for the program in which the goods were used. There were no donor restrictions associated with the contributed goods received.

During the year ended June 30, 2023, the Organization released $52,509 from net assets with donor restriction for the current use of space at SSI in their emergency shelter program (Note 9).

Risks and Uncertainties Certain SSI services are governed by grant agreements with governmental agencies. All such grant agreements, to which SSI currently is a party-to-be, are for fixed terms and expire on an annual basis. There can be no assurances that SSI will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on SSI's financial position and results of operations. Failure of SSI to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, civil penalties and could have an adverse effect on SSI's financial position and operations.

Concentration of Business and Credit Risk Certain financial instruments held by the Organization potentially subject the Organization to concentrations of credit risk. These financial instruments include cash and cash equivalents and receivables.

The Organization maintains its cash and cash equivalents accounts with high-credit, quality financial institutions; accounts at each institution are guaranteed by the Federal Deposit Insurance Corporation up to $250,000. At times during the year, cash in these accounts may exceed the federally insured amounts. The Organization has not experienced any losses in such accounts and believes its exposure to any significant credit risk on its cash and cash equivalents is limited.

With respect to contributions revenue, the Organization routinely assesses the financial strength of its donors and, as a consequence, believes that the receivable credit risk exposure is limited. For the year ended June 30, 2023, the Organization had contracts with the City of Fairfield and Solano County, which accounted for approximately 40% and 29%, respectively, of total revenue. At June 30, 2023, Solano County contracts accounted for approximately 50%, of the Organization's total contracts receivable.

Use of Estimates The preparation of financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which supersedes existing guidance for accounting for leases under ASC Topic 840, *Leases* (Topic 840). The most significant change in the new leasing guidance is the requirement for lessees to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position. The lessor accounting is not fundamentally changed.

The Organization adopted Topic 842, using the modified retrospective approach with July 1, 2022 as the date of initial adoption. The Organization also adopted the package of practical expedients and transition provisions available for expired or existing contracts, which allowed the Organization to not reassess existing leases to determine 1) whether contracts are leases or contain leases, 2) lease classification and allowed the Organization to carryforward the historical lease classification, and 3) if initial direct costs already capitalized meet the new definition of initial direct costs under ASC 842. In addition, the Organization elected the short-term lease exception policy, permitting the Organization to exclude the recognition requirements for leases with terms of 12 months or less from lease inception. The Organization also made a policy election to use the risk-free discount rate to determine the ROU asset and lease liability related to its leases.

The impact of adopting Topic 842 on the accompanying statement of financial position as of July 1, 2022 was the recognition of ROU asset in the amount of $598,176 and lease liability in the amount of $598,176. There was no impact on the opening accumulated net assets.

During the year ended June 30, 2022, the Organization accounted for its lease agreements in accordance with Topic 840, which provides guidance for defining lease agreements at their inception as either operating or capital leases depending on certain defined criteria. As of June 30, 2022, all leases were classified as operating leases.

In 2016, FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. ASU 2016-13 is effective for annual periods beginning after December 15, 2022. The Organization is evaluating the impact the adoption of ASU 2016-13 will have on its financial statements.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

SSI structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Financial assets available for general expenditure, that is, funds without donor restrictions or other restrictions limiting their use that will pay for operating expenses within one year of the statement of financial position date, comprise the following:

As of June 30,	**2023**
Financial assets	
Cash and cash equivalents	$ 227,097
Contracts receivable	579,983
Due from SHELTER	325,820
Contributed use of building	1,982,219
Total financial assets	3,115,119
Less amounts not available to be used within one year:	
Financial assets with donor restrictions	(2,174,951)
Financial assets not available to be used within one year	(2,174,951)
Financial assets available to meet general expenditures within one year	$ 940,168

4. RELATED PARTY TRANSACTIONS

Management Fee In accordance with the Management Agreement, effective July 1, 2021, SSI is to pay SHELTER a management fee in connection with the management of the emergency shelter for a monthly fee of 5% of total gross revenue. For the year ended June 30, 2023, $181,203 was charged to operations and reflected as management fee in the accompanying statement of functional expenses.

Wages and Benefits for the year ended June 30, 2023, $1,742,456 was also paid to SHELTER for supervisors, managers and case worker's salaries and related expenses on behalf of the Organization for the year ended June 30, 2023.

Due from SHELTER The Organization reimburses SHELTER for payroll and other operating expenses. During the year ended June 30, 2023, excess funds totaling $325,820 were advanced to SHELTER. These advances are non-interest bearing and due on demand.

5. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

As of June 30,		**2023**
Leasehold land improvements	$	86,984
Construction in progress		4,699,993
Furniture and equipment		80,663
Vehicles		2,500
Total property and equipment		4,870,140
Less: accumulated depreciation		(37,897)
Total property and equipment, net	$	4,832,243

Depreciation expense for the year ended June 30, 2023 is $17,675. Substantially all the property and equipment are used to provide affordable housing.

6. CONSTRUCTION CONTRACT

The Organization entered into a guaranteed maximum price contract with PSR West Coast Builders, Inc. in an amount equal to $3,791,698. As of June 30, 2023, $254,472 remains payable, including retainage, and is included in construction costs payable on the accompanying statement of financial position.

7. NET ASSETS WITH DONOR RESTRICTIONS

	Balance at 7/1/2022	Contributions	Released from Restrictions	Balance 6/30/2023
Subject to expenditure for special use				
Kitchen and Dining Hall Construction	$ 216,000	$ -	$ (23,268)	$ 192,732
	216,000	-	(23,268)	192,732
Subject to passage of time and expenditure for special use:				
Contributed use of building receivable	2,034,728	-	(52,509)	1,982,219
	2,034,728	-	(52,509)	1,982,219
Total	$ 2,250,728	$ -	$ (75,777)	$ 2,174,951

8. NOTE PAYABLE

Note payable consist of the following:

As of June 30,	**2023**
Note payable to First Northern Bank of Dixon in the amount of $1,500,000, pursuant to the regulations governing the Affordable Housing Program, secured by a deed of trust on property owned by the City of Fairfield, bearing no interest, maturity date of March 2027. The loan is expected to be forgiven at the end of the term provided that SSI complies with the restrictions set forth in the regulatory agreement.	$ 1,500,000
Note payable	$ 1,500,000

At June 30, 2023, principal repayments on note payable are required as follows:

Year ended June 30,	**Amount**
2024	$ -
2025	-
2026	-
2027	1,500,000
2028	-
Thereafter	-
Total	$ 1,500,000

9. COMMITMENTS AND CONTINGENCIES

Ground Lease and Contributed Use of Building In connection with Transition Agreement, SSI was assigned the existing Ground Lease dated September 30, 2005, which was originally entered into with a private third-party landowner and the Original Operator. The Ground Lease has a term of 55 years with an option to extend for four (4) consecutive ten (10) year periods after the initial term. Under the terms of the Ground Lease, the required monthly payment was $1,500 plus CPI for first 180 months and $2,000 plus CPI from month 181 to 660. Land lease expense amounted to $27,555 for the year ended June 30, 2023 and reflected as rent in the accompanying statement of functional expenses. SSI is responsible for the costs of operations for the Shelter, including utilities, maintenance, insurance, and applicable property taxes.

At the adoption date of ASC 842, the remaining lease term for the Organization's operating lease is 39 years. The ROU asset and lease liability were calculated utilizing the risk-free discount rate of 3.35%, according to SSI's elected policy.

Future minimum lease payments are as follows:

Year Ending June 30,		**Amount**
2024	$	27,555
2025		27,555
2026		27,555
2027		27,555
2028		27,555
Thereafter		904,735
Total future minimum lease payments		1,042,510
Less: portion representing interest		(451,967)
Lease Liability	$	590,543

During 2022, management determined that SSI's use of the Shelter for consideration only attributable to the existing Ground Lease represents an unconditional in-kind contribution by the City of Fairfield for the value of the use of the buildings over the remaining term (expiring 2061). The contributed use of building as of June 30, 2023 was $1,982,219. For the year ended June 30, 2023, SSI recorded $52,509 of in-kind rent expense in the accompanying statement of functional expenses.

Contracts Conditions contained within the various contracts awarded to SSI are subject to the funding agencies' criteria and regulations under which expenditures may be charged against and are subject to audit under such regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with the established criteria governing them. In such cases, SSI could be held responsible for repayments to the funding agency or be subject to reductions of future funding. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

Litigation In the ordinary course of doing business, SSI, from time to time, becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against SSI which may have an impact on changes in net assets. SSI does not believe that these proceedings, individually or in the aggregate, would have a material effect on the accompanying financial statements.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events that have occurred through the date of the independent auditor's report, which is the date that the financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
SHELTER Solano, Inc.:

We have audited, 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, the financial statements of SHELTER Solano, Inc. (a California nonprofit public benefit corporation) (SSI), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 23, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SSI'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 SSI's internal control. Accordingly, we do not express an opinion on the effectiveness of the SSI's internal control.

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

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

Report on Compliance and Other Matters

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

HOLTHOUSE | CARLIN | VAN TRIGT LLP

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 SSI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SSI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holthouse Carlin & Van Trigt LLP

Encino, California
January 23, 2024

CURRENT YEAR FINDINGS AND RECOMMENDATIONS - 2023

None noted.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS - 2022

Financial Statement Finding #2022-001 Material Weakness – Financial Closing and Reporting Process

Condition: During our audit, we noted that, due to turnover within the finance department, SHELTER Solano, Inc. (SSI) was not able to implement adequate internal controls over the financial statement closing and reporting process to allow for timely preparation and review of year-end reconciliations and schedules.

Recommendation: We recommend SSI hire a controller with nonprofit accounting and audit experience to oversee the design and implementation of internal controls over financial reporting. Further, we recommend management evaluate the design of internal controls over the financial closing and reporting process to ensure adequate closing procedures, including implementation of a detailed monthly close checklist to include review of key account reconciliations, journal entries, and non-routine transactions at the appropriate level in a timely manner.

Current Status: This finding has been adequately resolved.

Financial Statement Finding #2022-002 Material Weakness – Lack of Internal Control – Revenue Recognition

Condition: During our audit, we noted that revenue was not consistently recognized in accordance with U.S. GAAP. Specifically, we identified instances in which contracts revenue were not recorded as conditions were met. These misstatements result in a material misstatement of revenue which was not identified by management.

Recommendation: We recommend management re-evaluate the SSI's revenue recognition process, including review of contributions and grant contract billings, to ensure an appropriate allocation of responsibilities and that adequate reconciliation of monthly revenue occurs in a timely manner.

Current Status: This finding has been adequately resolved.

Financial Statement Finding #2022-003 Material Weakness – Segregation of Activity Between Related Entities

Condition: During our audit, we noted that certain activity was not accurately segregated between SSI and SHELTER, Inc., (SHELTER) a related entity, resulting in material misstatements of SSI's balances and activities which were not identified by management.

Recommendation: We recommend management re-evaluate the SSI's internal controls, specifically related to identification of the reporting entity, to ensure an appropriate allocation of balances and activity between related entities.

Current Status: This finding has been adequately resolved.