

Project Sentinel, Inc.

Financial Statements
and Single Audit Reports and Schedules

June 30, 2023
(With Comparative Totals for 2022)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Project Sentinel, Inc.
Santa Clara, California

Opinion

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Sentinel, Inc. 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 Project Sentinel, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Project Sentinel, Inc.'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 Project Sentinel, Inc.'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 Project Sentinel, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

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

DRAFT

Armanino^{LLP}
San Jose, California

January 30, 2024

Project Sentinel, Inc.
Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 1,427,701	\$ 602,941
Accounts receivable	8,183	3,215
Grants receivable	1,171,638	1,717,750
Prepaid expenses and other assets	15,463	30,260
Property and equipment, net	96,023	103,866
Total assets	\$ 2,719,008	\$ 2,458,032
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 25,624	\$ 44,383
Accrued expenses	286,869	306,908
Agency funds	30,825	30,825
Deferred revenue	182,308	20,189
Total liabilities	525,626	402,305
Net assets		
Without donor restrictions		
Undesignated	1,150,472	1,309,131
Property and equipment, net	96,023	103,866
Total without donor restrictions	1,246,495	1,412,997
With donor restrictions	96,887	642,730
Total net assets	2,193,382	2,055,727
Total liabilities and net assets	\$ 2,719,008	\$ 2,458,032

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

Project Sentinel, Inc.
Statement of Activities
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Support and revenue				
Government grants	\$ 3,351,734	\$ 258,630	\$ 3,610,364	\$ 3,824,303
Contributions in-kind	1,164,042	-	1,164,042	709,899
Foundation, corporate and other grants	102,753	50,000	152,753	193,900
Program fees - training	117,594	-	117,594	85,609
Settlement income	110,813	-	110,813	26,955
Other income	2,568	-	2,568	12,338
Contributions	5,123	-	5,123	2,810
Investment income	1,381	-	1,381	882
Net assets released from restriction	4,473	(4,473)	-	-
Total support and revenue	<u>4,860,481</u>	<u>304,157</u>	<u>5,164,638</u>	<u>4,856,696</u>
Functional expenses				
Program services				
Fair Housing	1,259,139	-	1,259,139	1,342,589
Dispute Resolution Services	2,515,918	-	2,515,918	2,167,579
HUD Housing Counseling	635,013	-	635,013	601,090
Total program services	<u>4,410,070</u>	<u>-</u>	<u>4,410,070</u>	<u>4,111,258</u>
Support services				
Management and general	611,079	-	611,079	454,101
Fundraising	5,834	-	5,834	8,245
Total support services	<u>616,913</u>	<u>-</u>	<u>616,913</u>	<u>462,346</u>
Total functional expenses	<u>5,026,983</u>	<u>-</u>	<u>5,026,983</u>	<u>4,573,604</u>
Change in net assets	(166,502)	304,157	137,655	283,092
Net assets, beginning of year	<u>1,412,997</u>	<u>642,730</u>	<u>2,055,727</u>	<u>1,772,635</u>
Net assets, end of year	<u>\$ 1,246,495</u>	<u>\$ 946,887</u>	<u>\$ 2,193,382</u>	<u>\$ 2,055,727</u>

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

Project Sentinel, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Program Services						2023 Total	2022 Total
	Fair Housing	Dispute Resolution Services	HUD Housing Counseling	Total Program Services	Management and General	Fundraising		
Personnel expenses								
Salaries and wages	\$ 853,093	\$ 1,063,852	\$ 465,654	\$ 2,382,599	\$ 259,040	\$ 4,882	\$ 2,646,521	\$ 2,783,388
Payroll taxes	66,126	82,465	36,710	185,301	17,456	386	203,143	213,225
Employee benefits	74,598	94,554	36,008	205,160	16,069	391	221,620	203,618
Total personnel expenses	<u>993,817</u>	<u>1,240,871</u>	<u>538,372</u>	<u>2,773,060</u>	<u>292,565</u>	<u>5,659</u>	<u>3,071,284</u>	<u>3,200,231</u>
Professional services, in-kind	59,507	968,183	-	1,027,690	-	-	1,027,690	598,200
Professional services	449	112,691	5,000	118,140	231,146	-	349,286	260,730
Occupancy, in-kind	51,552	44,763	22,286	118,601	17,750	-	136,351	111,699
Occupancy	31,459	42,609	7,472	81,540	6,313	-	87,853	82,807
Telephone	21,897	24,610	11,534	58,041	5,741	-	63,782	71,472
Equipment costs	16,312	22,244	15,085	53,641	3,659	-	57,300	54,559
Dues and subscriptions	16,805	8,705	2,373	27,883	5,569	-	33,452	41,505
Outreach	5,214	11,084	-	16,298	105	150	16,553	40,133
Meals and transportation	23,354	11,647	4,566	39,567	167	-	39,734	23,333
Insurance	6,713	4,854	2,662	14,229	10,394	-	24,623	21,380
Depreciation and amortization	5,346	7,621	4,312	17,279	1,519	-	18,798	14,604
Contracted services	4,615	2,707	5,870	13,192	324	-	13,516	13,178
Printing and publications	3,752	4,820	616	9,188	-	-	9,188	12,745
Office supplies	1,300	3,238	1,547	6,085	484	-	6,569	8,097
Postage and shipping	2,437	1,436	1,200	5,073	462	-	5,535	5,720
Conferences and training	12,061	-	11,607	23,668	449	25	24,142	5,566
Testers	2,026	-	-	2,026	-	-	2,026	3,677
Miscellaneous	523	3,774	336	4,633	32,927	-	37,560	1,889
Bank charges	-	-	164	164	1,280	-	1,444	1,152
Taxes and licenses	-	61	11	72	225	-	297	927
	<u>\$ 1,259,139</u>	<u>\$ 2,515,918</u>	<u>\$ 635,013</u>	<u>\$ 4,410,070</u>	<u>\$ 611,079</u>	<u>\$ 5,834</u>	<u>\$ 5,026,983</u>	<u>\$ 4,573,604</u>
Percentage of total	<u>25 %</u>	<u>50 %</u>	<u>13 %</u>	<u>88 %</u>	<u>12 %</u>	<u>0.1 %</u>	<u>100 %</u>	

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

Project Sentinel, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 137,655	\$ 283,092
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	18,798	14,604
Changes in operating assets and liabilities		
Accounts receivable	(4,968)	4,092
Grants receivable	546,112	(550,949)
Prepaid expenses and other assets	14,797	(18,504)
Accounts payable	(18,759)	5,421
Accrued expenses	(20,039)	143,426
Deferred revenue	162,119	(16,756)
Net cash provided by (used in) operating activities	835,715	(135,574)
Cash flows from investing activities		
Additions to property and equipment	(10,955)	(5,701)
Net cash used in investing activities	(10,955)	(5,701)
Net increase (decrease) in cash and cash equivalents	824,760	(141,275)
Cash and cash equivalents, beginning of year	602,941	744,216
Cash and cash equivalents, end of year	\$ 1,427,701	\$ 602,941

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

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. NATURE OF OPERATIONS

Project Sentinel, Inc. (the "Organization"), was founded in 1971, and incorporated in the state of California in 1990. The Organization provides fair housing, tenant/landlord dispute resolution services, and mortgage counseling to residents of the counties of Santa Clara, San Mateo, Stanislaus, Sacramento and to the cities of Fremont, Merced, West Sacramento, Hayward, Roseville and Fairfield. These programs operate out of offices located in Redwood City, Santa Clara, Milpitas, Fremont, Gilroy, Modesto and Sacramento.

The Organization's primary source of revenue consists of federal grants from the Department of Housing and Urban Development ("HUD") which are received directly from HUD or passed through local jurisdictions. In addition, the Organization receives local government grants from the jurisdictions served by the Organization. The Organization also receives foundation grants and corporate grants as well as court awarded settlement monies for legal action related to fair housing cases.

Program services are described as follows:

Fair Housing - The Fair Housing Center investigated 409 complaints of discrimination for the year ended June 30, 2023. 862 people benefited from those investigations, and the staff provided information, education, and referrals on 1,172 calls. The Organization settled three fair housing cases for a total of \$3,124,144 during the year. The litigated settlement amounts for these cases resulted in a recovery of fees for Project Sentinel, Inc.'s staff time and dispersed resources totaling \$110,813. Many other fair housing cases were resolved with a change in rental policies and practices, reasonable accommodations granted and evictions withdrawn. The Organization conducted 186 formal outreach activities with community members from targeted populations and organizations who serve them with fair housing education, as well as housing providers, an increase from the prior fiscal year which had been more heavily impacted by COVID-19 restrictions. The Organization also distributed 4,872 brochures and 1,136 mailers, had 121,893 hits on the website, and made 101 posts on social media regarding fair housing protections.

Dispute Resolution Services - Staff provided information on rental rights and responsibilities to 8,512 tenants, owners and managers of rental housing by way of workshops, seminars, one on one counseling and phone counseling so that informed decisions could be made. There were an additional 2,247 additional household persons served. 2,096 tenants, owners and managers of rental housing attended workshops and webinars. 1,910 cases were opened for households needing additional assistance of extensive counseling and dispute resolution and rental assistance. 106 total outreach activities completed. Panels of volunteer and paid mediators along with salaried staff resolved rental disputes with mediation and conciliation.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. NATURE OF OPERATIONS (continued)

HUD Housing Counseling - HUD Housing Counseling provides needed and sometimes required counseling to homeowners and future homeowners. Most First Time Homebuyer Assistance Programs require a certificate of either counseling or an educational workshop. Other government programs also require counseling for housing programs such as applying for a reverse mortgage. The Organization also uses funds from National Mortgage Settlement Funds ("NMSF"), which is being administered by the California Housing Finance Agency ("CalHFA"), to support its HUD Housing Counseling Program. It provides free housing counseling service to California households struggling to pay rent, mortgage and living expenses. During the year ended June 30, 2023, the Organization assisted 1,203 first time home buyers to prepare for home ownership through homebuyer educational workshops and an additional 660 households with individual one-on-one pre-purchase counseling. The Organization assisted 107 homeowners with mortgage default and delinquency counseling and intervention and reverse mortgage counseling with 409 households.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and changes therein are classified as follows:

- *Net assets without donor restrictions* - Net assets without donor restrictions consist of all resources of the Organization which have not been specifically restricted by a donor. The Organization's board may designate net assets without donor restrictions for particular purposes.
- *Net assets with donor restrictions* - Net assets with donor restrictions represent contributions received with donor-imposed stipulations that will be met by actions of the Organization, and/or the passage of time, or are restricted to be held in perpetuity. There were no net assets restricted to be held in perpetuity as of June 30, 2023 and 2022.

Support and revenue are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor restriction or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between net assets with donor restrictions and net assets without donor restrictions.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of accounting standards update

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

ASC 842 is effective for the fiscal year beginning after December 15, 2021. Organization adopted ASC 842 on July 1, 2022 using the modified retrospective approach. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840. Organization also elected the short-term lease exemption. The adoption of the new lease accounting standard had no material impact on the Organization's statement of financial position, operating results and cash flows.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less. The Organization has cash in financial institutions which is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 and bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts and grants receivable

The Organization evaluates all accounts and grants receivable for collectability based upon economic situation, historical collection information and any relevant factors. The allowance for doubtful accounts balance as of June 30, 2023 and 2022 was \$30,329 and \$0, respectively.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 15 years. Depreciation and amortization is charged to the activity benefiting from the use of the property or equipment.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2023 and 2022, and is included in "accrued expenses" in the statement of financial position. The Organization includes in the computation of accrued vacation the payout for floating holidays. The accrued vacation balance as of June 30, 2023 and 2022 was \$152,067 and \$160,850, respectively.

Revenue recognition

The Organization recognizes support and revenue on the accrual basis of accounting. Program fees are recognized as revenue in the period in which the service is provided. The Organization follows the following steps to determine revenue recognition:

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

Grants and contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as without donor restrictions or with donor restrictions depending upon the nature of donor restrictions, if any. Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are met, at which time, the gift is recognized as either grants and contributions revenue with or without restriction.

The Organization's programs are supported by grants from federal, state and local governments requiring services to be rendered to eligible individuals. The revenue generated from these programs is recorded as government grants in the statement of activities. These government grants meet the criteria to be classified as conditional contributions under GAAP revenue recognition for nonprofit organizations as they contain barriers related to incurrence of qualifying expenditures and a right of return or release. The Organization had \$675,029 of conditional contributions as of June 30, 2023 that will be recognized as governmental grants revenue when the Organization incurs allowable costs set forth in the associated government grant agreements (see Note 13).

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in-kind

Donated equipment and the use of facilities (in-kind rent) are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Expenses allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Indirect functional expenses are allocated to program and support services based on an analysis of personnel time and space utilized.

Income taxes

The Organization is a qualified organization exempt from federal and California income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Service Code (IRC) and 23701(d) of the State of California Revenue and Taxation Code. As such, the Organization qualifies for the maximum charitable contribution deduction by donors.

The Organization has evaluated its current tax positions and has concluded that as of June 30, 2023, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

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 at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Summarized comparative financial information

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

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The Organization has evaluated events subsequent to June 30, 2023, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 30, 2024, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements except as disclosed in Notes 5 and 9.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2023	2022
Leasehold improvements	\$ 127,695	\$ 127,695
Furniture and equipment	<u>97,832</u>	<u>86,877</u>
	225,527	214,572
Accumulated depreciation and amortization	<u>(129,504)</u>	<u>(110,706)</u>
	<u>\$ 96,023</u>	<u>\$ 103,866</u>

Depreciation and amortization expense for the years ended June 30, 2023 and 2022 was \$18,798 and \$14,604, respectively.

4. AGENCY FUNDS

The Organization serves as a fiscal agent for the Fair Housing Retrofit Fund. This fund provides grants to disabled low income renters and owners in order to retrofit their residences for qualifying disabilities. The parameters governing the awarding of the grants were set by and are overseen by the Santa Clara County Fair Housing Task Force. The Organization holds these funds in a custodial capacity. As of June 30, 2023, no distribution has been made.

5. LINE OF CREDIT

On July 20, 2022, the Organization ("the Borrower") entered into a line of credit with Heritage Bank of Commerce ("the Lender") which provide a maximum borrowing of \$250,000. The interest is subject to change from time to time based on changes in an independent index which is the Prime Rate as published in the Wall Street Journal. Lender will tell the borrower the current index rate upon request. The agreement requires the Organization to comply with various financial covenants. As of June 30, 2023, no borrowings has been made. Subsequent to June 30, 2023, maturity date was extended from July 20, 2023 to August 2, 2024.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	Balance at June 30, 2022	Additions	Releases	Balance at June 30, 2023
Homeownership counseling	\$ 358,364	\$ 197,817	\$ (4,223)	\$ 551,958
Fair housing	262,674	110,813	-	373,487
Management and general	21,692	-	(250)	21,442
	\$ 642,730	\$ 308,630	\$ (4,473)	\$ 946,887

7. CONTRIBUTIONS IN-KIND

Contributions in-kind received during the year were as follows:

	2023	2022
Professional services	\$ 1,027,690	\$ 598,200
Occupancy	136,352	111,699
	\$ 1,164,042	\$ 709,899

The Organization receives donated rent on office space leased in four locations: Sacramento, Santa Clara, Fremont and Milpitas. The use of the Santa Clara office is donated to the Organization in exchange for services it provides to the tenants of the adjacent low income housing apartment building. The services provided in exchange for the rent in Santa Clara office was \$13,343 and \$14,340 for the years ended June 30, 2023 and 2022, respectively.

8. EMPLOYEE RETIREMENT PLAN

The Organization offers a Section 125 cafeteria plan and a 403(b) retirement plan to all eligible employees working 35 or more hours per week. The Organization offers each eligible employee either a base medical plan or contribution to the 403(b) plan. In the case that an employee chooses medical coverage, the cost of selected benefits in excess of the base medical plan are deducted from employee compensation. In the case that an employee declines medical coverage, the Organization contributes 10% of their compensation to the 403(b) plan. Employees may make voluntary contributions to their 403(b) plan through payroll deductions. The Organization does not match employee voluntary contributions.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

9. COMMITMENTS AND CONTINGENCIES

Grants and contracts

Grants and contracts awarded to Project Sentinel, Inc. are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs.

Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Organization would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

Operating leases

The Organization leases office space in five locations. The Organization has month to month leases for the Fremont, Milpitas and Redwood City offices. The Organization also has a one-year lease for the Gilroy office from August 1, 2022 to July 31, 2023 and two-year lease for the Modesto office from March 1, 2022 to February 28, 2024.

The Organization also leases office equipment under non-cancelable leases expiring in the year ending June 30, 2024. Occupancy expense (including the value of donated rent) for the years ended June 30, 2023 and 2022 was \$224,205 and \$194,506, respectively. The schedule minimum lease payments for 2024 is \$24,343.

On September 22, 2023, the Organization entered into a new copier lease agreement that requires monthly payments of \$1,387 for 60 months .

10. CONCENTRATIONS

The Organization receives approximately 39% of its support and revenue directly or indirectly from the U.S. Department of Housing and Urban Development and U.S. Department of the Treasury. In addition, 21% of the support and revenue for the year is from National Mortgage Settlement Funds to be used by the Organization for providing free housing counseling services. A reduction in awards of grants from these agencies could materially impact the services the Organization provides.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

11. CONFLICT OF INTEREST POLICY

Included among the Organization's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Accounts and grants receivable are expected to be received within one year from June 30, 2023.

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

Financial assets	
Cash and cash equivalents	\$ 1,427,701
Accounts receivable	8,183
Grants receivable	<u>1,171,638</u>
	<u>2,607,522</u>
Less: amounts unavailable for general expenditure within one year	
Restricted for a specified purpose	<u>(946,887)</u>
	<u>\$ 1,660,635</u>

The Organization has budgeted a total cost of operations of \$4,279,097 for the year ending June 30, 2024. As of June 30, 2023, the Organization had financial assets available to cover approximately 142 days of operating expenses based on the year ending June 30, 2024 budget.

13. CONDITIONAL CONTRIBUTIONS

Conditional contributions are recognized when the Organization meets the terms of the conditions.

Project Sentinel, Inc.
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

13. CONDITIONAL CONTRIBUTIONS (continued)

Conditional contributions as of June 30, 2023 consisted of the following:

Recognizable in one year or less	
Incurring allowable expenditures for cost-reimbursement government grants	\$ 641,029
Recognizable in more than one year	
Incurring allowable expenditures for cost-reimbursement government grants	<u>34,000</u>
	<u>\$ 675,029</u>

SINGLE AUDIT REPORTS AND SCHEDULES

DRAFT

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
Project Sentinel, Inc.
Santa Clara, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Project Sentinel, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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*.

Purpose of this Report

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

DRAFT

Armanino^{LLP}
San Jose, California

January 30, 2024

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
Project Sentinel, Inc.
Santa Clara, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Project Sentinel, Inc. (a California nonprofit corporation) (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2023. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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.

DRAFT

Armanino^{LLP}
San Jose, California

January 30, 2024

Project Sentinel, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Housing and Urban Development			
Direct Programs			
Private Enforcement Initiatives (Fair Housing Initiatives Program (FHIP))	14.418	N/A	\$ 428,109
Housing Counseling Assistance Program	14.169	N/A	<u>85,314</u>
Total Direct Programs			<u>513,423</u>
Pass-through Programs			
Community Development Block Grants/Entitlement Grants			
City of Daly City	14.218	B-22-MC-06-0010	15,000
City of Fremont	14.218	B-22-MC-06-0011	109,000
City of Milpitas	14.218	B-22-MC-06-0055	56,290
City of Modesto	14.218	B-22-MC-06-0002	27,000
City of Palo Alto	14.218	C22182856, B-22-MC-06-0020	33,258
City of Redwood City	14.218	B-22-MC-06-0014	15,000
City of San Jose	14.218	B-22-MC-06-0021	148,578
City of San Mateo	14.218	B-22-MC-06-0018	25,000
County of San Mateo	14.218	B-22-UC-06-0006	28,268
County of Santa Clara	14.218	PS-21-08, FH-21-01, B-22-UC-06-0007	89,098
County of Santa Clara	14.218	PS-21-10, B-22-UC-06-0007	34,377
County of Stanislaus	14.218	B-22-UC-06-0010	25,000
City of Sunnyvale	14.218	2223-16106, B-22-MC-06-0023	28,687
City of West Sacramento	14.218	B-21-MC-06-0065	1,165
City of West Sacramento	14.218	B-22-MC-06-0065	14,340
City of Roseville	14.218	B-20-MW-26-0010; PO#9007117	16,208
City of Fairfield	14.218	B-20-MW-06-0027	2,722
County of Santa Clara	14.218	CV-20-08, B-20-UW-06-0007	34,293
Total Community Development Block Grants/Entitlement Grants			<u>703,284</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Project Sentinel, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Home Investment Partnerships Program			
City of Merced	14.239	M-21-MC-06- 0227	30,000
City of Santa Clara	14.239	M-21-MC-06- 0217	18,000
City of South San Francisco	14.239	N/A	15,460
Total Home Investment Partnerships Program			<u>63,460</u>
Total Pass-through Programs			<u>766,744</u>
Total U.S. Department of Housing and Urban Development			<u>1,280,167</u>
U.S. Department of the Treasury			
Emergency Rental Assistance Program			
Pass-through Program from:			
Local Initiatives Support Corporation	21.023	ERA0003	40,881
Coronavirus State and Local Fiscal Recovery Funds			
Pass-through program from:			
City of San Mateo	21.027	N/A	<u>84,857</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,405,905</u></u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Project Sentinel, Inc.
Notes to Schedule of Expenditures of Federal Awards
June 30, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Project Sentinel, Inc. (a California nonprofit corporation) (the "Organization") under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The Organization has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Project Sentinel, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
Private Enforcement Initiatives (Fair Housing Initiatives Program (FHIP))	14.418
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Project Sentinel, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Project Sentinel, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

There were no prior year findings.