BRILLIANT CORNERS

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

P&C

PEROTTI & CARRADE

Certified Public Accountants

BRILLIANT CORNERS

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FOR THE YEARS ENDED
JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Brilliant Corners

We have audited the accompanying consolidated financial statements of Brilliant Corners (a nonprofit organization), and its wholly-owned subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit of the year ended June 30, 2019 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. We conducted our audit of the year ended June 30, 2018 in accordance with auditing standards generally accepted in the United States of America and were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brilliant Corners and its wholly owned subsidiaries as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 22-26 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The consolidated financial statements include a wholly owned subsidiary which expended $750,000 or more in federal awards that has a separate uniform guidance audit. Uniform guidance compliance is not applicable on a consolidated basis and is not included in this audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2020, on our consideration of Brilliant Corners' 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 Brilliant Corners' 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 Brilliant Corners' internal control over financial reporting and compliance.

February 19, 2020

Perotti & Carrade

BRILLIANT CORNERS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
Current Assets:		
Cash	$ 7,059,309	$ 6,778,854
Grants and accounts receivable, net of allowance for doubtful accounts: 2019, $863,896; 2018, $113,896	32,594,956	28,624,206
Prepaid tenant rents and expenses	7,769,670	5,619,104
Total current assets	47,423,935	41,022,164
Property, net	216,734,921	191,795,808
Other Assets:		
Restricted cash reserves	4,504,095	3,937,134
Office security and other deposits	259,149	361,754
Total other assets	4,763,244	4,298,888
Total Assets	$ 268,922,100	$ 237,116,860

LIABILITIES AND NET ASSETS

	2019	2018
Current Liabilities:		
Accounts payable and accrued expenses	$ 16,750,285	$ 5,637,752
Line of credit borrowings		388,341
Accrued interest	308,767	403,665
Program advances	25,658,358	26,974,654
Deferred revenue	148,744	148,744
Current portion of real estate debt	3,525,047	2,848,637
Current portion of furniture financing	35,459	39,586
Total current liabilities	46,426,660	36,441,379
Long-term Debt:		
Real estate debt, net of unamortized loan fees	102,305,074	96,142,161
Tenant security deposits held	796,117	511,718
Financing for office furnishings		45,834
Total long-term debt	103,101,191	96,699,713
Net Assets:		
Without donor restrictions	117,167,328	99,251,584
With donor restrictions	2,226,921	4,724,184
Total net assets	119,394,249	103,975,768
Total Liabilities and Net Assets	$ 268,922,100	$ 237,116,860

See accompanying notes to financial statements.

BRILLIANT CORNERS

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Changes in Net Assets Without Donor Restrictions:		
Revenue and Support:		
Housing services	$ 203,360,505	$ 109,022,256
Rental property income	15,203,555	10,768,627
Project acquisition and renovation management	18,683,641	34,183,615
Donations and other income	831,511	430,461
Net assets released from restrictions	5,460,363	3,027,929
Total revenue and support	243,539,575	157,432,888
Expenses:		
Program services	220,301,410	123,593,479
General and administrative	5,167,936	4,405,402
Business development	154,486	439,474
Total expenses	225,623,831	128,438,355
Increase in Net Assets Without Donor Restrictions	17,915,744	28,994,533
Changes in Net Assets With Donor Restrictions:		
Foundation grants	2,963,100	1,875,110
Net assets released from restrictions	(5,460,363)	(3,027,929)
Decrease in Net Assets With Donor Restrictions	(2,497,263)	(1,152,819)
Increase in Net Assets	15,418,481	27,841,714
Net Assets at Beginning of Year	103,975,768	76,134,054
Net Assets at End of Year	$ 119,394,249	$ 103,975,768

See accompanying notes to financial statements.

BRILLIANT CORNERS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	General and Administrative	Business Development	Total
Client rents and subsidy payments	$ 168,151,908			$ 168,151,908
Salaries	11,993,753	$ 3,061,094	$ 97,254	15,152,100
Consulting services	12,341,772	531,098		12,872,870
Client furniture and move-in costs	7,788,290			7,788,290
Interest, including loan fee amortization of: 2019, $131,888; 2018, $131,034	5,007,715	23,903		5,031,618
Payroll taxes and benefits	2,423,518	651,507	19,100	3,094,125
Maintenance expenses	2,601,249	24,542		2,625,791
Rent	1,622,209	287,966	9,599	1,919,774
Property taxes & licenses	56,773			56,773
Utilities	310,855			310,855
Travel and training	948,661	192,748	22,562	1,163,971
Office expenses	294,016	65,868	949	360,832
Bad debt	1,229,787	72,641		1,302,428
Miscellaneous	452,769	80,589	5,023	538,381
Insurance	324,532	47,856		372,388
Telephone	324,031	18,551		342,582
Legal	199,454	9,831		209,285
Accounting and audit		99,741		99,741
Total expenses before depreciation	216,071,291	5,167,936	154,486	221,393,712
Depreciation	4,230,119			4,230,119
Total expenses	$ 220,301,410	$ 5,167,936	$ 154,486	$ 225,623,831

See accompanying notes to financial statements.

BRILLIANT CORNERS

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	General and Administrative	Business Development	Total
Client rents and subsidy payments	$ 89,841,551			$ 89,841,551
Salaries	8,188,940	$ 1,731,219	$ 296,159	10,216,318
Consulting services	6,195,006	668,115	6,140	6,869,261
Client furniture and move-in costs	6,207,925			6,207,925
Interest, including loan fee amortization of: 2019, $131,888; 2018, $131,034	3,838,433	24,591		3,863,024
Payroll taxes and benefits	1,687,692	356,794	61,037	2,105,523
Maintenance expenses	1,179,904	380,022	4,300	1,564,226
Rent	959,488	202,845	34,701	1,197,034
Property taxes & licenses	792,374			792,374
Utilities	260,945			260,945
Travel and training	366,740	106,880	26,735	500,355
Office expenses	286,137	86,945	806	373,888
Bad debt	342,569	59		342,628
Miscellaneous	118,846	199,977	3,981	322,804
Insurance	129,233	163,199		292,432
Telephone	157,225	32,826	5,615	195,666
Legal		150,231		150,231
Accounting and audit		106,127		106,127
Total expenses before depreciation	120,553,008	4,209,830	439,474	125,202,312
Depreciation	3,040,471	195,572		3,236,043
Total expenses	$ 123,593,479	$ 4,405,402	$ 439,474	$ 128,438,355

See accompanying notes to financial statements.

BRILLIANT CORNERS

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Operating Activities:		
Change in net assets	$ 15,418,481	$ 27,841,714
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	4,230,119	3,236,043
Amortization	131,888	131,034
Accrued interest in City of Los Angeles loan payable	277,500	195,265
Change in allowance for doubtful accounts	750,000	30,828
Changes in assets and liabilities:		
Grants and accounts receivable	(4,720,750)	(6,356,278)
Prepaid expenses	(2,150,566)	(2,719,811)
Accounts payable and accrued expenses	11,112,533	23,091
Accrued interest	(94,898)	94,419
Program advances	(1,316,296)	10,607,836
Office security and other deposits - net	102,605	(271,988)
Change in tenant security deposits	23,423	(8,876)
Cash provided by operating activities	23,764,039	32,803,277
Investing Activities:		
Additions to property	(29,169,232)	(45,676,500)
Payment of acquisition loan fees	(198,848)	(315,980)
Increase in reserves, net	(305,985)	(561,766)
Cash used for investing activities	(29,674,065)	(46,554,246)
Financing Activities:		
Advances on line of credit	425,000	1,529,717
Repayment of line of credit borrowings	(813,341)	(1,338,601)
Proceeds from new borrowings	9,704,115	17,497,774
Principal payments on real estate debt and furnishings financing	(3,125,293)	(2,654,420)
Cash provided by financing activities	6,190,481	15,034,470
Increase in Cash	280,455	1,283,501
Cash - Beginning of Year	6,778,854	5,495,353
Cash - End of Year	$ 7,059,309	$ 6,778,854

See accompanying notes to financial statements.

1. THE ORGANIZATION

Brilliant Corners (the Organization), a nonprofit public benefit corporation, was formed in 2004. The Organization's primary purpose is to increase affordable supportive housing opportunities for vulnerable populations, with emphases on people with developmental disabilities and people transitioning from homelessness and institutional settings. The Organization fulfills this purpose by developing and managing both licensed and unlicensed affordable supportive housing, by implementing scattered-site supportive housing programs, and by providing an array of housing-related services, including clinical case management.

On April 6, 2006, the Organization formed a wholly owned limited liability company, A Home for Life, LLC (AHFL), to own, operate, lease, manage and maintain thirteen single-family residences to be used as dwellings for people with disabilities. AHFL, through its agreement with various organizations (known as the Bay Area Housing Plan), received renovated property, along with the assumption of the debt associated with such property, to facilitate this purpose.

In February 2013, the Organization formed a wholly owned limited liability company, WBHC LA Supportive Housing, LLC (LASH), to own and operate fifteen residential properties in the Los Angeles area to be used as dwellings for 56 households transitioning from homelessness.

Two significant programs have expanded in recent years. The Organization’s partnership with the Los Angeles County Department of Health Services to administer the Flexible Housing Subsidy Pool (FHSP) has helped house over 7,400 people and is anticipated to serve over 10,000 people over the next several years. The Organization is working with California Department of Developmental Disabilities and the majority of the state’s 21 nonprofit Regional Centers to create community-based housing for individuals who remain in the state-run institutional settings slated for closure by 2021. The Organization is acquiring and converting single-family homes to specialized residential facilities deed-restricted for people with disabilities.

The Organization’s primary sources of project acquisition, renovation management, and housing services revenue are from contracts support are from contracts with its funding agencies, principally: Regional Centers throughout the state, each of which receives pass-through funds from the California Department of Developmental Services; public health agencies such as the San Francisco County Department of Public Health and Los Angeles County Department of Health Services, and the Veterans Administration. Revenue from such agencies accounted for more than 92% and 90% of the total revenue and support earned in the years ended June 30, 2019 and 2018, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Organization have been prepared using the accrual method of accounting. Significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the readers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation – The accounts of Brilliant Corners and its wholly owned limited liability companies have been consolidated in the accompanying financial statements. Significant inter-company transactions and balances have been eliminated.

Financial statement presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the board limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity. The Organization's does not have any donor-restricted net assets which are restricted in perpetuity.

The Organization's key revenue and support is derived from the following:

Support:

Contributions and grants – Contributions and grants, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions in which the use is limited by the donor are reported as increases in net assets with donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restriction if the restrictions are satisfied in the fiscal year in which the contributions are recognized. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restrictions are accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution.

Project acquisition and renovation management – The Organization receives funding from local government agencies to assist in the acquisition and rehabilitation of properties to make them suitable for tenant needs. The support is earned during the period in which the acquisition and rehabilitation costs are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Housing services – The Organization provides various housing services to government agencies and managed care plans. These services include being a fiscal agent, overseeing the timely payment of tenant rents and assisting in identifying qualified housing. Billing to the government agencies occurs at the end of each month for services rendered in that particular month. Payment of rent on behalf of eligible tenants has been treated as a program cost; payment of rents along with payment for other services by government agencies has been included in revenue and support.

Funds received in advances for property acquisition or rehabilitation and housing services are reflected as program advances until the condition for the support has been met.

A substantial portion of the Organization's support is considered conditional and does not permit recording of the contribution until the barriers on which they depend are substantially met. There is more than $200 million on conditional support not recorded as of June 30, 2019, principally for the project acquisition and renovation management and housing services programs as the Organization has not substantially met the conditions of the grants (the most significant condition being not incurring qualified expenditures).

Revenue:

Rental property income – Rental income from leased properties, along with other related fees, are recognized as income in the month the rent is earned. The Organization enters into long-term rental agreements (generally either one-year leases or fifteen-year leases). Rent is generally due on the first of each month. Rental payments received in advance are deferred until earned. All leases between the Organization and tenants of the property are considered operating leases. Rental income for owned property is shown at its maximum gross potential. Vacancy loss is shown as a reduction in rental income. The Organization's policy is to charge a late fee should a tenant not pay rent within 5 days of the due date. Rental units occupied by employees are included in rental income and as an expense of operations.

Cash – Cash is defined as demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use such as replacement reserves, debt service, operating reserves, and tenant security deposits. The Organization maintains cash on deposit in excess of the Federal Deposit Insurance Corporation limit. The Organization has not experienced any losses in such accounts.

Grants receivable, accounts receivable and allowance for doubtful accounts – Grants receivable represent consideration from local government agencies and private organizations, of which the Organization has an unconditional right to receive. Accounts receivables represent amounts that have been billed to tenants of leased properties that the Organization has an unconditional right to receive. The Organization considers grants

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

receivable to be past due if payment is not received within 30 days of the invoice date. Management evaluates the need to write off a receivable based on its review of the aging of the receivables and historical collection experience. An allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the grants and accounts receivable balance. Receivables are written off when deemed uncollectible.

Property and depreciation - Property is stated at cost as of the date of acquisition, or fair market value as of the date of donation. Property is depreciated using the straight-line method over the estimated economic lives of the assets (20 to 40 years for building and improvements; 3 to 10 years for furnishings, furniture, and equipment; and 5 years for vehicles). The cost of maintenance and repairs for the properties are charged to operations when incurred. The Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. There were no impairment losses recognized in 2019 and 2018.

Loan fees and amortization – Financing costs associated with the acquisition of properties have been capitalized and are amortized over the life of the loan using the straight-line method. Loan fees have been netted with the related long-term debt and the related amortization reflected as a component of interest expense.

Program advances - Certain programs are funded by agreements that operate on a cost-reimbursement basis. To mitigate the impact on working capital, funders have provided advances for these programs. Advances are based on projected cash outflows of the programs in the upcoming quarter and are replenished as required. Throughout the month, program costs are deducted from the advance based on costs and services provided. At the end of each month, the Organization invoices the funders for actual costs to replenish the advances.

Tax-exempt status – The Organization is tax-exempt pursuant to the Internal Revenue Code Section 501(c)(3) and related California code sections. Accordingly, the Organization is generally exempt from federal or state income taxes. The Organization was required to pay unrelated business income taxes (UBIT) for certain employee benefits effective January 1, 2018. In December 2019 the UBIT for such benefits was repealed retrospectively. No income tax provision has been included in the consolidated financial statements for the single member limited liability companies which are generally considered disregarded entities. The UBIT, the reversal of the UBIT due to the repeal of the law, and the annual California limited liability company minimum tax and the annual fee appear as a miscellaneous expense in the consolidated financial statements. The Organization believes that it has appropriate support for any tax positions taken, and, as such, do not have an uncertain tax positions that are material to the consolidated financial statements. Brilliant Corners' informational returns and LLCs' income tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional expenses allocation – Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on management's analysis of time and effort spent on the programs and supportive services. Accordingly, certain costs, including payroll, payroll taxes and benefits, rent, insurance, and telephone, have been allocated among the programs, general and administrative support, and business development expenses.

Subsequent events - Subsequent events have been evaluated through February 19, 2020, the date in which the consolidated financial statements were available to be issued.

Implementation of FASB updates – During the year ended June 30, 2019 the Organization implemented the following Financial Accounting Standard Board (FASB) updates retroactively with no practical expedient. The implementation did not require any restatement of net assets.

2016-14 – Presentation of Financial Statements for Not-for-Profit Organizations.

2014-09 – Revenue from Contracts with Customers and the related subsequent standards.

2018-08 - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.

Reclassification - Certain amounts previously reported in the 2018 financial statements were reclassified to conform to the 2019 presentation for comparative purposes.

3. LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures.

Amounts available to meet general expenditures within one year include net assets with donor restrictions as the purposes are expected to be fulfilled within the next year and the board designated reserve as its purposes is to provide operating cash if necessary. To help manage unanticipated liquidity needs, the Organization has various restricted cash reserves and a line of credit which the Organization can utilize to meet liquidity needs.

3. LIQUIDITY AND AVAILABILITY (continued)

The following table reflects the Organization's financial assets as of June 30, 2019 and 2018, that are available to meet general expenditures within one year of the statement of financial position date.

	2019	2018
Cash	$ 7,059,309	$ 6,778,854
Grants and accounts receivable	32,594,956	28,624,206
Net financial assets available to meet cash needs for general expenditures within one year	$ 39,654,265	$ 35,403,060

4. BOARD DESIGNATED OPERATING RESERVE

The Board of Directors has designated $174,422 of the net assets without donor restriction as a board-designated operating reserve. The board-designated reserve is held in operating cash.

5. RESTRICTED CASH RESERVES

The debt service reserve was funded from the bond refinance proceeds described more fully in Note 8 below. This reserve is held by the bond fiduciary and is available to cover debt service on bonds should a default occur. The Organization has irrevocably authorized Golden Gate Regional Center to instruct the bond fiduciary on the disposition of the reserve.

In accordance with two of its long-term debt agreements, the Organization has established both an operating and replacement reserve. Withdrawals from each of the reserves require prior written approval from the respective lender. The Organization has established a replacement reserve to provide funds to cover future improvements and major repairs to properties as required by California Department of Developmental Services housing guidelines and regional center contracts.

The following summarizes the balance of the restricted cash reserves as of June 30, 2019 and 2018:

	2019	2018
Debt service reserve	$ 1,827,159	$ 1,827,159
Replacement reserves	1,838,383	1,532,425
Security deposit	758,911	497,935
Operating reserves	79,642	79,615
Total	$ 4,504,095	$ 3,937,134

6. PROPERTY

At June 30, property (at cost) consist of the following:

	2019	2018
Land	$ 76,720,452	$ 69,904,797
Building and improvements	149,230,816	124,039,068
Construction in progress	4,477,551	7,884,154
Furnishings, furniture, and equipment	1,419,678	851,246
Vehicles	39,439	39,439
Total	231,887,936	202,718,704
Less accumulated depreciation	(15,153,015)	(10,922,896)
Net property	$ 216,734,921	$ 191,795,808

At June 30, 2019 and 2018, the Organization owned two hundred thirteen and one hundred ninety-two properties, respectively. Generally, the rental properties leased to provide housing for developmentally disabled individuals are subject to restrictive covenants which limit the use of the property exclusively for the benefit of individuals with developmental disabilities. The restrictive covenants for twenty-five properties expire at various times between the years ended June 30, 2046 and 2068. One hundred fifty-four properties are deed restricted in perpetuity.

Property and equipment with a cost of $2,000 or more, purchased with grant revenue from the regional centers, may revert to the State of California in the event of termination of the Organization’s programs.

7. LINE OF CREDIT

The Organization has a $800,000 line of credit with its commercial bank which matured in February 2019. Subsequent to June 30, 2019 the line of credit was extended. Funds borrowed bear interest at the higher of 4.75% or prime (5.50% and 5.00% as of June 30, 2019 and 2018, respectively) and are collateralized by all the assets of the Organization.

Terms of the line of credit require the Organization to meet certain financial and reporting covenants.

Interest paid and expensed related to the line of credit was $23,903 and $11,776 for the years ended June 30, 2019 and 2018, respectively.

8. REAL ESTATE DEBT

Real estate debt by entity is composed of the following as of June 30:

	2019	2018
Brilliant Corners	$ 91,962,472	$ 84,303,637
A Home for Life, LLC	8,819,129	9,849,181
WHBC LA Supportive Housing LLC:		
Note obligation	5,550,000	5,550,000
Accrued interest	1,603,333	1,325,833
Unamortized loan fees	(2,104,813)	(2,037,853)
Total real estate debt	105,830,121	98,990,798
Less current portion of real estate debt	3,525,047	2,848,637
Real estate debt, net of current portion	$ 102,305,074	$ 96,142,161

Brilliant Corners:

The Organization acquires and renovates properties to provide affordable housing for persons with developmental disabilities. At June 30, 2019 and 2018 the Organization had one hundred eighty-five and one hundred sixty-four properties, respectively. The properties are financed by conventional lenders. Terms of the agreements generally require monthly payments of principal and interest at rates ranging from 3.25% to 7.75%. The required combined monthly payment for all notes as of June 30, 2019 was $579,919.

Two notes matured in August 2018, the terms of the loans were subsequently modified in 2019 and January 2020, and the loan maturity dates were extended to May 1, 2020. The Organization is in the process of refinancing the loans. The loan balance of the two loans total approximately $370,000 and have been included in the current portion of real estate debt. One hundred eighty-two notes mature between August 2024 and July 2049. One note matures in October 2051. Individual properties are collateral for the debt related to the specific property.

Interest paid, capitalized and expensed on notes payable during the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Interest paid	$ 4,786,892	$ 3,826,010
Interest accrued	$ 308,767	$ 403,665
Interest capitalized	$ 781,972	$ 1,202,881
Interest expensed	$ 3,881,164	$ 2,717,548

8. REAL ESTATE DEBT (continued)

One hundred thirty-seven properties have profit participation agreements with California's Department of Developmental Services (DDS). Each agreement requires the Organization to pay DDS up to a maximum amount should a transfer of the property or the Organization's interest in the property occur. The profit participation agreements expire between October 2113 and June 2118 and the maximum amount that may be required to be paid to DDS ranges between approximately $52,000 and $850,000, per property.

A Home for Life, LLC:

A Home for Life, LLC (AHFL) was established to serve as the fee owner of thirteen properties that were acquired and rehabilitated under the Bay Area Housing Plan (BAHP) to serve as residences for individuals with developmental disabilities. AHFL acquired properties and assumed certain related loans financed by California Housing Finance Agency (CalHFA).

During the year ended June 30, 2011 the CalHFA loans were refinanced with a loan from the California Health Facilities Financing Authority (CHFFA) using proceeds from a bond issuance. AHFL also assumed long term residency lease agreements with the service providers who staff each property to provide the necessary care for the residents of the property.

Bond financing requires monthly payments sufficient to retire bonds that mature at various dates and accrue interest at varying rates. Monthly payments of approximately $149,000 including interest at an approximate effective rate of 7.55% are required to satisfy this obligation which matures incrementally through February 1, 2026. The individual properties are collateral for the debt.

Interest paid and expensed related to the bonds was $712,208 and $819,177 for the years ended June 30, 2019 and 2018, respectively.

WBHC LA Supportive Housing LLC:

WBHC LA Supportive Housing LLC (LASH) was established to acquire and manage fifteen properties in the Los Angeles area originally owned by another non-profit organization. In addition to managing the properties, Brilliant Corners provides supportive services to the tenants that occupy the properties under a contract with County of Los Angeles' Department of Health Services.

To assist in the acquisition of the properties, a loan was obtained and is now held by the City of Los Angeles. The note bears 5% simple interest. Annual payments of principal and interest are required from residual receipts which is calculated annually. The loan matures in May 2068. The individual properties are collateral for the debt. The Organization is currently working with the Los Angeles Housing and Community Investment Department to determine if any residual receipts are required to be paid through June 30, 2018. The Organization expects no residual receipts will be required to be paid. The loan limits the distributions from LASH to Brilliant Corners.

8. REAL ESTATE DEBT (continued)

Interest of $277,500 and $195,265 was incurred during the years ended June 30, 2019 and 2018, respectively. A $82,235 adjustment was required during the year ended June 30, 2018 to bring the accrued interest balance to the amount communicated by the City of Los Angeles.

Principal payments over the next five years, for the years ending June 30 are as follows:

	A Home for Life, LLC	Brilliant Corners	Total
2020	$ 1,101,773	$ 2,423,274	$ 3,525,047
2021	1,174,111	2,156,046	3,330,157
2022	1,261,907	2,272,932	3,534,839
2023	1,360,420	2,392,640	3,753,060
2024	1,466,970	2,507,894	3,974,864
Thereafter	2,453,948	80,209,686	82,663,634
Total	$ 8,819,129	$ 91,962,472	$ 100,781,601

Unamortized loan fees will be amortized over the life of the loans. Annual amortization for the next five years will be approximately $145,000. Loan fee amortization included in interest expense in the years ended June 30, 2019 and 2018 totaled $131,888 and $131,034, respectively.

9. FINANCING OF OFFICE FURNISHINGS

In August 2015 the Organization entered into an agreement to finance the acquisition of office equipment and furniture costing $198,069. The loan requires monthly payments of $3,967 through June 2020 including interest of 7.75%. The remaining balance of $35,459 matures during the year ended June 30, 2020.

Interest paid and expensed related to the capital lease was $4,956 and $8,022 for the years ended June 30, 2019 and 2018, respectively.

10. NET ASSETS WITH DONOR RESTRICTIONS

The Organization has received donor restricted grants. The most significant grants assist Los Angeles and San Francisco counties.

10. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions are available at June 30, 2019 and 2018 for the following purposes:

	2019	2018
LA flexible housing subsidy pool	$ 1,304,677	$ 3,988,478
SF flexible housing subsidy pool	808,134	199,372
Capacity building	64,110	486,334
Other programs and administrative	50,000	50,000
Total	$ 2,226,921	$ 4,724,184

Net assets with donor restrictions were released from donor restriction by incurring expenses satisfying the purposes specified by donors during the years ended June 30, 2019 and 2018 as follows:

	2019	2018
LA flexible housing subsidy pool	$ 3,408,801	$ 761,522
SF flexible housing subsidy pool	1,478,738	1,595,986
Capacity building	422,224	635,862
Other programs and administrative	150,600	34,559
Total	$ 5,460,363	$ 3,027,929

11. LEASING ACTIVITIES AS LESSOR (RENTAL PROPERTY INCOME

Principal rental property income is derived from the Organization owning properties which are leased to entities who provide services to residents who have developmental disabilities and are paid monthly fees based on the number of patients served by local Regional Centers.

Brilliant Corners/WHBC LA Supportive Housing:

In addition to owning and managing properties as affordable housing rented directly to low-income households, the Organization leases properties to service agencies that provide licensed residential care services to its residents. Most leases are for a lease term of fifteen years. The future revenue from the one hundred forty-nine properties whose construction is complete and leases executed is $12,492,012 per year for the next five years. There are twenty-three properties under construction as of June 30, 2019. It is anticipated each will execute 15-year leases. Thirteen properties have a term of one year and continue after the expiration of the lease on a month to month basis or are not currently occupied and consequently their annual income is not included in annual lease income for the successive five years.

Total gross lease income (before vacancy) for the years ended June 30, 2019 and 2018 amounted to approximately $12,219,000 and $8,010,000, respectively.

11. LEASING ACTIVITIES AS LESSOR (RENTAL PROPERTY INCOME) (continued)

A Home for Life, LLC:

Each of the thirteen properties under A Home for Life have executed leases which expire on February 1, 2026. The lease agreements call for monthly rent equal to the monthly required debt service and certain other expenses. The Organization also earns miscellaneous fees under the lease agreements. The lease revenue over the next five years from the A Home for Life property leases (exclusive of miscellaneous fees) is $1,784,929 per year.

The executed leases indicate that at the end of the lease term, the rental income would be reduced to zero. Management believes an amendment will be made to provide rental income to the Organization sufficient to cover ongoing operating costs.

Total lease income (including miscellaneous fees of approximately $150,000 each year) from the A Home for Life properties amounted to approximately $1,935,000 each year for the years ended June 30, 2019 and 2018.

12. LEASE COMMITMENTS

The Organization leased its office premises in San Francisco under an agreement which expires on November 30, 2021. The Organization also leases office space in Los Angeles, Vallejo, San Diego, San Mateo, and Ontario under agreements which expire between July 2019 and May 2024. The current monthly lease payment for all locations is approximately $125,000.

Lease commitments for the next five years ended June 30th under the terms of the leases signed as of June 30, 2018 is as follows:

2020	$	1,513,348
2021		1,531,365
2022		1,286,548
2023		703,481
2024		377,222
Total	$	5,411,964

The Organization also leases certain office equipment under non-cancelable operating leases which expire at various times until November 30, 2022. Annual obligations in connection with these leases are less than $14,000 each year.

13. RETIREMENT PLAN

The Organization established a 403(b) Retirement Plan for its eligible employees effective January 1, 2011. The Organization contributes to the plan in an amount equal to 100% of the employee's contribution up to 5% (effective January 1, 2018, 4% previously) of the employee's annual compensation. The total employer contribution for the years ended June 30, 2019 and 2018 was $438,074 and $289,339, respectively.

14. RELATED PARTY

A board member of the Organization is also a partner of a law firm engaged by the Organization. During the year ended June 30, 2019 and 2018 the Organization incurred approximately $240,000 and $72,000, respectively, for legal services from this law firm.

15. CONCENTRATION OF RISK

Cash – Financial instruments that potentially subject the Organization to credit risk include cash on deposit with financial institutions that at times exceed the insurance limit of the United States Federal Deposit Insurance Corporation.

BRILLIANT CORNERS

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	Brilliant Corners	A Home For Life	WBHC LA Supportive Housing	Eliminating Transactions	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 6,983,212	$ 34,874	$ 41,223		$ 7,059,309
Grants and accounts receivable	32,534,622	246,577	130,157	$ (316,400)	32,594,956
Prepaid expenses	7,769,587	83			7,769,670
Total current assets	47,287,421	281,534	171,380	(316,400)	47,423,935
Property and Equipment, net	196,335,065	15,182,940	5,216,916		216,734,921
Other Assets:					
Restricted cash reserves	2,197,013	2,074,834	232,248		4,504,095
Office and other deposits	259,149				259,149
Total other assets	2,456,162	2,074,834	232,248		4,763,244
Total Assets	$ 246,078,648	$ 17,539,308	$ 5,620,544	$ (316,400)	$ 268,922,100
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable and accrued expenses	$ 16,690,498	$ 224,179	$ 152,008	$ (316,400)	$ 16,750,285
Accrued interest	308,767				308,767
Program advances	25,658,358				25,658,358
Deferred revenue		148,744			148,744
Current portion of real estate debt	2,423,274	1,101,773			3,525,047
Current portion of furniture financing	35,459				35,459
Total current liabilities	45,116,356	1,474,696	152,008	(316,400)	46,426,660
Long-term Debt:					
Real estate debt, net of unamortized loan fees	87,966,245	7,246,179	7,092,650		102,305,074
Tenant security deposits held	792,018		4,099		796,117
Total liabilities	88,758,263	7,246,179	7,096,749		103,101,191
Net Assets	112,204,029	8,818,433	(1,628,213)		119,394,249
Total Liabilities and Net Assets	$ 246,078,648	$ 17,539,308	$ 5,620,544	$ (316,400)	$ 268,922,100

BRILLIANT CORNERS

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Brilliant Corners	A Home For Life	WBHC LA Supportive Housing	Eliminating Transactions	Consolidated
Changes in Net Assets Without Donor Restrictions:					
Revenue and Support:					
Housing services	$ 203,096,577	$ 122,590	$ 141,338		$ 203,360,505
Rental property income	12,994,528	1,946,613	413,204	$ (150,790)	15,203,555
Project acquisition and renovation management	18,683,641				18,683,641
Donations and other income	793,588	37,811	112		831,511
Net assets released from restrictions	5,460,363				5,460,363
Total revenue and support	241,028,697	2,107,014	554,654	(150,790)	243,539,575
Expenses:					
Program services	218,217,496	1,376,904	857,800	(150,790)	220,301,410
General and administrative	5,150,611	775	16,550		5,167,936
Business development	154,486				154,486
Total expenses	223,522,592	1,377,679	874,350	(150,790)	225,623,831
Increase in Net Assets Without Donor Restrictions	17,506,105	729,335	(319,696)	-	17,915,744
Changes in Net Assets With Donor Restrictions:					
Foundation grant	2,963,100				2,963,100
Net assets released from restrictions	(5,460,363)				(5,460,363)
Decrease in Net Assets With Donor Restrictions	(2,497,263)	-	-	-	(2,497,263)
Change in Net Assets	15,008,842	729,335	(319,696)		15,418,481
Net Assets at Beginning of Year	97,195,187	8,089,098	(1,308,517)		103,975,768
Net Assets at End of Year	$ 112,204,029	$ 8,818,433	$ (1,628,213)	$	$ 119,394,249

BRILLIANT CORNERS

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION REQUIRED BY SAN FRANCISCO'S MOHCD

SCHEDULE OF OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

Project Street Address: 1340 Portola Drive, San Francisco, CA 94127

	Rental Income		
5120	Gross Potential Tenant Rents	$	157,120
	Total Rent Revenue:		157,120
	Vacancies		
5220	Apartments		
	Total Vacancies:		-
	Net Rental Income: (Rent Revenue Less Vacancies)		157,120
	Other Revenue		
5400	Interest Revenue - Project Operations (From All Other Accts)		
5990	Misc. Revenue (principally charitable contributions)		
	Total Other Revenue:		-
	Total Operating Revenue:		157,120
	Management		
6320	Management Fee		
	Total Management Expenses:		0
	Salaries/Benefits		
6310	Office Salaries		0
6330	Manager's Salary		7,121
6723	Employee Benefits: Health Insurance & Disability Insurance		682
	Employee Benefits: Retirement & Other Salary/Benefit Expenses		289
	Total Salary/Benefit Expenses:		8,092
	Administration		
6210	Advertising and Marketing		0
6311	Office Expenses		0
6350	Audit Expense		412
6390	Miscellaneous Administrative Expenses (principally fundraising)		0
	Total Administrative Expenses:		412
	Utilities		
6450	Electricity		0
6451	Water		2,392
6452	Gas		0
6453	Sewer		2,312
	Total Utilities Expenses:		4,704

BRILLIANT CORNERS

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION REQUIRED BY SAN FRANCISCO'S MOHCD

SCHEDULE OF OPERATING REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

Project Street Address: 1340 Portola Drive, San Francisco, CA 94127

	Taxes and Licenses	
6710	Real Estate Taxes	13,924
6711	Payroll taxes	592
6790	Miscellaneous Taxes, Licenses, and Permits	3,010
	Total Taxes and Licenses Expenses:	17,526
	Insurance	
6720	Property and Liability, D&O Insurance	1,380
6722	Workers' Compensation	0
	Total Insurance Expenses:	1,380
	Maintenance and Repairs	
6510	Payroll	0
6515	Supplies	0
6520	Contracts	1,100
6525	Garbage and Trash Removal	452
6570	Vehicle and Maintenance Equipment Operation and Repairs	15,081
6590	Miscellaneous Operating and Maintenance Expenses	(3,275)
	Total Maintenance and Repairs Expenses:	13,358
	Total Operating Expenses:	45,472
	Financial Expenses	
6820	Interest on Mortgage (or Bonds) Payable	23,335
6830	Interest on Notes Payable (Long Term)	0
	Total Financial Expenses:	23,335
6000	Total Cost of Operations before Depreciation:	68,807
5060	Operating Profit (Loss):	88,313
	Depreciation & Amortization Expenses	
6600	Depreciation Expense	18,784
6610	Amortization Expense	0
	Operating Profit (Loss) after Depreciation & Amortization:	69,529
	Net Entity Expenses/(Income)	
7190	Investment income	
	Total Net Entity Expenses (Income):	0
3250	**Change in Total Net Assets from Operations**	$ 69,529

BRILLIANT CORNERS

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION REQUIRED BY SAN FRANCISCO'S MOHCD

COMPUTATION OF SURPLUS CASH FOR 1340 PORTOLA DRIVE FOR THE YEAR ENDED JUNE 30, 2019

Project Street Address: 1340 Portola Drive, San Francisco, CA 94127

			Total
Operating Revenue		$	157,120
Interest earned on restricted accounts			
	Adjusted Operating Revenue		157,120
Operating Expenses			(45,472)
Net Operating Income			111,648
Other Activity			
Mandatory Debt Service - Principal			(77,028)
Mandatory Debt Service - Interest			(23,335)
Mandatory Debt Service - Other Amount			
Deposits to Replacement Reserve Account			
Deposits to Operating Reserve Account			
Withdrawals from Operating Reserve Account			
Withdrawals from Other Required Reserve Account			
	Total Other Activity:		(100,363)
	Operating Cash Flow/Surplus Cash:	$	**11,285**
	Disbursement from surplus cash to repay outstanding loan	$	**11,285**

SUMMARY OF PORTOLA RESERVE ACCOUNTS

	Reserve for operations	Reserve for replacements
Balances, June 30, 2018	$ 29,790	$ 34,021
Deposits		
Earned interest		
Balances, June 30, 2019	$ 29,790	$ 34,021

PEROTTI & CARRADE
Certified Public Accountants

INDEPENDENT AUDITORS' 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
Brilliant Corners

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 consolidated financial statements of Brilliant Corners (the Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 19, 2020 Perotti & Carrade