

Housing Consortium of the East Bay and Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2016 AND 2015

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

TABLE OF CONTENTS

	Page
Independent Auditor’s Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities.....	4 - 5
Consolidated Statements of Cash Flows.....	6
Consolidated Statement of Functional Expenses.....	7 - 8
Notes to Financial Statements	9 - 23
Supplementary Information	24
Supplementary Information – Consolidating Statement of Financial Position	25
Supplementary Information – Consolidating Statement of Activities.....	26
Schedule of Expenditures of Federal Awards.....	27
Notes to the Schedule of Expenditures of Federal Awards	28
Summary Schedule of Prior Audit Findings.....	29 - 30
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 <i>Government Auditing Standards</i>	31 - 32
Independent Auditor’s Report on Compliance for each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	33 - 35
Schedule of Findings and Questioned Costs.....	36 – 39
Corrective Action Plan	40 - 41

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Housing Consortium of the East Bay and Affiliates
Oakland, California

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Housing Consortium of the East Bay and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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; 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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, I 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Consortium of the East Bay and Affiliates as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that Housing Consortium of the East Bay and Affiliates will continue as a going concern. As described in Note 15 to the financial statements, Housing Consortium of the East Bay and Affiliates has experienced difficulty in obtaining unrestricted funds to provide working capital which raises substantial doubt about its ability as a going concern. Management's plans regarding these matters are also described in Note 15. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. My opinion is not modified with respect to this matter.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 25 and 26 is presented for additional analysis and is not required part of the financial statements. The accompanying schedule of expenditures of federal awards shown on page 27, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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*, I have also issued my report dated October 24, 2017, on my consideration of Housing Consortium of the East Bay and Affiliates' internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Housing Consortium of the East Bay and Affiliates' internal control over financial reporting and compliance.



Burlingame, California
October 24, 2017

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ -	\$ -
Restricted cash (Note 2)	84,933	106,627
Related party receivable (Note 3)	37,721	15,275
Property tax receivable (Note 4)	-	107,901
Property maintenance receivable (Note 4)	181,787	163,999
Other receivables	116,130	112,824
Prepaid expenses	12,152	8,028
Total current assets	<u>432,723</u>	<u>514,654</u>
Restricted deposits (Note 2)		
Debt service reserve	2,041,760	2,041,750
Replacement reserves	354,851	317,723
Operating reserves	59,526	51,510
Tax and insurance impounds	376,471	357,226
Tenant security deposits	3,118	2,572
Investments (Note 5)	94,728	98,949
Property and equipment, net (Note 6)	25,651,618	24,917,670
Deferred costs, net (Note 7)	821,985	898,001
Deposits	4,000	3,192
Total assets	<u>\$ 29,840,780</u>	<u>\$ 29,203,247</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Cash overdraft	\$ 33,651	\$ 13,827
Accounts payable and accrued expenses	136,247	62,408
Interest payable - current portion (Note 8)	-	2,669
Notes payable - current portion (Note 8)	1,225,147	1,304,812
Deferred revenue - contribution	9,990	9,990
Line of credit (Note 9)	24,857	28,000
Total current liabilities	<u>1,429,892</u>	<u>1,421,706</u>
Interest payable - net of current portion (Note 8)	474,413	342,190
Notes payable - net of current portion (Note 8)	19,288,764	19,035,580
Deferred revenue - contribution (Note 8)	551,371	561,361
Deferred revenue - other	172,712	172,712
Tenant security deposits	10,209	9,054
Total liabilities	<u>21,927,361</u>	<u>21,542,603</u>
Net assets:		
Unrestricted	7,828,486	7,554,017
Temporarily restricted (Note 10)	84,933	106,627
Total net assets	<u>7,913,419</u>	<u>7,660,644</u>
Total liabilities and net assets	<u>\$ 29,840,780</u>	<u>\$ 29,203,247</u>

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Lease income	\$ 2,686,086	\$ -	\$ 2,686,086
Contract income	527,115	-	527,115
Consulting	11,000	-	11,000
Contributions	49,406	-	49,406
Developer fees	37,317	-	37,317
Management and bookkeeping fees	70,376	-	70,376
Maintenance fees	93,470	-	93,470
Property tax refunds	10,384	-	10,384
Interest income	5,324	-	5,324
Other income	2,786	-	2,786
Unrealized loss on investments	(4,221)	-	(4,221)
Unrealized gain on debt reserve	10	-	10
	<hr/>	<hr/>	<hr/>
Net assets released from restrictions	21,694	(21,694)	-
	<hr/>	<hr/>	<hr/>
Total support and revenue	3,510,747	(21,694)	3,489,053
	<hr/>	<hr/>	<hr/>
Expenses:			
Program activities:			
Property management	2,691,890	-	2,691,890
Housing development services	41,813	-	41,813
Housing services	215,139	-	215,139
Supporting activities:			
Management and general	261,419	-	261,419
Fundraising	26,017	-	26,017
	<hr/>	<hr/>	<hr/>
Total expenses	3,236,278	-	3,236,278
	<hr/>	<hr/>	<hr/>
Change in net assets	274,469	(21,694)	252,775
	<hr/>	<hr/>	<hr/>
Net assets at beginning of year	7,554,017	106,627	7,660,644
	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 7,828,486	\$ 84,933	\$ 7,913,419
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The accompanying notes are an integral part of these financial statements.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Lease income	\$ 2,723,178	\$ -	\$ 2,723,178
Contract income	575,092	-	575,092
Consulting	15,511	-	15,511
Contributions	32,567	-	32,567
Developer fees	188,426	-	188,426
Management and bookkeeping fees	52,716	-	52,716
Maintenance fees	116,466	-	116,466
Property tax refund	113,855	-	113,855
Interest income	3,881	-	3,881
Other income	49,512	-	49,512
Unrealized loss on investments	(342)	-	(342)
Unrealized gain on debt reserve	12	-	12
	<hr/>	<hr/>	<hr/>
Net assets released from restrictions	22,117	(22,117)	-
	<hr/>	<hr/>	<hr/>
Total support and revenue	3,892,991	(22,117)	3,870,874
	<hr/>	<hr/>	<hr/>
Expenses:			
Program activities:			
Property management	2,709,348	-	2,709,348
Housing development services	42,361	-	42,361
Housing services	222,553	-	222,553
Supporting activities:			
Management and general	294,227	-	294,227
Fundraising	12,657	-	12,657
	<hr/>	<hr/>	<hr/>
Total expenses	3,281,145		3,281,145
	<hr/>	<hr/>	<hr/>
Change in net assets	611,846	(22,117)	589,729
	<hr/>	<hr/>	<hr/>
Net assets at beginning of year	6,942,171	128,744	7,070,915
	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 7,554,017	\$ 106,627	\$ 7,660,644
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The accompanying notes are an integral part of these financial statements.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 252,775	\$ 589,729
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	679,340	664,040
Unrealized loss on investments	4,221	342
Unrealized gain on debt reserve	(10)	(12)
(Increase) decrease in assets:		
Related party receivable	(22,446)	(4,611)
Property tax receivable	107,901	41,566
Property maintenance receivable	(17,788)	(73,142)
Other receivable	(3,306)	(59,771)
Prepaid expenses	(4,124)	1,606
Deposits	(808)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	73,839	(33,679)
Interest payable	129,554	107,494
Tenant security deposits	1,155	303
Net cash provided by operating activities	<u>1,200,303</u>	<u>1,233,865</u>
Cash flows from investing activities:		
Purchases of fixed assets	(19,826)	(15,267)
Decrease in restricted cash	21,694	22,117
Net increase in restricted deposits	(64,935)	(166,286)
Net cash used in investing activities	<u>(63,067)</u>	<u>(159,436)</u>
Cash flows from financing activities:		
Payments of notes payable	(1,150,943)	(1,104,922)
Payments of loan fees	(2,974)	-
Increase (decrease) from credit line	(3,143)	3,397
Net cash used in financing activities	<u>(1,157,060)</u>	<u>(1,101,525)</u>
Net decrease in cash and cash equivalents	(19,824)	(27,096)
Cash overdraft at beginning of year	(13,827)	13,269
Cash overdraft at end of year	<u>\$ (33,651)</u>	<u>\$ (13,827)</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 1,069,014</u>	<u>\$ 1,125,923</u>
Noncash investing and financing activities:		
Assets acquired by assuming long-term debt	<u>\$ 1,307,989</u>	<u>\$ -</u>
Loan financing fees	<u>\$ 6,483</u>	<u>\$ -</u>
Contribution recognized from interest free loan	<u>\$ 9,990</u>	<u>\$ 9,990</u>

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	2016							Total
	Program Activities				Supporting Activities			
	Property Management	Housing Development Services	Housing Services	Total Program Services	Management and General	Fundraising	Shared Costs	
Salaries and employer taxes	\$ 294,374	\$ 29,392	\$ 75,987	\$ 399,753	\$ 118,192	\$ 5,248	\$ -	\$ 523,192
Employee benefits	54,916	5,483	14,176	74,575	22,049	979	-	97,603
Audit and accounting	-	-	-	-	73,971	-	-	73,971
Legal	-	-	-	-	350	-	8,564	8,914
Office expense	-	-	-	-	22	-	12,760	12,782
Advertising	-	-	-	-	-	-	2,605	2,605
Telephone	-	-	-	-	1,953	-	11,841	13,794
Mileage and travel	-	-	-	-	-	-	7,586	7,586
Conferences and training	-	-	-	-	-	-	4,890	4,890
Postage	-	-	-	-	-	-	3,538	3,538
Printing	-	-	-	-	-	1,238	2,125	3,363
Program expenses	39,000	-	107,040	146,040	-	-	-	146,040
Rent and occupancy	-	-	-	-	-	-	41,059	41,059
Utilities	32,017	-	-	32,017	-	-	-	32,017
Event, facilities and planner	-	-	-	-	-	10,000	-	10,000
Event, food & supplies	-	-	-	-	-	4,810	-	4,810
Event, entertainment	-	-	-	-	-	2,250	-	2,250
Property maintenance	189,661	-	-	189,661	-	-	-	189,661
Insurance	46,328	-	-	46,328	-	-	12,771	59,099
Taxes and licenses	83,948	-	-	83,948	13,829	-	223	98,000
Interest	1,203,364	-	-	1,203,364	-	-	5,194	1,208,558
Service fees and bank charges	-	-	-	-	2,611	254	4,357	7,222
Miscellaneous	-	-	-	-	-	-	5,984	5,984
Overhead allocation	69,486	6,938	17,936	94,360	27,899	1,239	(123,497)	-
Total before depreciation and amortization	2,013,094	41,813	215,139	2,270,046	260,875	26,017	-	2,556,938
Depreciation and amortization	678,796	-	-	678,796	544	-	-	679,340
Total	\$ 2,691,890	\$ 41,813	\$ 215,139	\$ 2,948,842	\$ 261,419	\$ 26,017	\$ -	\$ 3,236,278

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	2015							
	Program Activities				Supporting Activities			
	Property Management	Housing Development Services	Housing Services	Total Program Services	Management and General	Fundraising	Shared Costs	Total
Salaries and employer taxes	\$ 327,485	\$ 31,506	\$ 99,026	\$ 458,017	\$ 115,846	\$ 5,626	\$ -	\$ 579,489
Employee benefits	58,734	5,650	17,760	82,144	20,777	1,009	-	103,930
Audit and accounting	-	-	-	-	122,646	-	-	122,646
Legal	-	-	-	-	6,095	-	1,712	7,807
Office expense	-	-	-	-	1,213	-	13,272	14,485
Advertising	-	-	-	-	-	-	1,673	1,673
Telephone	-	-	-	-	1,862	-	10,700	12,562
Mileage and travel	-	-	-	-	-	-	4,424	4,424
Conferences and training	-	-	-	-	-	-	4,221	4,221
Postage	-	-	-	-	-	-	2,794	2,794
Printing	-	-	-	-	-	283	1,498	1,781
Program expenses	39,000	-	89,406	128,406	-	-	-	128,406
Rent and occupancy	-	-	-	-	-	-	38,756	38,756
Utilities	28,591	-	-	28,591	-	-	-	28,591
Event, facilities	-	-	-	-	-	1,411	-	1,411
Event, food and supplies	-	-	-	-	-	2,047	-	2,047
Event, entertainment	-	-	-	-	-	1,000	-	1,000
Property and equipment mainten:	148,418	-	-	148,418	-	-	-	148,418
Insurance	44,224	-	-	44,224	-	-	7,325	51,549
Taxes and licenses	103,617	-	-	103,617	4,437	-	487	108,541
Interest	1,242,077	-	-	1,242,077	-	-	1,330	1,243,407
Service fees and bank charges	-	-	-	-	1,266	352	4,292	5,910
Miscellaneous	-	-	-	-	-	-	3,257	3,257
Overhead allocation	54,106	5,205	16,361	75,672	19,140	929	(95,741)	-
Total before depreciation and amortization	2,046,252	42,361	222,553	2,311,166	293,282	12,657	-	2,617,105
Depreciation and amortization	663,095	-	-	663,095	945	-	-	664,040
Total	<u>\$ 2,709,347</u>	<u>\$ 42,361</u>	<u>\$ 222,553</u>	<u>\$ 2,974,261</u>	<u>\$ 294,227</u>	<u>\$ 12,657</u>	<u>\$ -</u>	<u>\$ 3,281,145</u>

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Housing Consortium of the East Bay (HCEB), a California nonprofit public benefit corporation, was formed in 1998 to promote affordable and accessible housing for persons with developmental disabilities. HCEB's activities include housing development, planning, resources development, technical assistance, property management and coalition building. HCEB is governed by a volunteer Board of Directors.

In April 2006, HCEB formed a limited liability company, Inclusive Communities East Bay, LLC (ICEB) to promote and provide affordable and accessible housing for persons with developmental disabilities and to assist HCEB in achieving its corresponding tax exempt charitable purpose. In order to achieve this purpose, ICEB holds title to and operates fifteen individual residential homes.

ICEB's primary source of income consists of funding from the Regional Center of the East Bay (RCEB), as a pass through agency of the State of California Department of Developmental Services. The RCEB funding is required under AB 2100 which established the platform for the Bay Area Plan. ICEB leases the homes to service providers, who receive funds directly from the RCEB to pay all lease costs. ICEB is especially vulnerable to the inherent risks associated with revenue that is substantially dependent on funding from RCEB.

In September 2010, HCEB acquired control of Mentally Handicapped Children's Organization, (MHCO), a California nonprofit public benefit corporation, formed in May 1949 to promote self-sufficiency of children with developmental disabilities. Its purpose now is being met by owning and operating rental housing for developmentally disabled adults who initially benefited while they were children. MHCO continues to operate as a separate 501(c) (3) corporation and owns and operates five units of housing for persons with developmental disabilities.

From time to time HCEB forms limited liability companies (LLCs) to provide affordable housing for low income persons with developmental disabilities or other special needs. HCEB serves as the sole member of such LLC's. These entities, referred to as the affiliates, are included in the consolidated financial statements of HCEB as follows:

- Inclusive Communities East Bay (ICEB)
- Magnolia Terrace, LLC (Magnolia)
- Ashland NSP, LLC (Ashland)
- Fairview Homes, LLC (Fairview)
- Tri Valley BMR, LLC (Tri Valley)
- CCT East Bay, LLC (CCT)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of HCEB and the LLCs of which HCEB is the sole member, and MHCO which was acquired by HCEB. All significant intercompany transactions and balances have been eliminated in the consolidation.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

HCEB and Satellite Affordable Housing Associates (Satellite) are collectively sponsors of Lincoln Street Housing, Inc., (LSH), a separate 501(c)(3) corporation. LSH is an 11 unit rental housing project under Section 811 of the National Affordable Housing Act. While some of the board of directors of HCEB is represented on the board of directors of LSH, it does not have control. Therefore, its operations are not consolidated in these financial statements. In addition, the property is highly regulated by HUD in all facets of its operations and use. Its assets are not available to HCEB nor is HCEB responsible for any liabilities of the organization or its net assets. It is believed that inclusion of LSH in the consolidated audit would distort the assets and liabilities of the consolidated organization.

HCEB is the sponsor of Luella Fuller Group Home, Inc. (LFGH), a separate 501(c)(3) corporation. LFGH is a four bedroom rental house under Section 811 of the National Affordable Housing Act. HCEB's board of directors are the same as LFGH, however, it does not have control. Therefore, its operations are not consolidated in these financial statements. As of June 30, 2016 and 2015, the project income and expenses were minimal because the property was not occupied. In addition, the property is highly regulated by HUD in all facets of its operations and use. Its assets are not available to HCEB nor is HCEB responsible for any liabilities of the organization or its net assets. It is believed that inclusion of LFGH in the consolidated audit would distort the assets and liabilities of the consolidated organization.

Accounting Method

HCEB uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflect on the HCEB's consolidated financial statements include the valuation and useful lives of its properties.

Basis of Presentation

U.S. GAAP requires that HCEB report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, net assets are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support operations.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. HCEB does not have net assets meeting the definition of permanently restricted.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash. Not included as cash are funds restricted as to their use such as reserves and escrow accounts, regardless of liquidity, or funds not in the control of HCEB, such as the Debt Service Reserve.

Restricted Cash

HCEB and Affiliates holds restricted funds for the maintenance of 3 homes for developmentally disabled individuals located in the following California cities: Oakland, Walnut Creek, and San Leandro.

Debt Service Reserve

For each property owned by ICEB, a debt service reserve was established by the lender in a predetermined amount equal to 5% of the aggregate principal balance of the loan. The reserves are held by the bond trustee, US Bank.

Replacement Reserves, Property Tax and Insurance Impounds

As part of the lease agreements, ICEB and Fairview receive monthly deposits from RCEB, to cover the replacement reserves along with the tax and insurance impounds of the homes that are leased to the service providers. Also included in the replacement reserve balances are replacement reserves for the five Ashland properties as required by the Mental Health Services Act Housing Program (MHSA) Regulatory Agreements with California Housing Agency (CalHFA). A replacement reserve for Magnolia Terrace is required to be maintained by the County of Alameda HOME and CGBG loan agreement.

Operating Reserves

An operating reserve for the five Ashland properties is required by the MHSA Regulatory agreements with CalHFA in a predetermined annual amount. An operating reserve for Magnolia Terrace is required to be maintained by the County of Alameda HOME and CGBG loan agreement.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances.

Tenant Security Deposits

In accordance with the various loan provisions and regulatory agreements the properties are required to collect security deposits from residents. The amounts vary by property and are included in the resident leases. Magnolia Terrace is required to hold security deposits in a separate bank account in the name of the Project.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

The fair value of HCEB's financial instruments represent management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. In determining fair value, HCEB uses various valuation approaches. MHCO has investments in mutual funds which are invested for the long term to cover future costs of repairs and replacement of real property owned by MHCO. It is HCEB's intention to maintain these funds for the long term. A fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Unobservable inputs reflects HCEB's judgments about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 Inputs – Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in level 1 that are observable either directly or indirectly.

Level 3 Inputs – Significant unobservable inputs. Unobservable inputs should be used to measure fair value if observable inputs are not available.

Investments

Investments in marketable securities are reported at their market value. Unrealized loss on investments are recognized when earned or incurred and are reported in the statement of activities and are included in unrestricted net assets.

Property and Equipment and Deferred Costs

Property and equipment are stated at cost of acquisition. Residential properties are stated at the cost of the original purchase plus renovation and other related costs. The renovations primarily consisted of customizing single family dwellings for the special needs of the resident population. The cost of maintenance and repairs is charged to expense as incurred. Property and equipment valued at over \$2,000 is capitalized and is stated at cost of acquisition or construction. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets, which are estimated as follows:

Buildings and fixtures	20-40 years
Furniture and equipment	5-10 years

Deferred escrow costs are incurred during the purchase or transfer of property to each entity and are stated at cost and amortized on a straight-line basis over the term of the respective loans.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

HCEB is tax exempt from federal income taxes under section 501(c) (3) of the Internal Revenue Code and 23701d of the California code sections. MHCO is also a tax exempt organization under the above sections. MHCO files its own tax returns.

The articles of organization for the limited liability companies have been created or amended to ensure that the organization is considered tax-exempt by limiting its membership to nonprofit 501(c)(3) organizations and distributions of its net assets upon termination in a nonprofit 501 (c) (3) entity. The LLCs are considered to be independent companies by the State of California only and are required to pay annual taxes and fees based on gross income. In October 2014, Magnolia, Ashland, Fairview, Tri-Valley, and CCT each received their nonprofit tax exemption from the Franchise Tax Board and are no longer required to pay the annual income taxes based on gross income. ICEB has applied for its tax exemption from the Franchise Tax Board.

Management believes that all income is related to the tax-exempt purposes of the consolidated entities and therefore the consolidated financial statements do not provide for income tax liability. Management believes that it has no uncertain tax positions.

Revenue Recognition

Unconditional and unrestricted contributions are recognized as revenue when they are communicated. Contributions are recorded at their fair value as unrestricted support, temporarily restricted support, or permanently restricted support, depending on the absence or existence of donor-imposed restrictions, as applicable. When a temporary restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Temporarily restricted contributions whose purpose restriction is accomplished during the year are reported as unrestricted in the statement of activities.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the Statements of Activities and Statements of Functional Expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Reclassifications

Certain amounts previously reported in the 2015 financial statements were reclassified to conform to the 2016 presentation.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 3 – RELATED PARTY RECEIVABLE

As described in Note 2, LFGH and LSH were not included in the consolidated financial statements. HCEB and Affiliates made advances to LFGH and LSH. For the years ended June 30, 2016 and 2015, HCEB earned management and bookkeeping fees from LSH totaling \$10,716 for each year.

The amount receivable at June 30, 2016 and 2015 is summarized below:

	<u>2016</u>	<u>2015</u>
LFGH	\$ 32,721	\$ 13,263
LSH	<u>5,000</u>	<u>2,012</u>
	<u>\$ 37,721</u>	<u>\$ 15,275</u>

NOTE 4 – PROPERTY TAX AND MAINTENANCE RECEIVABLE

The Affiliates of HCEB has received retroactive property tax exemptions on various properties and as of June 30, 2016 and 2015, recorded receivables totaling \$0 and \$107,901, respectively.

ICEB has submitted requests to RCEB for reimbursement of certain property maintenance items as part of the leasing costs of the properties. As of June 30, 2016 and 2015, property maintenance receivable from RCEB totaled \$181,787 and \$163,999, respectively. The property maintenance receivables were received subsequent to the year ending June 30, 2016.

NOTE 5 – INVESTMENTS

Investments at June 30, 2016 and 2015 are presented below. The mutual funds are considered to be Level 1 inputs.

	<u>Total (Level 1)</u>	
	<u>2016</u>	<u>2015</u>
Mutual funds	<u>\$ 94,728</u>	<u>\$ 98,949</u>

For the years ended June 30, 2016 and 2015, unrealized losses on investments totaled \$4,221 and \$342, respectively, and are reported in the statement of activities and are included in unrestricted net assets.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 is summarized as follows:

Affiliate	2016					
	Land	Building and Improvements	Furniture and Equipment	Total	Accumulated Depreciation	Net Fixed Assets
HCEB	\$ -	\$ -	\$ 10,360	\$ 10,360	\$ (7,648)	\$ 2,712
ICEB	3,353,500	16,413,040	19,941	19,786,481	(3,149,189)	16,637,292
MHCO	825,032	974,817	3,207	1,803,056	(450,778)	1,352,278
Magnolia	153,171	2,251,681	55,388	2,460,240	(302,279)	2,157,961
Ashland	1,071,627	2,326,561	44,575	3,442,763	(205,886)	3,236,877
Fairview	322,698	753,582	-	1,076,280	(89,488)	986,792
Tri Valley	-	176,755	2,044	178,799	(21,725)	157,074
CCT	345,325	821,158	-	1,166,483	(45,851)	1,120,632
Total	<u>\$ 6,071,353</u>	<u>\$ 23,717,594</u>	<u>\$ 135,515</u>	<u>\$ 29,924,462</u>	<u>\$ (4,272,844)</u>	<u>\$ 25,651,618</u>

Affiliate	2015					
	Land	Building and Improvements	Furniture and Equipment	Total	Accumulated Depreciation	Net Fixed Assets
HCEB	\$ -	\$ -	\$ 7,936	\$ 7,936	\$ (7,103)	\$ 833
ICEB	3,353,500	16,395,638	19,941	19,769,079	(2,734,873)	17,034,206
MHCO	825,032	974,816	3,207	1,803,055	(434,518)	1,368,537
Magnolia	153,171	2,251,681	55,388	2,460,240	(241,823)	2,218,417
Ashland	626,897	1,466,010	41,868	2,134,775	(147,791)	1,986,984
Fairview	322,698	753,583	-	1,076,281	(70,649)	1,005,632
Tri Valley	-	176,755	2,044	178,799	(16,898)	161,901
CCT	345,325	821,157	-	1,166,482	(25,322)	1,141,160
Total	<u>\$ 5,626,623</u>	<u>\$ 22,839,640</u>	<u>\$ 130,384</u>	<u>\$ 28,596,647</u>	<u>\$ (3,678,977)</u>	<u>\$ 24,917,670</u>

NOTE 7 – DEFERRED COSTS

Deferred costs at June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Bond acquisition costs	\$ 1,156,984	\$ 1,156,984
Loan acquisition costs	117,730	108,273
	<u>1,274,714</u>	<u>1,265,257</u>
Less: accumulated amortization	<u>(452,729)</u>	<u>(367,256)</u>
	<u>\$ 821,985</u>	<u>\$ 898,001</u>

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 – NOTES PAYABLE

Long term debt at June 30, 2016 and 2015, respectively, is secured by the property unless noted and consists of:

	<u>2016</u>	<u>2015</u>
Note payable with California Health Facilities Financing Authority, secured by the deed of trust on ICEB's properties, monthly variable payments of principal and interest. The note is due in 2025, and bears interest at rates from 4 to 6.25% per annum over the term of the loan.	\$ 10,358,064	\$ 11,167,490
Note payable with California Health Facilities Financing Authority, secured by the deed of trust on ICEB's properties, monthly variable payments of principal and interest. is due in 2026, and bears interest at rates from 3.3 to 7.8% per annum over the term of the loan.	3,986,943	4,276,766
Note payable to the County of Alameda, secured by the deed of trust on the Magnolia Terrace property. The note bears interest of 3% per annum. Principal and interest are deferred until 2027, after which annual payments will be due in an amount equal to 50% of the residual receipts until the expiration of the term of the loan agreement in May 2069. The full amount of principal and deferred interest is payable at the earlier of a) date of unauthorized transfer of property, b) date of default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, accrued interest was \$110,688 and \$86,538, respectively.	805,003	805,003
Note payable to the Northern California Community Loan Fund secured by the deed of trust on the Magnolia Terrace property. The note bears interest of 7% per annum. Monthly payment of \$1,281 of principal and interest are due until December 2015 at which time the loan was refinanced until December 2025 at 5.75% with principal and interest payments of \$1,603.	140,856	148,472
Note payable to CalHFA, secured by the deed of trust for a Ashland property. The note bears simple interest at a rate of 3% per annum. Principal and interest are due annually from 100% of residual receipts with payments applied first to interest. The note is due in full in 2030. As of June 30, 2016 and 2015, accrued interest was \$55,443 and \$45,709, respectively.	324,480	324,480
Note payable to CalHFA, secured by the deed of trust for a Ashland property. The note bears simple interest at a rate of 3% per annum. Principal and interest are due annually from 100% of residual receipts with payments		

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 – NOTES PAYABLE (continued)

	<u>2016</u>	<u>2015</u>
applied first to interest. The note is due in full in 2031. As of June 30, 2016 and 2015, accrued interest was \$60,642 and \$47,663, respectively.	432,640	432,640
Note payable to CalHFA, secured by the deed of trust for a Ashland property. The note bears simple interest at a rate of 3% per annum. Principal and interest are due annually from 100% of residual receipts with payments applied first to interest. The note is due in full in 2032. As of June 30, 2016 and 2015, accrued interest was \$51,485 and \$38,199, respectively.	442,880	442,880
Note payable to CalHFA, secured by the deed of trust for a Ashland property. The note bears simple interest at a rate of 3% per annum. Principal and interest are due annually from 100% of residual receipts with payments applied first to interest. The note is due in full in 2032. As of June 30, 2016 and 2015, accrued interest was \$35,959 and \$26,152, respectively.	326,900	326,900
Note payable to the County of Alameda, secured by the deed of trust for a Ashland property. The note bears interest of 3% per annum. Principal and interest are deferred until 2030 after which annual payments will be due in an amount equal to 100% of the residual receipts until the expiration of the term of the loan in 2069 The full amount of principal and deferred interest is payable at the earlier of a) date of unauthorized transfer of b) date of default, or c) expiration of the term of the loan As of June 30, 2016 and 2015, accrued interest was \$29,176 and \$24,066, respectively.	170,341	170,341
Note payable to the County of Alameda, secured by the deed of trust for a Ashland property. The note bears interest of 3% per annum. Principal and interest are deferred until 2031 after which annual payments will be due in an amount equal to 100% of the residual receipts until the expiration of the term of the loan in 2070 The full amount of principal and deferred interest is payable at the earlier of a) date of unauthorized transfer of b) date of default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, accrued interest was \$25,882 and \$20,337, respectively.	183,961	183,961

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 – NOTES PAYABLE (continued)

	<u>2016</u>	<u>2015</u>
<p>Note payable to the County of Alameda, secured by the deed of trust for a Ashland property. The note bears interest of 3% per annum. Principal and interest are deferred until 2031 after which annual payments will be due in an amount equal to 100% of the residual receipts until the expiration of the term of the loan in 2071. The full amount of principal and deferred interest is payable at the earlier of a) date of unauthorized transfer of b) date of default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, accrued interest was \$19,836 and \$14,717, respectively.</p>	170,639	170,639
<p>Note payable to the City of Livermore, secured by the deed of trust for a Ashland property. The note bears interest of 3% per annum. Principal and interest are deferred until 2031 after which annual payments will be due in an amount equal to 100% of the residual receipts until the expiration of the term of the loan in 2071. The full amount of principal and deferred interest is payable at the earlier of a) date of unauthorized transfer of b) date of default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, accrued interest was \$22,862 and \$16,627, respectively.</p>	207,832	207,832
<p>Note payable to CalHFA, secured by the deed of trust for a Ashland property. The note bears interest at a rate of 3% per annum. Principal and interest are due annually from 48.68% of residual receipts with payments applied first to interest. The note is due in full in 2070. As of June 30, 2016, accrued interest was \$11,963</p>	648,325	-
<p>Note payable to the City of Livermore, secured by the deed of trust for a Ashland property. The note bears interest of 3% per annum. Annual payments shall be made annually from 51.31% of residual receipts. The note is due in full in 2070. As of June 30, 2016, accrued interest was \$12,613.</p>	683,575	-

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 – NOTES PAYABLE (continued)

	<u>2016</u>	<u>2015</u>
Note payable to CDFI Clearinghouse, secured by the deed of trust on the Tri Valley property. The note bears interest of 6.15% per annum. Monthly payment of principal and interest of \$1,092 are due. The note is due in full in 2026.	97,068	103,917
Note payable to Redevelopment Agency of the City of Livermore, secured by the deed of trust for the Tri Valley property. The note bears simple interest of 3% per annum and is due in full in 2041. As of June 30, 2016 and 2015, accrued interest was \$9,239 and \$7,416, respectively.	60,778	60,778
Note payable to CDFI Clearinghouse, secured by the deed of trust on the Fairview property. The note bears interest of 7.75% per annum. Monthly payment of principal and interest of \$10,124 are due. The note is due in full in 2026. As of June 30, 2016 and 2015, accrued interest was \$0 and \$2,669, respectively.	868,505	923,162
Note payable to the County of Alameda, secured by the deed of trust for a CCT property. The note bears no interest, net of unamortized discount of \$571,351 (effective interest rate, 3%), with face amount of \$704,506. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2033, after which annual payments will be due in an amount equal to 100% of the residual receipts until the expiration of the term of the loan in 2072. The full amount of principal and deferred interest is payable at the earlier of a) date of unauthorized transfer of property, b) date of default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, deferred contribution was \$561,361 and \$571,351, respectively.	143,145	133,155
Note payable to the City of Livermore, secured by the deed of trust for a CCT property. The note bears simple interest of 3% per annum and is due in full in 2069. An annual deposit based on Surplus Cash not to exceed \$2,100 shall be made to the operating reserve, with any residual receipts remaining after such deposit. Annual payments of the loan is based on 50% of residual receipts. Payments shall be applied first against interest and then principal. All principal and accrued interest on the loan is due in full on the earlier of a) date of unauthorized transfer of property, b) date of		

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 – NOTES PAYABLE (continued)

default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, accrued interest was \$23,375 and \$12,515 respectively.

361,976 361,976

Note payable to the City of San Leandro, secured by the deed of trust for a CCT property. The note bears simple interest of 3% per annum and is due in full in 2069. Annual payments of the loan is based on 50% of Surplus Cash. The full amount of principal and accrued interest is payable at the earlier of a) date of unauthorized transfer of property, b) date of default, or c) expiration of the term of the loan. As of June 30, 2016 and 2015, accrued interest was \$5,250 and \$2,250, respectively.

100,000 100,000

Total	20,513,911	20,340,392
Less: current portion	<u>(1,225,147)</u>	<u>(1,304,812)</u>
Long-term portion	<u>\$ 19,288,764</u>	<u>\$ 19,035,580</u>

The estimated future principal payments of long term debt are as follows for the years ended June 30:

2017		\$ 1,225,147
2018		1,300,550
2019		1,378,023
2020		1,461,830
2021		1,550,686

NOTE 9 – LINE OF CREDIT

HCEB established a line of credit of \$34,000 with Wells Fargo bank during fiscal year 2008. The balance outstanding was \$24,857 and \$28,000 at June 30, 2016 and 2015, respectively. The line of credit is unsecured and the interest rate was at 12% at June 30, 2016.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available to purchase, rehab and maintain two homes for developmentally disabled individuals in Concord and Oakland, California.

NOTE 11 – CONCENTRATION OF CREDIT RISK

As of June 30, 2016, ICEB maintained a balance for the Debt Reserve with US Bank that exceeds the \$250,000 Federal Deposit Insurance Corporation limit by approximately \$1,791,760. These funds are held, controlled and invested by the bondholders who assume all risks associated with these reserves.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 12 – RETIREMENT PLAN

HCEB established an IRC 403 (b) retirement plan covering all employees from date of hire. HCEB does not contribute to the plan.

NOTE 13 – OPERATING LEASES

In March 2011 HCEB and Alegria Community Living (ACL) entered into a lease agreement for office space. The lease was shared with each paying one-half of the total rent of \$5,672 of which HCEB's share was \$2,836 per month. Parking spaces are also rented at a cost which varies based on location of each parking space and the number rented. In February 2016, HCEB and ACL moved to a new location and entered into a lease agreement that commenced in February 2016 and ends in January 2023. The base rent shall be adjusted by the change, if any, by the consumer price index. HCEB's share is one-half of the future lease costs. Rental expense for the years ended June 30, 2016 and 2015 was \$41,059 and \$38,756, respectively.

Future minimum lease commitments are estimated as follows for the year ending June 30:

2017	37,020
2018	37,020
2019	37,020
2020	37,020
2021	37,020

ICEB entered into individual lease agreements with service providers to operate the homes for the benefit of persons with developmental disabilities. The Long-Term Residency Lease Agreements are effective from the date of acceptance of the renovations on each property for seventeen years or eighteen months after the debt has been repaid, whichever is later. Rent is based on several variable amounts including the amount of debt service, tax and insurance impounds replacement reserve requirements, and other operating costs. As a result, future minimum lease payments cannot be determined. RCEB has agreed to provide funds to service providers for all rent, including any adjustments as required. Ownership does not transfer at the end of the lease.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Lease Assurance Covenants, Conditions and Restrictions and Memorandum of Agreement and Lease stipulate that the 15 homes owned by ICEB are restricted in use for very low-income individuals with developmental disabilities in perpetuity. However, it is not the responsibility of ICEB or HCEB to determine income eligibility.

HCEB along with Satellite has provided loan guarantees in the amount of \$1,210,493 for its sponsored project, LSH. The loan is due in annual installments based on residual receipts with final payment due during the HCEB's fiscal year ended June 30, 2060 unless the loan is reset. HCEB would be obligated to perform under this guarantee if LSH failed to pay principal and interest payments to the lender when due or is in default with certain regulatory agreement. Including accrued interest, the maximum potential amount of future (undiscounted) payments under this guarantee would be \$1,329,778.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

However, if HCEB were required to honor the guarantee, it would be entitled to property owned by LSH that collateralizes the loan.

HCEB is also the responsible party for a loan in the amount of \$825,000 related to the building of the Lincoln Street Housing project. The loan is due in annual installments based on residual receipts with interest and principal due in full in September 2060. HCEB may be made to assume this loan in case of default by LSH as listed in the loan agreement. Including accrued interest, the maximum potential amount of future (undiscounted) payments would be \$943,101. However, if HCEB were required to assume this loan, it would be entitled to property owned by LSH that collateralizes the loan.

Management believes that the likelihood of funding a material amount of any of the guarantees is remote and therefore no amount has been recognized on HCEB's financial statements for this guarantee liability.

The City of Emeryville Redevelopment Agency (RDA) Regulatory Agreement between RDA and HCEB is in effect for the property owned by Magnolia for 55 years from the date the owner obtained a final certificate of occupancy from the City of Emeryville building division. The property owned by

Magnolia is subject to restrictions limiting their use as housing for the developmentally disabled and that the project units are rent-restricted and occupied and affordable to very low income households.

The County of Alameda (County) Regulatory Agreement and Declaration of Restrictive Covenants (the "Agreement") between the County and Magnolia is in effect for the property owned by Magnolia for 59 years from the date of the Agreement. The property owned by Magnolia is subject to restrictions that it be maintained and operated in accordance with restrictions concerning affordability, operation, and maintenance of the development.

The MHSA CalHFA Regulatory Agreements between CalHFA and Ashland is in effect for the properties owned by Ashland from the date of the recording of the agreements until the later of: (i) payment in full of the MHSA permanent loan; or (ii) twenty (20) years. The properties owned by Ashland are subject to restrictions that they be maintained and operated as housing for persons who are homeless or at risk of homelessness and who have a mental illness in accordance with California Welfare & Institutions as defined by the State of California.

The loan agreement between the City of Livermore and Ashland bears simple interest at 3%. In the event of default, interest on the loan shall be to accrue as of the date of the default and, continuing until such time as the loan is repaid in full or the default is cured, at the default rate of the lesser of 10% compounded annually, or the highest rate permitted by law (the "default Rate").

The County of Alameda (County) Regulatory Agreements and Declaration of Restrictive Covenants (agreements) between the County and Ashland is in effect for the properties owned by Ashland for 59 years from the date of the agreements. The properties owned by Ashland are subject to restrictions that they be maintained and operated in accordance with restrictions concerning affordability, operation, and maintenance of the development.

The County of Alameda (County) Regulatory Agreements and Declaration of Restrictive Covenants (agreements) between the County and CCT is in effect for the properties owned by CCT for 59 years from the date of the agreements. The properties owned by CCT are subject to restrictions that they

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

be maintained and operated in accordance with restrictions concerning affordability, operation, and maintenance of the development.

The Regulatory Agreement and Declaration of Covenants and Restrictions (agreement) between the Redevelopment Agency of the City of Livermore and Tri Valley BMR, LLC is in effect for the property owned by Tri Valley for 55 years from the date of the agreement. The property owned by Tri Valley is subject to restrictions that it be used as a rental unit for very low-income households with a developmental disability.

The Fairview property is subject to restrictions that it be used as rental units for very low-income persons with development disabilities. Such use shall remain in effect in perpetuity.

HCEB has entered into an Owner Participation Agreement with Housing Authority of the City of Alameda, as land owner, the Community Improvement Commission of the City of Alameda and Satellite to develop an underused property to provide housing to very low income residents with developmental disabilities. In January 2013, HCEB transferred its interest to a limited partnership which assumed all assets and debt.

NOTE 15 – GOING CONCERN

HCEB has experienced difficulty in obtaining sufficient unrestricted funds to provide for working capital. This creates an uncertainty about HCEB and Affiliates ability to continue as a going concern. Management is developing plans to increase unrestricted net assets through third-party property management and housing contracts. The ability of HCEB and Affiliates to continue as a going concern is dependent on the success of this effort. The financial statements do not include any adjustments that might be necessary if HCEB and Affiliates is unable to continue as a going concern.

NOTE 16 – SUBSEQUENT EVENTS

From September through December 2016, HCEB acquired five properties in the East Bay in California, which provides housing for very low income individuals with disabilities.

The company has evaluated subsequent events through October 24, 2017, the date of which the financial statements were available to be issued.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

INDEX TO SUPPLEMENTARY INFORMATION

Consolidating Statement of Financial Position.....	25
Consolidating Statement of Activities.....	26

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

	HCEB	ICEB	MHCO	Magnolia	Ashland	Fairview	TriValley	CCT EB	Eliminations	Consolidated Total
ASSETS										
Current Assets:										
Cash and cash equivalents	\$ -	\$ 3,495	\$ 29,914	\$ 8,944	\$ 295	\$ 480	\$ 2,991	\$ 470	\$ (46,589)	\$ -
Restricted cash	81,456	-	3,477	-	-	-	-	-	-	84,933
Related party receivable	68,123	-	242,895	-	45	-	-	-	(273,342)	37,721
Property maintenance receivable	-	181,787	-	-	-	-	-	-	-	181,787
Other receivables	70,180	-	7,025	(400)	39,325	-	-	-	-	116,130
Prepaid expenses	5,874	-	-	-	6,278	-	-	-	-	12,152
Total current assets	225,633	185,282	283,311	8,544	45,943	480	2,991	470		432,723
Restricted Deposits										
Debt service reserve	-	2,041,760	-	-	-	-	-	-	-	2,041,760
Replacement reserves	-	266,621	-	12,000	55,984	18,281	-	1,965	-	354,851
Operating reserves	-	-	-	18,598	37,736	-	-	3,192	-	59,526
Tax and insurance impound	-	353,865	-	-	-	21,772	-	834	-	376,471
Tenant security deposits	-	-	-	3,006	-	-	-	112	-	3,118
Investments	-	-	94,728	-	-	-	-	-	-	94,728
Property and equipment, net	2,712	16,637,292	1,352,278	2,157,961	3,236,877	986,792	157,074	1,120,632	-	25,651,618
Deferred costs, net	-	742,391	-	2,826	66,934	-	9,834	-	-	821,985
Deposits	4,000	-	-	-	-	-	-	-	-	4,000
Total assets	\$ 232,345	\$ 20,227,211	\$ 1,730,317	\$ 2,202,935	\$ 3,443,474	\$ 1,027,325	\$ 169,899	\$ 1,127,205		\$ 29,840,780
LIABILITIES AND NET ASSETS										
Current liabilities:										
Cash overdraft	\$ 80,240	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (46,589)	\$ 33,651
Accounts payable and accrued expenses	60,449	22,011	5,290	1,328	42,014	1,465	306	3,384	-	136,247
Related party payable	155,746	109,733	-	395	-	4,047	-	3,421	(273,342)	-
Interest payable - current portion	-	-	-	-	-	-	-	-	-	-
Notes payable - current portion	-	1,153,787	-	11,960	-	52,800	6,600	-	-	1,225,147
Deferred revenue - contribution	-	0	-	0	-	-	-	9,990	-	9,990
Line of credit	24,857	-	-	-	-	-	-	-	-	24,857
Total current liabilities	321,292	1,285,531	5,290	13,683	42,014	58,312	6,906	16,795		1,429,892
Interest payable - net of current portion	-	-	-	110,688	325,836	-	9,239	28,650	-	474,413
Notes payable - net of current portion	-	13,191,220	-	933,899	3,591,573	815,705	151,246	605,121	-	19,288,764
Deferred revenue - contribution	-	-	-	-	-	-	-	551,371	-	551,371
Deferred revenue	-	172,712	-	-	-	-	-	-	-	172,712
Tenant security deposits	-	-	1,567	1,186	6,960	-	384	112	-	10,209
Total liabilities	321,292	14,649,463	6,857	1,059,456	3,966,383	874,017	167,775	1,202,049		21,927,361
Net assets:										
Unrestricted	(170,403)	5,577,748	1,719,983	1,143,479	(522,909)	153,308	2,124	(74,844)	-	7,828,486
Temporarily restricted	81,456	-	3,477	-	-	-	-	-	-	84,933
Total net assets	(88,947)	5,577,748	1,723,460	1,143,479	(522,909)	153,308	2,124	(74,844)		7,913,419
Total liabilities and net assets	\$ 232,345	\$ 20,227,211	\$ 1,730,317	\$ 2,202,935	\$ 3,443,474	\$ 1,027,325	\$ 169,899	\$ 1,127,205		\$ 29,840,780

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	HCEB	ICEB	MHCO	Magnolia	Ashland	Fairview	TriValley	CCT EB	Eliminations	Consolidated Total
Support and revenue:										
Lease income	\$ -	\$ 2,271,376	\$ 69,601	\$ 60,752	\$ 105,166	\$ 146,352	\$ 6,184	\$ 26,655		\$ 2,686,086
Contract income	527,115	-	-	-	-	-	-	-		527,115
Consulting	11,000	-	-	-	-	-	-	-		11,000
Contributions	39,416	-	-	-	-	-	16,288	9,990	(16,288)	49,406
Developer fees	37,317	-	-	-	-	-	-	-		37,317
Management fees	220,299	-	-	-	-	-	-	-	(149,923)	70,376
Maintenance fees	-	84,170	-	-	-	9,300	-	-		93,470
Property tax refunds	-	4,399	3,467	-	-	-	2,518	-		10,384
Interest income	-	139	4,905	-	280	-	-	-		5,324
Other income	2,103	-	-	-	683	-	-	-		2,786
Unrealized loss on investments	-	-	(4,221)	-	-	-	-	-		(4,221)
Unrealized gain on debt reserve	-	10	-	-	-	-	-	-		10
Total support and revenue	837,250	2,360,094	73,752	60,752	106,129	155,652	24,990	36,645		3,489,053
Expenses:										
Program activities:										
Property management	418,776	1,743,205	44,201	130,154	299,341	105,504	22,823	77,809	(149,923)	2,691,890
Housing development services	41,813	-	-	-	-	-	-	-		41,813
Housing services	215,139	-	-	-	-	-	-	-		215,139
Supporting activities:										
Management and general	221,036	19,842	5,970	9,866	8,995	3,105	2,893	6,000	(16,288)	261,419
Fundraising	26,017	-	-	-	-	-	-	-		26,017
Total expenses	922,781	1,763,047	50,171	140,020	308,336	108,609	25,716	83,809		3,236,278
Change in net assets	(85,531)	597,047	23,581	(79,268)	(202,207)	47,043	(726)	(47,164)		252,775
Net assets at beginning of year	(3,416)	4,980,701	1,699,879	1,222,747	(320,702)	106,265	2,850	(27,680)		7,660,644
Net assets at end of year	<u>\$ (88,947)</u>	<u>\$ 5,577,748</u>	<u>\$ 1,723,460</u>	<u>\$ 1,143,479</u>	<u>\$ (522,909)</u>	<u>\$ 153,308</u>	<u>\$ 2,124</u>	<u>\$ (74,844)</u>		<u>\$ 7,913,419</u>

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

<u>Federal Grantor Pass-through Entity Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development:			
Prior year loans for which continued compliance is required:			
Passed-through loan - County of Alameda Community Development Blocks Grants/Entitlement Grants	14.218	None	235,000
Passed-through loan - County of Alameda Community Development Blocks Grants/Entitlement Grants Total CDBG - Entitlement Grants Cluster	14.218	None	<u>125,386</u> <u>360,386</u>
Prior year loans for which continued compliance is required:			
Passed-through loan - County of Alameda Home Investment Partnership Program	14.239	None	570,003
Passed-through loan - County of Alameda Home Investment Partnership Program	14.239	None	200,000
Passed-through loan - City of San Leandro Home Investment Partnership Program Total HOME	14.239	None	<u>100,000</u> <u>870,003</u>
Prior year loans for which continued compliance is required:			
Passed-through loan - County of Alameda Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	504,506
Passed-through loan - City of Livermore Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	361,976
Passed-through loan - City of Livermore Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	207,832
Passed-through loan - County of Alameda Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	183,961
Passed-through loan - County of Alameda Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	170,341
Passed-through loan - County of Alameda Neighborhood Stabilization Program (Recovery Act Funded) Total Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	<u>45,253</u> <u>1,473,869</u>
Passed-through Housing Authority:			
County of Alameda - Section 8 Housing Choice Vouchers	14.871	None	103,813
City of Oakland - Section 8 Housing Choice Vouchers	14.871	None	22,338
County of Contra Costa - Section 8 Housing Choice Vouchers Total Housing Voucher - Cluster	14.871	None	<u>14,623</u> <u>140,774</u>
Total expenditures of federal awards			<u>\$ 2,845,032</u>

See accompanying notes to the schedule of expenditures of federal awards.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of expenditures of federal awards (the schedule) includes the federal award activity of Housing Consortium of the East Bay and Affiliates, under programs of the federal government for the year ended June 30, 2016. 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 Housing Consortium of the East Bay and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Housing Consortium of the East Bay and Affiliates.

NOTE 2– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3– INDIRECT COST RATES

Housing Consortium of the East Bay and Affiliates has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

Financial Statements and Federal Awards Findings:

**Finding 2015-001: CFDA - #14.218 – Passed through the County of Alameda
HOME - #14.239 – Passed through the County of Alameda
Neighborhood Stabilization - #14.256 – Passed through the County of Alameda
and the city of Livermore**

Condition: For the year ended June 30, 2015, the organization did not submit the Single Audit Reporting Package within the nine months after fiscal year-end.

Recommendation: The organization should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the Federal Clearinghouse no later than nine months after fiscal year-end.

Current status: In the future, the organization plans to submit the Single Audit Reporting Package to the Federal Clearinghouse within the nine month period after fiscal year-end.

**Finding 2015-002: CFDA - #14.218 – Passed through the County of Alameda
HOME - #14.239 – Passed through the County of Alameda
Neighborhood Stabilization - #14.256 – Passed through the County of Alameda
and the city of Livermore**

Condition: For the year ended June 30 2015, the organization submitted the annual operating budget for Magnolia to a non-governmental funding source, but did not submit them to the County of Alameda prior to the deadline. For the year ended June 30, 2015, the organization submitted annual operating budgets to CalHFA for the Ashland properties, but did not submit them to the County of Alameda and the City of Livermore prior to the deadline. For the year ended June 30, 2015, the organization did not submit the annual operating budget for the CCT properties to the County of Alameda and the City of Livermore prior to the deadline.

Recommendation: The organization should submit the annual operating budgets to the County of Alameda and the City of Livermore prior to the deadline of the loan agreements.

Current status: In the future, the organization plans to submit the annual operating budgets to the County of Alameda and the City of Livermore prior to the deadline of the loan agreements. Also, the Organization plans to file a request, with the County of Alameda and the City of Livermore, in order to change the due date of the annual operating budget each year to the June 30 date prior to each fiscal year end.

Financial Statements Findings:

Finding 2015-003:

Criteria: The annual required replacement reserve deposits were not made for the following properties for the year ending June 30, 2015:

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

Financial Statements Findings: (continued)

Ashland – Linnea	\$ 2,600
Ashland – Thrush	\$ 1,700
Ashland – Plaza	\$ 1,500
Ashland – Crane	\$ 1,500

Recommendation: The organization should make the required annual replacement reserve deposits by May 1st of each year.

Current status: Upon discovery of not making the payments, the required replacement reserve deposits for the year ending June 30, 2015 were made in May of 2016.

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

Board of Directors
Housing Consortium of the East Bay and Affiliates
Oakland, California

I 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 Housing Consortium of the East Bay and Affiliates, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Housing Consortium of the East Bay and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Consortium of the East Bay and Affiliates' internal control. Accordingly, I do not express an opinion on the effectiveness of the Housing Consortium of the East Bay and Affiliates' internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as item No. 2016-001.

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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies as item No. 2016-002 and 2016-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Consortium of the East Bay and Affiliates' financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item No. 2016-001, 2016-002 and 2016-003.

Housing Consortium of the East Bay and Affiliates' Response to Findings

Housing Consortium of the East Bay and Affiliates' response to the findings identified in my audit is described in the accompanying schedule of findings and question costs. Housing Consortium of the East Bay and Affiliates' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I do not express an opinion on it.

Purpose of Report

The purpose of this report is solely to describe the scope of my 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.

 Mark Muehle, CPA

Burlingame, California
October 24, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Housing Consortium of the East Bay and Affiliates
Oakland, California

Report on Compliance for Each Major Federal Program

I have audited Housing Consortium of the East Bay and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Housing Consortium of the East Bay and Affiliates' major federal programs for the year ended June 30, 2016. Housing Consortium of the East Bay and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Housing Consortium of the East Bay and Affiliates' major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Consortium of the East Bay and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

I believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Housing Consortium of the East Bay and Affiliates' compliance.

Basis for Qualified Opinion on CFDA 14.218-CDBG, CFDA 14.239-HOME, and CFDA 14.256 – Neighborhood Stabilization.

As described in item 2016-001 and 2016-002 in the accompanying schedule of findings and questioned costs, Housing Consortium of the East Bay and Affiliates did not comply with requirements regarding CFDA 14.218-CDBG, CFDA 14.239-HOME, and CFDA 14.256 - Neighborhood Stabilization for Reporting. Compliance with such requirements is necessary, in my opinion, for Housing Consortium of the East Bay and Affiliates to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 14.218-CDBG, CFDA 14.239-HOME, and CFDA 14.256 – Neighborhood Stabilization.

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Housing Consortium of the East Bay and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 14.218-CDBG, CFDA 14.239-HOME, and CFDA 14.256 - Neighborhood Stabilization for Reporting, for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Housing Consortium of the East Bay and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit, I considered Housing Consortium of the East Bay and Affiliates' internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Housing Consortium of the East Bay and Affiliates' internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiency.

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. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-001 to be material weaknesses.

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. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-002 to be significant deficiency.

Housing Consortium of the East Bay and Affiliates' response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit Housing Consortium of the East Bay and Affiliates' response and, accordingly, I express no opinion on the response.

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

Handwritten signature of Mark Muehle, CPA

Burlingame, California
October 24, 2017

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

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?	<u> X </u>	Yes	<u> </u>	No
Significant deficiency (ies) reported? reported	<u> X </u>	Yes	<u> </u>	None

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiency(ies) reported?	<u> X </u>	Yes	<u> </u>	No

Type of auditor’s report issued on compliance for major programs Qualified

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

Identification of major programs: Federal Program or Cluster

CFDA #14.218	Community Develop. Block Grants
CFDA #14.239	Home Invest. Partnership Program
CFDA #14.256	Neighborhood Stabilization Program

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

Auditee qualified as low-risk auditee? Yes X No

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

Section II – Financial Statement Findings

**Finding 2016-001: CDBG - #14.218 – Passed through the County of Alameda
HOME - #14.239 – Passed through the County of Alameda
Neighborhood Stabilization - #14.256 – Passed through the County of Alameda
and the city of Livermore**

Criteria: Office of Management Budget (OMB) Uniform Guidance, *Audits of States, Local Government, and Non-Profit Organizations*, requires the organization to submit its Single Audit Reporting Package to the Federal Clearinghouse no later than nine months after fiscal year-end.

Condition: For the year ended June 30, 2016, the organization did not submit the Single Audit Reporting Package within the nine months after fiscal year-end.

Cause: The organization did not meet the filing deadline for submission of the Single Audit Reporting Package.

Context: The submission of the Single Audit Reporting Package did not meet the filing deadline.

Effect: The Single Audit Reporting Package was submitted past the deadline.

Recommendation: The organization should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the Federal Clearinghouse no later than nine months after fiscal year-end.

Views of Responsible Officials and Planned Corrective Actions: In the future, the organization plans to submit the Single Audit Reporting Package to the Federal Clearinghouse within the nine month period after fiscal year-end.

**Finding 2016-002: CDBG - #14.218 – Passed through the County of Alameda
HOME - #14.239 – Passed through the County of Alameda
Neighborhood Stabilization - #14.256 – Passed through the County of Alameda
and the city of Livermore**

Criteria: Per the loan agreements, the organization is required to provide an annual operating budget to the County of Alameda for the operations of the Magnolia property, and to the County of Alameda and the City of Livermore for the operations of the Ashland and CCT properties.

Condition: For the year ended June 30 2016, the organization submitted the annual operating budget for Magnolia to a non-governmental funding source, but did not submit them to the County of Alameda prior to the deadline. For the year ended June 30, 2016, the organization submitted annual operating budgets to CalHFA for the Ashland properties, but did not submit them to the County of Alameda and the City of Livermore prior to the deadline. For the year ended June 30, 2016, the organization did not submit the annual operating budget for the CCT properties to the County of Alameda and the City of Livermore prior to the deadline.

Cause: The organization was aware that the annual operating budgets were to be submitted to the County of Alameda and the City of Livermore, but did not submit them prior to the deadline.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

Section II – Financial Statement Findings (Continued)

Context: The annual operating budgets for the following year end were not submitted to the County of Alameda and the City of Livermore prior to the deadline.

Effect: The County of Alameda and the City of Livermore did not receive the annual operating budgets from the organization prior to the deadline.

Recommendation: The organization should submit the annual operating budgets to the County of Alameda and the City of Livermore prior to the deadline of the loan agreements.

Views of Responsible Officials and Planned Corrective Actions: In the future, the organization plans to submit the annual operating budgets to the County of Alameda and the City of Livermore prior to the deadline of the loan agreements. Also, the Organization plans to file a request, with the County of Alameda and the City of Livermore, in order to change the due date of the annual operating budget each year to the June 30 date prior to each fiscal year end.

Finding 2016-003:

Criteria: Per the CalHFA regulatory agreements, the organization is required to make annual replacement reserve deposits for the Ashland properties.

Condition: The annual required replacement reserve deposits were not made for the following properties for the year ending June 30, 2016:

Ashland – Linnea	\$ 2,600 annual deposit
Ashland – Thrush	\$ 1,700 annual deposit
Ashland – Plaza	\$ 1,500 annual deposit
Ashland – Crane	\$ 1,500 annual deposit
Ashland – McLeod	\$ 5,000 initial deposit and \$1,500 annual deposit

Cause: The organization overlooked the annual required replacement reserve requirement.

Context: The CalHFA regulatory agreements specify that the annual required replacement reserve deposits are due on May 1st of each year for Linnea, Thrush, Plaza, and Crane. The McLeod CalHFA regulatory agreement specifies that the funding of the replacement reserve for McLeod be done monthly in advance.

Effect: The required replacement reserve deposits were not made.

Recommendation: The organization should make the required replacement reserve deposits by the due dates for each property.

Views of Responsible Officials and Planned Corrective Actions: In the future, the organization plans to make the required replacement reserve deposits by the due dates for each property. The required deposits for the year ending June 30, 2016 were made during the June 30, 2017 year end.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

Section III –Federal Award Findings and Questioned Costs

Finding 2016-001 – See Section II for Findings

Questioned Costs: None

Finding 2016-002 – See Section II for Findings

Questioned Costs: None

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2016

Housing Consortium of the East Bay, respectfully submits the following corrective action plan for the year ending June 30, 2016.

Findings – Financial Statement Audit

Finding 2016-001: Material Weakness

Finding: the organization did not submit the Single Audit Reporting Package within the nine months after fiscal year-end.

Recommendation: The organization should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the Federal Clearinghouse no later than nine months after fiscal year-end.

Action taken: In the future, the organization plans to submit the Single Audit Reporting Package to the Federal Clearinghouse within the nine month period after fiscal year-end.

Finding 2016-002: Significant Deficiency

Finding: The organization did not provide an annual operating budget prior to the deadline of the loan agreement to the County of Alameda for the operations of Magnolia. Also, the organization did not provide an annual operating budget prior to the deadline of the loan agreements to the County of Alameda and the City of Livermore for the Ashland and CCT properties.

Recommendation: The organization should submit the annual operating budgets to the County of Alameda and the City of Livermore by the deadline of the loan agreements.

Action taken: In the future, the organization plans to submit the annual operating budgets to the County of Alameda and the City of Livermore prior to the deadline of the loan agreements. Also, the Organization plans to file a request, with the County of Alameda and the City of Livermore, in order to change the due date of the annual operating budget each year to the June 30 date prior to each fiscal year end.

Finding 2016-003: Significant Deficiency

Finding: The annual required replacement reserve deposits were not made for the following properties for the year ending June 30, 2016:

Ashland – Linnea	\$ 2,600
Ashland – Thrush	\$ 1,700
Ashland – Plaza	\$ 1,500
Ashland – Crane	\$ 1,500
Ashland – McLeod	\$ 5,000 initial deposit and \$1,500 annual deposit

Recommendation: The organization should make the required replacement reserve deposits by the due dates for each property.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2016

Findings – Financial Statement Audit (continued)

Action taken: In the future, the organization plans to make the required replacement reserve deposits by the respective due dates for each property. The required deposits for the year ending June 30, 2016 were made during the June 30, 2017 year end.

Findings – Federal Award Programs Audit

Department of Housing and Urban Development:

Finding 2016-001: CFDA #14.218, CFDA #14.239, CFDA #14.256

See Findings – Financial Statement Audit

Finding 2016-002: CFDA #14.218, CFDA #14,239, CFDA #14.256

See Findings – Financial Statement Audit