

Housing Consortium of the East Bay and Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 16 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 16. 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 28 and 29 is presented for additional analysis and is not required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 my 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 March 27, 2018, 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
March 27, 2018

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 35,162	\$ -
Restricted cash (Note 2)	62,206	84,933
Related party receivable (Note 3)	60,681	37,721
Property maintenance receivable (Note 4)	21,254	181,787
Property construction receivable (Note 6)	297,200	-
Other receivables	84,963	116,130
Prepaid expenses	12,051	12,152
Total current assets	<u>573,517</u>	<u>432,723</u>
Restricted deposits (Note 2)		
Debt service reserve	2,043,896	2,041,760
Replacement reserves	414,225	354,851
Operating reserves	59,707	59,526
Property tax and insurance impounds	415,462	376,471
Tenant security deposits	3,684	3,118
Investments (Note 5)	103,736	94,728
Property and equipment, net (Note 7)	29,688,310	25,651,618
Deferred costs, net (Note 8)	772,442	821,985
Deposits	4,000	4,000
Total assets	<u>\$ 34,078,979</u>	<u>\$ 29,840,780</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Cash overdraft	\$ -	\$ 33,651
Accounts payable and accrued expenses	190,174	136,247
Property construction payable (Note 6)	195,117	-
Notes payable - current portion (Note 9)	1,363,780	1,225,147
Deferred revenue (Note 11)	56,339	9,990
Line of credit (Note 10)	132,680	24,857
Total current liabilities	<u>1,938,090</u>	<u>1,429,892</u>
Interest payable - net of current portion (Note 9)	622,327	474,413
Notes payable - net of current portion (Note 9)	21,126,978	19,288,764
Deferred revenue (Note 11)	2,093,623	724,083
Tenant security deposits	11,819	10,209
Total liabilities	<u>25,792,837</u>	<u>21,927,361</u>
Net assets:		
Unrestricted	8,223,936	7,828,486
Temporarily restricted (Note 12)	62,206	84,933
Total net assets	<u>8,286,142</u>	<u>7,913,419</u>
Total liabilities and net assets	<u>\$ 34,078,979</u>	<u>\$ 29,840,780</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, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Lease income	\$ 2,787,132	\$ -	\$ 2,787,132
Contract income	512,898	-	512,898
Consulting	-	-	-
Contributions	47,173	-	47,173
Developer fees	318,903	-	318,903
Management and bookkeeping fees	75,214	-	75,214
Maintenance fees	132,927	-	132,927
Interest income	4,858	-	4,858
Other income	11,762	-	11,762
Unrealized gains on investments	9,008	-	9,008
Unrealized gains on debt reserve	-	-	-
	-	-	-
Net assets released from restrictions	22,727	(22,727)	-
Total support and revenue	3,922,602	(22,727)	3,899,875
Expenses:			
Program activities:			
Property management	2,711,629	-	2,711,629
Housing development services	151,132	-	151,132
Housing services	256,010	-	256,010
Supporting activities:			
Management and general	395,846	-	395,846
Fundraising	12,535	-	12,535
Total expenses	3,527,152	-	3,527,152
Change in net assets	395,450	(22,727)	372,723
Net assets at beginning of year	7,828,486	84,933	7,913,419
Net assets at end of year	\$ 8,223,936	\$ 62,206	\$ 8,286,142

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 refund	10,384	-	10,384
Interest income	5,324	-	5,324
Other income	2,786	-	2,786
Unrealized losses on investments	(4,221)	-	(4,221)
Unrealized gains 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 CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 372,723	\$ 252,775
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	679,226	679,340
Unrealized (gains) losses on investments	(9,008)	4,221
Unrealized gains on debt reserve	-	(10)
(Increase) decrease in assets:		
Related party receivable	(22,960)	(22,446)
Property tax receivable	-	107,901
Property maintenance receivable	160,533	(17,788)
Other receivables	31,167	(3,306)
Prepaid expenses	101	(4,124)
Deposits	-	(808)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	53,927	73,839
Interest payable	147,914	129,554
Tenant security deposits	1,610	1,155
Net cash provided by operating activities	<u>1,415,233</u>	<u>1,200,303</u>
Cash flows from investing activities:		
Purchases of fixed assets	(1,232)	(19,826)
Construction in progress - net	(160,332)	-
Decrease in restricted cash	22,727	21,694
Net increase in restricted deposits	(101,248)	(64,935)
Net cash used in investing activities	<u>(240,085)</u>	<u>(63,067)</u>
Cash flows from financing activities:		
Payments of notes payable	(1,214,158)	(1,150,943)
Payments of loan fees	-	(2,974)
Increase from line of credit - construction in progress	110,631	-
Decrease from credit line - other	(2,808)	(3,143)
Net cash used in financing activities	<u>(1,106,335)</u>	<u>(1,157,060)</u>
Net increase (decrease) in cash and cash equivalents	68,813	(19,824)
Cash (overdraft) at beginning of year	<u>(33,651)</u>	<u>(13,827)</u>
Cash and cash equivalents (overdraft) at end of year	<u>\$ 35,162</u>	<u>\$ (33,651)</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 978,838</u>	<u>\$ 1,069,014</u>
Noncash investing and financing activities:		
Assets acquired by assuming long-term debt	<u>\$ 4,118,512</u>	<u>\$ 1,307,989</u>
Loan financing fees	<u>\$ 30,539</u>	<u>\$ 6,483</u>
Contributions recognized from interest free loans	<u>\$ 41,525</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, 2017

	2017							
	Program Activities				Supporting Activities			
	Property Management	Housing Development	Housing Services	Total Program Services	Management and General	Fundraising	Shared Costs	Total
		Services						
Salaries and employer taxes	\$ 314,327	\$ 111,061	\$ 56,417	\$ 481,805	\$ 231,150	\$ 7,061	\$ -	\$ 720,016
Employee benefits	54,482	19,250	9,779	83,511	40,065	1,224	-	124,800
Audit and accounting	-	-	-	-	61,313	-	-	61,313
Legal	-	-	-	-	-	-	5,840	5,840
Office expense	-	-	-	-	1,747	-	20,404	22,151
Advertising	-	-	-	-	-	-	706	706
Telephone	-	-	-	-	1,983	-	10,602	12,585
Mileage and travel	-	-	-	-	-	-	8,526	8,526
Conferences and training	-	-	-	-	-	-	3,210	3,210
Postage	-	-	-	-	-	-	2,114	2,114
Printing	-	-	-	-	-	2,926	933	3,859
Program expenses	41,633	-	147,703	189,336	-	-	-	189,336
Rent and occupancy	-	-	-	-	-	-	38,093	38,093
Utilities	43,995	-	-	43,995	-	-	-	43,995
Event, facilities and planner	-	-	-	-	-	-	-	-
Event, food & supplies	-	-	-	-	-	-	-	-
Event, entertainment	-	-	-	-	-	-	-	-
Property maintenance	229,034	-	-	229,034	-	-	-	229,034
Insurance	56,992	-	-	56,992	-	-	29,168	86,160
Taxes and licenses	78,370	-	-	78,370	13,397	-	278	92,045
Interest	1,154,988	-	31,536	1,186,524	-	-	3,121	1,189,645
Service fees and bank charges	-	-	-	-	2,517	-	5,639	8,156
Miscellaneous	-	-	-	-	-	-	6,342	6,342
Overhead allocation	58,925	20,821	10,575	90,321	43,331	1,324	(134,976)	-
Total before depreciation and amortization	2,032,746	151,132	256,010	2,439,888	395,503	12,535	-	2,847,926
Depreciation and amortization	678,883	-	-	678,883	343	-	-	679,226
Total	\$ 2,711,629	\$ 151,132	\$ 256,010	\$ 3,118,771	\$ 395,846	\$ 12,535	\$ -	\$ 3,527,152

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							
	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	\$ 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	<u>\$ 2,691,890</u>	<u>\$ 41,813</u>	<u>\$ 215,139</u>	<u>\$ 2,948,842</u>	<u>\$ 261,419</u>	<u>\$ 26,017</u>	<u>\$ -</u>	<u>\$ 3,236,278</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, 2017 AND 2016

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 providing housing, housing development, planning, resource 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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 AND 2016

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

As of June 30, 2017, HCEB and Affiliates held restricted funds for the maintenance of a home for developmentally disabled individuals located in Walnut Creek, California. As of June 30, 2016, HCEB and Affiliates held restricted funds for the maintenance of two homes for developmentally disabled individuals located in the California cities of Walnut Creek and Oakland.

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, Tax Refund Account

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, 2017 AND 2016

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 reflect 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. Renovation costs in progress are included in Construction in Progress. 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 improvements	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.

Deferred Revenue

The benefit of government loans at below-market rate of interest is treated as deferred revenue and is recognized as contribution income over the remaining term of the loans. Also included in deferred revenue are reimbursements from RCEB for hard and holding costs of property renovation.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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 2016 financial statements were reclassified to conform to the 2017 presentation.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017 and 2016, HCEB earned management and bookkeeping fees from LSH totaling \$10,716 for each year.

The amount receivable at June 30, 2017 and 2016 is summarized below:

	<u>2017</u>	<u>2016</u>
LFGH	\$ 53,786	\$ 32,721
LSH	<u>6,895</u>	<u>5,000</u>
	<u>\$ 60,681</u>	<u>\$ 37,721</u>

NOTE 4 – PROPERTY TAX AND MAINTENANCE RECEIVABLE

ICEB submitted requests to RCEB for reimbursement of certain property maintenance items as part of the leasing costs of the properties. As of June 30, 2017 and 2016, property maintenance receivable from RCEB totaled \$21,254 and \$181,787, respectively.

NOTE 5 – INVESTMENTS

Investments at June 30, 2017 and 2016 are presented below. The mutual funds are considered to be Level 1 inputs.

	<u>Total (Level 1)</u>	
	<u>2017</u>	<u>2016</u>
Mutual funds	<u>\$ 103,736</u>	<u>\$ 94,728</u>

For the year ended June 30, 2017, unrealized gains on investments totaled \$9,008. For the year ended June 30, 2016, unrealized losses on investments totaled \$4,221. All gains and losses are reported in the statement of activities and are included in unrestricted net assets.

NOTE 6 – PROPERTY RENOVATION

During the June 30, 2017 year end, HCEB purchased five properties for the purpose of providing housing for low income individuals with developmental disabilities. As of June 30, 2017, all five properties were under construction in progress. As of June 30, 2017, construction renovation costs incurred by HCEB were \$195,117. Funding for construction and holding costs is based upon RCEB approved budgets that may not fully reflect the actual costs to HCEB. The ultimate effect this arrangement cannot be known until construction is complete and costs are certified with RCEB. The completion of all properties is planned to take place during the year ending June 30, 2018. As of June 30, 2017, the amount receivable for property renovation costs was \$297,200.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 and 2016 is summarized as follows:

Affiliate	2017						
	Land	Building and Improvements	Construction in Progress	Furniture and Equipment	Total	Accumulated Depreciation	Net Fixed Assets
HCEB	\$ 2,415,392	\$ 1,718,542	\$ 500,667	\$ 10,360	\$ 4,644,961	\$ (7,991)	\$ 4,636,970
ICEB	3,353,500	16,413,040	-	19,941	19,786,481	(3,564,066)	16,222,415
MHCO	825,032	974,817	-	3,207	1,803,056	(467,037)	1,336,019
Magnolia	153,171	2,251,681	-	55,388	2,460,240	(361,115)	2,099,125
Ashland	1,071,627	2,323,812	-	48,557	3,443,996	(270,720)	3,173,276
Fairview	322,698	753,582	-	-	1,076,280	(108,327)	967,953
Tri Valley	-	176,755	-	2,044	178,799	(26,349)	152,450
CCT	345,325	821,157	-	-	1,166,482	(66,380)	1,100,102
Total	\$ 8,486,745	\$ 25,433,386	\$ 500,667	\$ 139,497	\$ 34,560,295	\$ (4,871,985)	\$ 29,688,310

Affiliate	2016						
	Land	Building and Improvements	Construction in Progress	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	2,323,812	-	47,325	3,442,764	(205,887)	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	\$ 6,071,353	\$ 23,714,845	\$ -	\$ 138,265	\$ 29,924,463	\$ (4,272,845)	\$ 25,651,618

NOTE 8 – DEFERRED COSTS

Deferred costs at June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Bond acquisition costs	\$ 1,156,984	\$ 1,156,984
Loan acquisition costs	148,269	117,730
	1,305,253	1,274,714
Less: accumulated amortization	(532,811)	(452,729)
	\$ 772,442	\$ 821,985

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – NOTES PAYABLE

Long term debt at June 30, 2017 and 2016, respectively, is secured by the property unless noted and consists of:

	<u>2017</u>	<u>2016</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.	\$ 9,511,114	\$ 10,358,064
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.	3,680,106	3,986,943
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, 2017 and 2016, accrued interest was \$135,198 and \$110,688, 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.	129,481	140,856
Note payable to CalHFA, secured by the deed of trust for an 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, 2017, and 2016, accrued interest was \$65,178 and \$55,443, respectively.	324,480	324,480
Note payable to CalHFA, secured by the deed of trust for an 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, 2017 AND 2016

NOTE 9 – NOTES PAYABLE (continued)

	<u>2017</u>	<u>2016</u>
applied first to interest. The note is due in full in 2031. As of June 30, 2017, and 2016, accrued interest was \$73,621 and \$60,642, respectively.	432,640	432,640
Note payable to CalHFA, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$64,772 and \$51,485, respectively.	442,880	442,880
Note payable to CalHFA, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$45,766 and \$35,959, respectively.	326,900	326,900
Note payable to the County of Alameda, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$34,286 and \$29,176, respectively.	170,341	170,341
Note payable to the County of Alameda, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$31,375 and \$25,856, respectively.	183,961	183,961

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – NOTES PAYABLE (continued)

	<u>2017</u>	<u>2016</u>
<p>Note payable to the County of Alameda, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$24,955 and \$19,836, respectively.</p>	170,639	170,639
<p>Note payable to the City of Livermore, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$29,097 and \$22,862, respectively.</p>	207,832	207,832
<p>Note payable to CalHFA, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$31,413 and \$11,963, respectively.</p>	648,325	648,325
<p>Note payable to the City of Livermore, secured by the deed of trust for an 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, 2017 and 2016, accrued interest was \$33,120 and \$12,631, respectively.</p>	683,575	683,575

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – NOTES PAYABLE (continued)

	<u>2017</u>	<u>2016</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.	89,596	97,068
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, 2017 and 2016, accrued interest was \$11,063 and \$9,239, 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.	812,904	868,505
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 \$551,371 (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, 2017 and 2016, the deferred contribution was \$551,371 and \$561,361, respectively.	153,135	143,145
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, 2017 AND 2016

NOTE 9 – NOTES PAYABLE (continued)

	<u>2017</u>	<u>2016</u>
default, or c) expiration of the term of the loan. As of June 30, 2017 and 2016, accrued interest was \$34,236 and \$23,375, 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, 2017 and 2016, accrued interest was \$8,250 and \$5,250, respectively.	100,000	100,000
Note payable to CDFI Clearinghouse, secured by the deed of trust on the HCEB Woodland property. The note bears interest of 5.75% per annum. Monthly payment of principal and interest of \$2,402. The note is due in full in 2031.	279,479	-
Note payable to CDFI Clearinghouse, secured by the deed of trust on the HCEB Trifari property. The note bears interest of 5.75% per annum. Monthly payment of principal and interest of \$3,416. The note is due in full in 2031.	397,545	-
Note payable to CDFI Clearinghouse, secured by the deed of trust on the HCEB Las Juntas property. The note bears interest of 5.75% per annum. Monthly payment of principal and interest of \$3,639. The note is due in full in 2031.	426,614	-
Note payable to CDFI Clearinghouse, secured by the deed of trust on the HCEB School Court property. The note bears interest of 5.75% per annum. Monthly payment of principal and interest of \$3,105. The note is due in full in 2041.	485,245	-
Note payable to CDFI Clearinghouse, secured by the deed of trust on the HCEB Kelok property. The note bears interest of 5.75% per annum. Monthly payment of principal and interest of \$2,623. The note is due in full in 2042.	410,496	-

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – NOTES PAYABLE (continued)

	<u>2017</u>	<u>2016</u>
<p>Note payable to the Department of Developmental Services, secured by the deed of trust for the HCEB Woodland property. The note bears no interest, net of unamortized discount of \$229,325 (effective interest rate, 3%), with face amount of \$420,000. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2046, after which, if the loan is not in default, DDS shall forgive this Note in full and consider it to be repaid. As of June 30, 2017, the deferred contribution was \$229,325.</p>	190,675	-
<p>Note payable to the Department of Developmental Services, secured by the HCEB Trifari property. The note bears no interest, net of unamortized discount of \$136,092 (effective interest rate, 3%), with face amount of \$420,000. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2031, after which, if the loan is not in default, DDS shall forgive this Note in full and consider it to be repaid. As of June 30, 2017, the deferred contribution was \$136,092.</p>	283,908	-
<p>Note payable to the Department of Developmental Services, secured by the deed of trust for the HCEB Las Juntas property. The note bears no interest, net of unamortized discount of \$ 144,598 (effective interest rate, 3%), with face amount of \$425,000. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2041, after which, if the loan is not in default, DDS shall forgive this Note in full and consider it to be repaid. As of June 30, 2017, the deferred contribution was \$144,598.</p>	280,402	-
<p>Note payable to the Department of Developmental Services, secured by the deed of trust for the HCEB School Court property. The note bears no interest, net of unamortized discount of \$216,097 (effective interest rate, 3%), with face amount of \$425,000. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2041, after which, if the loan is not in default, DDS shall forgive this Note in full and consider it to be repaid. As of June 30, 2017, the deferred contribution was \$216,097.</p>	208,903	-

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 – NOTES PAYABLE (continued)

	<u>2017</u>	<u>2016</u>
Note payable to the Department of Developmental Services, secured by the deed of trust for the HCEB Kelok property. The note bears no interest, net of unamortized discount of \$243,175 (effective interest rate, 3%), with face amount of \$475,000. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2041, after which, if the loan is not in default, DDS shall forgive this Note in full and consider it to be repaid. As of June 30, 2017, the deferred contribution was \$243,175.	231,825	-
Total	22,490,758	20,513,911
Less: current portion	<u>(1,363,780)</u>	<u>(1,225,147)</u>
Long-term portion	<u>\$ 21,126,978</u>	<u>\$ 19,288,764</u>

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

2018	\$ 1,363,780
2019	1,449,145
2020	1,537,042
2021	1,630,222
2022	1,734,073

NOTE 10 – LINE OF CREDIT

During the year ended June 30, 2017, HCEB established a line of credit of \$300,000 with Bank of the West to be used for the construction costs of the five properties purchased by HCEB. The line of credit is secured by a \$300,000 certificate of deposit included in the ICEB property tax and insurance impound account. The balance outstanding was \$110,632 at June 30, 2017. The interest rate was at 4.75% at June 30, 2017.

HCEB also has a line of credit of \$34,000 with Wells Fargo bank. This line of credit is unsecured. The balance outstanding was \$22,048 and \$24,857 at June 30, 2017 and 2016, respectively. The interest rate was at 12.75% at June 30, 2017.

NOTE 11 – DEFERRED REVENUE

The benefit of 0% (interest-free) government loans is treated as a contribution since it is the lender's intention to make a contribution to the organization by forgoing the market rate of interest. When HCEB and Affiliates is allowed to pay no interest on a loan, the difference between the 0% loan

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 11 – DEFERRED REVENUE (continued)

and the typical market rate for comparable financing arrangements represents a contribution. The loans have requirements which include providing housing for the benefit of persons with developmental disabilities. Upon the receipt of these loans, the contribution is deferred and is recognized as contribution income over the term of the loan.

For the year ending June 30, 2017, HCEB received five 0% loans from the Department of Development Services. The total amount reflected as deferred contributions at time of receipt of the loans was \$1,000,828. For the year ending June 30, 2017 and 2016, contribution income recognized from the 0% loans was \$41,525 and \$9,990, respectively. Also, for the year ending June 30, 2017, HCEB received \$456,586 from RCEB for hard and holding costs for the property renovation of the five properties.

Deferred revenue at June 30, 2017 and 2016 is summarized as follows:

	<u>Contribution from 0% loans</u>	<u>Other</u>	<u>Total</u>
Balance, June 30, 2016	\$ 561,361	\$ 172,712	\$ 734,073
Additions	1,000,828	456,586	1,457,414
Contribution recognized	<u>(41,525)</u>	<u>-</u>	<u>(41,525)</u>
Balance, June 30, 2017	1,520,664	629,298	2,149,962
Less: current portion	<u>(56,339)</u>	<u>-</u>	<u>(56,339)</u>
Long-term portion	<u>\$ 1,464,325</u>	<u>\$ 629,298</u>	<u>\$ 2,093,623</u>

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017, temporarily restricted net assets were available to purchase, rehab and for developmentally disabled individuals in Walnut Creek, California. As of June 30, 2016, temporarily restricted net assets were available to purchase, rehab and maintain two homes for developmentally disabled individuals located in the California cities of Walnut Creek and Oakland.

NOTE 13 – CONCENTRATION OF CREDIT RISK

As of June 30, 2017, ICEB maintained a balance for the Debt Reserve with US Bank that exceeds the \$250,000 Federal Deposit Insurance Corporation limit by approximately \$1,793,896. These funds are held, controlled and invested by the bondholders who assume all risks associated with these reserves.

NOTE 14 – 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. 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. Office rental expense for the years ended June 30, 2017 and 2016 was \$37,554 and \$35,795, respectively.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 14 – OPERATING LEASES (continued)

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

2017	38,000
2018	38,000
2019	38,000
2020	38,000
2021	38,000

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 15 – 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. 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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 15 – COMMITMENTS AND CONTINGENCIES (continued)

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 begin 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 up to 59 years from the date of the agreements. The properties owned by Ashland are subject to restrictions they be maintained and operated in accordance with restrictions concerning affordability, operation, and maintenance of the development. Some of the properties with Neighborhood Stabilization Program (NSP) funds are subject to CDBG requirements.

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 be maintained and operated in accordance with restrictions concerning affordability, operation, and maintenance of the development. In the event of default, the loan can bear interest at 10% per annum.

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.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 15 – COMMITMENTS AND CONTINGENCIES (continued)

In 2016, HCEB purchased five properties in the East Bay, California for the purpose of providing housing for low income individuals with developmental disabilities. Part of the financing for these properties was provided by the Department of Development Services under the Community Placement Program. Under the terms of these loans, HCEB is to provide housing for the benefit of persons with developmental disabilities. In the event of default, the notes shall bear interest at 10% per annum. Funding for construction and holding costs is based upon RCEB approved budgets that may not fully reflect the actual costs to HCEB. The ultimate effect of this arrangement cannot be known until construction is complete and costs are certified with RCEB. The completion of all properties is planned to take place during the year ending June 30, 2018.

NOTE 16 – 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 17 – SUBSEQUENT EVENTS

In November 2017, MHCO obtained a loan of \$200,000 and additionally established a line of credit of \$200,000 from a bank.

The company has evaluated subsequent events through March 27, 2018, 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, 2017

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HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

	HCEB	ICEB	MHCO	Magnolia	Ashland	Fairview	TriValley	CCT EB	Eliminations	Consolidated Total
ASSETS										
Current Assets:										
Cash and cash equivalents	\$ -	\$ 462	\$ 44,162	\$ 1,822	\$ 26,470	\$ 2,435	\$ 533	\$ 661	\$ (41,383)	\$ 35,162
Restricted cash	62,206	-	-	-	-	-	-	-	-	62,206
Related party receivable	66,142	-	278,392	13,000	-	-	-	-	(296,853)	60,681
Property maintenance receivable	-	21,254	-	-	-	-	-	-	-	21,254
Property construction receivable	297,200	-	-	-	-	-	-	-	-	297,200
Other receivables	44,514	1,378	-	-	36,449	-	2,622	-	-	84,963
Prepaid expenses	10,593	-	-	-	1,458	-	-	-	-	12,051
Total current assets	480,655	23,094	322,554	14,822	64,377	2,435	3,155	661	-	573,517
Restricted Deposits										
Debt service reserve	-	2,043,896	-	-	-	-	-	-	-	2,043,896
Replacement reserves	-	309,434	-	12,000	70,935	19,891	-	1,965	-	414,225
Operating reserves	-	-	-	18,598	37,917	-	-	3,192	-	59,707
Property tax and insurance impounds	-	391,377	-	-	-	23,251	-	834	-	415,462
Tenant security deposits	-	-	-	3,006	-	-	-	678	-	3,684
Investments	-	-	103,736	-	-	-	-	-	-	103,736
Property and equipment, net	4,636,970	16,222,415	1,336,019	2,099,125	3,173,276	967,953	152,450	1,100,102	-	29,688,310
Deferred costs, net	30,542	665,259	-	2,528	65,263	-	8,850	-	-	772,442
Deposits	4,000	-	-	-	-	-	-	-	-	4,000
Total assets	\$ 5,152,167	\$ 19,655,475	\$ 1,762,309	\$ 2,150,079	\$ 3,411,768	\$ 1,013,530	\$ 164,455	\$ 1,107,432	-	\$ 34,078,979
LIABILITIES AND NET ASSETS										
Current liabilities:										
Cash overdraft	\$ 41,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (41,383)	\$ -
Accounts payable and accrued expenses	101,107	19,720	5,744	4,069	45,022	5,187	4,787	4,538	-	190,174
Property construction payable	195,117	-	-	-	-	-	-	-	-	195,117
Related party payable	249,168	33,227	-	3,692	946	4,950	723	4,147	(296,853)	-
Notes payable - current portion	67,434	1,219,691	-	12,055	-	57,600	7,000	-	-	1,363,780
Deferred revenue - contribution	46,349	-	-	-	-	-	-	9,990	-	56,339
Line of credit payable	132,680	-	-	-	-	-	-	-	-	132,680
Total current liabilities	833,238	1,272,638	5,744	19,816	45,968	67,737	12,510	18,675	-	1,938,090
Interest payable - net of current portion										
Notes payable - net of current portion	-	-	-	135,198	433,582	-	11,062	42,485	-	622,327
Deferred revenue - contribution	3,127,658	11,971,529	-	922,430	3,591,573	755,304	143,372	615,112	-	21,126,978
Deferred revenue - other	922,945	-	-	-	-	-	-	541,380	-	1,464,325
Tenant security deposits	456,586	172,712	-	-	-	-	-	-	-	629,298
Total liabilities	5,340,427	13,416,879	7,311	1,078,630	4,079,315	823,041	167,140	1,218,330	-	25,792,837
Net assets:										
Unrestricted	(250,460)	6,238,596	1,754,997	1,071,449	(667,549)	190,489	(2,684)	(110,902)	-	8,223,936
Temporarily restricted	62,206	-	-	-	-	-	-	-	-	62,206
Total net assets	(188,254)	6,238,596	1,754,997	1,071,449	(667,549)	190,489	(2,684)	(110,902)	-	8,286,142
Total liabilities and net assets	\$ 5,152,167	\$ 19,655,475	\$ 1,762,309	\$ 2,150,079	\$ 3,411,768	\$ 1,013,530	\$ 164,455	\$ 1,107,432	-	\$ 34,078,979

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	HCEB	ICEB	MHCO	Magnolia	Ashland	Fairview	TriValley	CCTEB	Eliminations	Consolidated Total
Support and revenue:										
Lease income	\$ -	\$2,264,828	\$ 69,600	\$ 63,085	\$ 194,634	\$ 146,678	\$ 6,070	\$ 42,237		\$ 2,787,132
Contract income	512,898	-	-	-	-	-	-	-		512,898
Contributions	36,883	-	300	-	-	-	14,251	9,990	(14,251)	47,173
Developer fees	318,903	-	-	-	-	-	-	-		318,903
Management and bookkeeping fees	227,012	-	-	-	-	-	-	-	(151,798)	75,214
Maintenance fees	-	123,627	-	-	-	9,300	-	-		132,927
Interest income	-	2,160	2,165	-	533	-	-	-		4,858
Other income	2,036	-	-	2,342	4,711	-	2,653	20		11,762
Unrealized gains on investments	-	-	9,008	-	-	-	-	-		9,008
Total support and revenue	<u>1,097,732</u>	<u>2,390,615</u>	<u>81,073</u>	<u>65,427</u>	<u>199,878</u>	<u>155,978</u>	<u>22,974</u>	<u>52,247</u>		<u>3,899,875</u>
Expenses:										
Program activities:										
Property management	427,734	1,720,471	43,176	126,072	323,413	115,605	24,606	82,350	(151,798)	2,711,629
Housing development services	151,132	-	-	-	-	-	-	-		151,132
Housing services	256,010	-	-	-	-	-	-	-		256,010
Supporting activities:										
Management and general	349,628	9,296	6,360	11,385	21,105	3,192	3,176	5,955	(14,251)	395,846
Fundraising	12,535	-	-	-	-	-	-	-		12,535
Total expenses	<u>1,197,039</u>	<u>1,729,767</u>	<u>49,536</u>	<u>137,457</u>	<u>344,518</u>	<u>118,797</u>	<u>27,782</u>	<u>88,305</u>		<u>3,527,152</u>
Change in net assets	(99,307)	660,848	31,537	(72,030)	(144,640)	37,181	(4,808)	(36,058)		372,723
Net assets at beginning of year	(88,947)	5,577,748	1,723,460	1,143,479	(522,909)	153,308	2,124	(74,844)		7,913,419
Net assets at end of year	<u>\$ (188,254)</u>	<u>\$6,238,596</u>	<u>\$1,754,997</u>	<u>\$1,071,449</u>	<u>\$ (667,549)</u>	<u>\$ 190,489</u>	<u>\$ (2,684)</u>	<u>\$(110,902)</u>		<u>\$ 8,286,142</u>

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

<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	14.218	None	<u>125,386</u>
Total CDBG - Entitlement Grants Cluster			<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	14.239	None	<u>100,000</u>
Total HOME			<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)	14.256	None	<u>45,253</u>
Total Neighborhood Stabilization Program (Recovery Act Funded)			<u>1,473,869</u>
Passed-through Housing Authority:			
County of Alameda - Section 8 Housing Choice Vouchers	14.871	None	102,628
City of Oakland - Section 8 Housing Choice Vouchers	14.871	None	19,054
County of Contra Costa - Section 8 Housing Choice Vouchers	14.871	None	<u>14,498</u>
Total Housing Voucher - Cluster			<u>136,180</u>
Total expenditures of federal awards			<u>\$ 2,840,438</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, 2017

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, 2017. 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, 2016

Department of Housing and Urban Development:

**Finding 2016-1: 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, 2016, 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 2016-2: 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 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.

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.

Finding 2016-3:

Condition: For the following properties, the CalHFA regulatory agreements specify that the annual replacement reserve deposits should be made by their respective due dates. For the year ending June 30, 2016, the required replacement reserve deposits were not made.

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2016

Finding 2016-3: (Continued)

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

Current status: The replacement reserve deposits are funded upon the release of the Capitalized Operating Subsidy Reserve (COSR) with CalHFA. The required deposits for the year ending June 30, 2016 were made during the June 30, 2017 year end for the Ashland properties of Linnea, Thrush, Plaza, and Crane. During the June 30, 2017 year end, the COSR requests were made for the Ashland-McLeod property. However, the funding of the replacement reserve was not made as of June 30, 2017 due to the timing delay of the COSR release from CalHFA.

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, 2017, 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 my report thereon dated March 27, 2018.

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 my 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.

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.

My consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during my audit, I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item No. 2017-1, that I consider to be a significant deficiency.

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. 2017-1.

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
March 27, 2018

**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, 2017. 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 which I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my 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 2017-1 in the accompanying schedule of findings and questioned costs, Housing Consortium of the East Bay and Affiliates did not comply with a requirement regarding with 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, 2017.

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 my 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.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, I identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item No. 2017-1, that I consider to be a 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. The signature is written in black ink and includes the letters 'CPA' at the end.

Burlingame, California

March 27, 2018

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

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?	_____	Yes	___X___	No
Significant deficiency (ies) reported? reported	___X___	Yes	_____	None

Noncompliance material to financial statements noted? _____ Yes ___X___ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	___X___	No
Significant deficiency(ies) reported?	___X___	Yes	_____	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, 2017

Section II – Financial Statement Findings

**Finding 2017-1: 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 2017, 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, 2017, 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, 2017, 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.

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. For the year ending June 30, 2018, the annual operating budgets were submitted by their respective deadlines.

Section III –Federal Award Findings and Questioned Costs

Finding 2017-1 – See Section II for Findings

Questioned Costs: None

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2017

Housing Consortium of the East Bay, respectfully submits the following corrective action plan for the year ending June 30, 2017.

Findings – Financial Statement Audit

Finding 2017-1: 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. For the year ending June 30, 2018, the annual operating budgets were submitted by their respective deadlines.

Findings – Federal Award Programs Audit

Department of Housing and Urban Development:

Finding 2017-1: CFDA #14.218, CFDA #14.239, CFDA #14.256