

Housing Consortium of the East Bay and Affiliates

CONSOLIDATED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2019 AND 2018

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

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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, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 consolidated 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 consolidated 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, 2019 and 2018, 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.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 30 and 31 is presented for additional analysis and is not required part of the consolidated 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 December 12, 2019, 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 solely 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 the effectiveness of Housing Consortium of the East Bay and Affiliates' 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.

Emphasis of Matter

As discussed in Note 2, the Organization adopted the Financial Accounting Standards Board's Accounting Standard update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all prior periods presented. My opinion is not modified to this matter.



Burlingame, California
December 12, 2019

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 158,552	\$ 119,043
Restricted cash (Note 3)	16,890	40,012
Funds held for others (Note 4)	26,618	30,843
Accounts receivable	51,933	17,431
Contracts receivable	70,337	55,731
Property maintenance receivable (Note 5)	26,669	16,623
Related party receivable (Note 6)	80,863	23,527
Prepaid expenses	17,074	11,028
Total current assets	<u>448,936</u>	<u>314,238</u>
Restricted deposits (Note 2)		
Debt service reserve	2,073,709	2,058,233
Replacement reserves	572,048	494,057
Operating reserves	73,934	72,144
Property tax and insurance impounds	450,946	467,899
Tenant security deposits	12,845	10,969
Property and equipment, net (Note 7)	35,118,274	31,542,746
Deferred costs, net (Note 8)	629,447	691,215
Deposits	4,000	4,000
Total assets	<u>\$ 39,384,139</u>	<u>\$ 35,655,501</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 80,183	\$ 156,561
Contract advance	144,920	-
Notes payable - current portion (Note 9)	1,521,934	1,447,854
Deferred revenue - contributions (Note 9)	139,393	112,555
Deferred revenue - other	7,840	107,433
Funds held for others (Note 4)	26,618	30,843
Line of credit payable (Note 10)	150,000	146,030
Total current liabilities	<u>2,070,888</u>	<u>2,001,276</u>
Interest payable - net of current portion (Note 9)	976,652	763,071
Notes payable - net of current portion (Note 9)	23,090,461	21,635,337
Deferred revenue - contributions (Note 9)	3,807,474	2,448,402
Deferred revenue - other	172,012	172,012
Tenant security deposits	12,017	11,525
Total liabilities	<u>30,129,504</u>	<u>27,031,623</u>
Net assets:		
Without donor restrictions	9,237,745	8,583,866
With donor restrictions (Note 11)	16,890	40,012
Total net assets	<u>9,254,635</u>	<u>8,623,878</u>
Total liabilities and net assets	<u>\$ 39,384,139</u>	<u>\$ 35,655,501</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, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Lease income	\$ 3,178,022	\$ -	\$ 3,178,022
Contract income - State Government	468,838	-	468,838
Contract income - other	247,100	-	247,100
Contributions - State Government (noncash)	113,061	-	113,061
Contributions - other	2,250	-	2,250
Developer fees	33,033	-	33,033
Management and bookkeeping fees	206,792	-	206,792
Maintenance fees	94,974	-	94,974
Property tax refunds	22,831	-	22,831
Tax exemption refunds	40,855	-	40,855
Program income	8,913	-	8,913
Interest income	18,894	-	18,894
Other income	48,919	-	48,919
	<hr/>	<hr/>	<hr/>
Net assets released from restrictions	23,122	(23,122)	-
	<hr/>	<hr/>	<hr/>
Total support and revenue	4,507,604	(23,122)	4,484,482
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services:			
Property management	2,861,855	-	2,861,855
Housing development services	74,771	-	74,771
Housing services	719,793	-	719,793
Supporting services:			
Management and general	174,849	-	174,849
Fundraising	22,457	-	22,457
	<hr/>	<hr/>	<hr/>
Total expenses	3,853,725	-	3,853,725
	<hr/>	<hr/>	<hr/>
Change in net assets	653,879	(23,122)	630,757
Net assets at beginning of year	8,583,866	40,012	8,623,878
	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 9,237,745	\$ 16,890	\$ 9,254,635
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The accompanying notes are an integral part of these financial statements.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Lease income	\$ 2,969,620	\$ -	\$ 2,969,620
Contract income - other	613,662	-	613,662
Contributions - State Government (noncash)	56,339	-	56,339
Contributions - other	10,435	-	10,435
Developer fees	15,000	-	15,000
Management and bookkeeping fees	149,607	-	149,607
Maintenance fees	113,519	-	113,519
Property tax refund	97,390	-	97,390
Special events, net of expenses \$2,124	2,933	-	2,933
Interest income	11,336	-	11,336
Unrealized gains on investments	1,262	-	1,262
Other income	17,233	-	17,233
	<hr/>	<hr/>	<hr/>
Net assets released from restrictions	22,194	(22,194)	-
	<hr/>	<hr/>	<hr/>
Total support and revenue	4,080,530	(22,194)	4,058,336
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services:			
Property management	2,772,460	-	2,772,460
Housing development services	130,367	-	130,367
Housing services	611,950	-	611,950
Supporting services:			
Management and general	177,633	-	177,633
Fundraising	28,190	-	28,190
	<hr/>	<hr/>	<hr/>
Total expenses	3,720,600		3,720,600
	<hr/>	<hr/>	<hr/>
Change in net assets	359,930	(22,194)	337,736
	<hr/>	<hr/>	<hr/>
Net assets at beginning of year	8,223,936	62,206	8,286,142
	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 8,583,866	\$ 40,012	\$ 8,623,878
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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 FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	2019							
	Program Services				Supporting Services			
	Property Management	Housing Development Services	Housing Services	Total Program Services	Management and General	Fundraising	Shared Costs	Total
Salaries and employer taxes	\$ 84,285	\$ 36,102	\$ 454,747	\$ 575,134	\$ 57,123	\$ 18,034	\$ -	\$ 650,291
Employee benefits	20,842	3,334	59,152	83,328	5,017	1,553	-	89,898
Professional fees	24,000	29,558	-	53,558	-	-	-	53,558
Audit and accounting	-	-	-	-	55,965	-	-	55,965
Legal	-	-	-	-	860	-	1,715	2,575
Office expense	-	-	-	-	1,806	-	24,170	25,976
Advertising	-	-	-	-	-	-	1,303	1,303
Telephone	-	-	-	-	3,001	-	10,111	13,112
Mileage and travel	-	-	-	-	-	-	10,934	10,934
Conferences and training	-	-	-	-	-	-	599	599
Postage	-	-	-	-	-	-	2,903	2,903
Printing	-	-	-	-	-	-	589	589
Program expenses	39,000	-	130,607	169,607	-	-	-	169,607
Rent and occupancy	-	-	-	-	-	-	45,433	45,433
Utilities	48,450	-	-	48,450	-	-	-	48,450
Property maintenance	402,505	-	-	402,505	-	-	-	402,505
Insurance	58,557	-	-	58,557	-	-	14,085	72,642
Taxes and licenses	84,359	-	-	84,359	41,763	-	-	126,122
Interest	1,286,050	-	-	1,286,050	-	-	-	1,286,050
Service fees and bank charges	-	-	-	-	210	-	7,125	7,335
Miscellaneous	-	-	-	-	-	-	2,297	2,297
Overhead allocation	28,226	5,777	75,287	109,290	9,104	2,870	(121,264)	-
Total before depreciation and amortization	2,076,274	74,771	719,793	2,870,838	174,849	22,457	-	3,068,144
Depreciation and amortization	785,581	-	-	785,581	-	-	-	785,581
Total	\$ 2,861,855	\$ 74,771	\$ 719,793	\$ 3,656,419	\$ 174,849	22,457	\$ -	\$ 3,853,725

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, 2018

	2018							Total
	Program Services				Supporting Services			
	Property Management	Housing Development Services	Housing Services	Total Program Services	Management and General	Fundraising	Shared Costs	
Salaries and employer taxes	\$ 128,491	\$ 79,806	\$ 291,651	\$ 499,948	\$ 66,402	\$ 22,622	\$ -	\$ 588,972
Employee benefits	15,205	6,847	62,663	84,715	4,919	1,531	-	91,165
Professional fees	16,000	29,231	-	45,231	-	-	6,686	51,917
Audit and accounting	-	-	-	-	50,123	-	-	50,123
Legal	-	-	-	-	5,740	-	10,208	15,948
Office expense	-	-	-	-	1,741	-	23,359	25,100
Advertising	-	-	-	-	-	-	400	400
Telephone	-	-	-	-	2,446	-	10,639	13,085
Mileage and travel	-	-	-	-	-	-	10,300	10,300
Conferences and training	-	-	-	-	-	-	1,344	1,344
Postage	-	-	-	-	-	-	3,135	3,135
Printing	-	-	-	-	-	-	1,317	1,317
Program expenses	39,000	-	189,610	228,610	-	-	-	228,610
Rent and occupancy	-	-	-	-	-	-	44,773	44,773
Utilities	53,063	-	-	53,063	-	-	-	53,063
Event expenses	-	-	-	-	-	2,124	-	2,124
Property maintenance	418,970	-	-	418,970	-	-	-	418,970
Insurance	40,733	-	-	40,733	-	-	8,632	49,365
Taxes and licenses	118,553	-	-	118,553	30,931	-	-	149,484
Interest	1,187,318	-	-	1,187,318	1,394	-	723	1,189,435
Service fees and bank charges	-	-	-	-	1,591	-	5,928	7,519
Miscellaneous	-	-	-	-	426	-	1,024	1,450
Overhead allocation	30,002	14,483	68,026	112,511	11,920	4,037	(128,468)	-
Total before depreciation and amortization	2,047,335	130,367	611,950	2,789,652	177,633	30,314	-	2,997,599
Depreciation and amortization	725,125	-	-	725,125	-	-	-	725,125
Total	<u>\$ 2,772,460</u>	<u>\$ 130,367</u>	<u>\$ 611,950</u>	<u>\$ 3,514,777</u>	<u>\$ 177,633</u>	30,314	<u>\$ -</u>	<u>\$ 3,722,724</u>
Less expenses included with revenues on statement of activities						(2,124)		
						<u>\$ 28,190</u>		

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from:		
Leases	\$ 3,157,977	\$ 2,963,777
Contracts	842,884	593,556
Contributions	2,250	10,435
Developer fees	33,033	55,000
Management and bookkeeping fees	206,792	149,607
Maintenance fees	82,387	115,596
Property tax refunds	22,831	97,390
Tax exemption refunds	40,855	-
Special events	-	5,057
Program income	8,913	-
Interest income	18,894	11,336
Other receipts	48,759	16,371
Cash paid for:		
Salaries, employer taxes and benefits	(740,189)	(680,141)
Interest expense	(959,908)	(996,222)
Vendors	(1,231,319)	(1,087,676)
Net cash provided by operating activities	<u>1,534,159</u>	<u>1,254,086</u>
Cash flows from investing activities:		
Purchases of property and equipment	(213,040)	(2,418,931)
Proceeds from sale of investments	-	104,998
Advances to related parties	(57,336)	-
Decrease in restricted cash	23,122	22,194
Net increase in restricted deposits	<u>(80,180)</u>	<u>(166,328)</u>
Net cash used in investing activities	<u>(327,434)</u>	<u>(2,458,067)</u>
Cash flows from financing activities:		
Proceeds from notes payable	201,856	2,570,762
Payments of notes payable	(1,373,042)	(1,333,404)
Increase (decrease) from line of credit - construction in progress	-	(110,631)
Increase (decrease) from credit line - other	3,970	123,981
Advances from related parties	-	37,154
Net cash provided by (used in) financing activities	<u>(1,167,216)</u>	<u>1,287,862</u>
Net increase in cash and cash equivalents	39,509	83,881
Cash and cash equivalents, beginning of year	119,043	35,162
Cash and cash equivalents, end of year	<u>\$ 158,552</u>	<u>\$ 119,043</u>
Noncash investing and financing activities:		
Assets acquired by assuming long-term debt	<u>\$ 4,065,937</u>	<u>\$ -</u>
Loan financing fees	<u>\$ 20,363</u>	<u>\$ 1,787</u>
Contributions recognized from interest free loans	<u>\$ 112,555</u>	<u>\$ 56,339</u>
Debt forgiveness of loan	<u>\$ 500</u>	<u>\$ -</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, 2019 AND 2018

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, 2019 AND 2018

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. Beginning in November 2017, the project was occupied. 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. 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 and Affiliates 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 and Affiliates consolidated financial statements include the valuation and useful lives of its properties.

Basis of Presentation

HCEB and Affiliates reports information regarding its financial position and activities according to two classes of net assets, as applicable:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of HCEB and Affiliates' board of directors.

Net assets with donor restrictions: Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as *net assets released from restrictions*.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Funds established by an unrelated group using its own funds for its own benefit is classified by HCEB as a liability, rather than as a net asset. HCEB handles the cash accounts, acting as a third party property manager for the group. The funds have no impact on the operations of HCEB and Affiliates.

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 and Affiliates, such as the Debt Service Reserve.

Restricted Cash

As of June 30, 2019 and 2018, HCEB and Affiliates held restricted funds for the maintenance of a home for developmentally disabled individuals located in Walnut Creek, California.

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

All receivables represent amounts due within one year and are stated at estimated net realizable value. Management believes that all outstanding receivables are collectible in full, therefore no allowance for uncollectible receivables has been provided.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 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.

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 and are no longer required to pay the annual income taxes based on gross income.

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.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated or transferred, whichever is earlier. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions. Contracts received in advance are recognized in the applicable period in which the related services are performed or expenditures are incurred, respectively. 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.

Functional Expenses Allocation

The costs of providing various program services and activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated on the basis of estimates of time and effort among the programs and supporting services benefited.

Reclassifications

Certain amounts previously reported in the 2018 financial statements were reclassified to conform to the 2019 presentation.

Adoption of Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is effective beginning for year ending December 31, 2018 and thereafter. HCEB and Affiliates has adopted and implemented the new standard for the fiscal year ended June 30, 2019. The ASU requires significant changes to financial statement reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU also requires disclosures about the liquidity and availability of resources. The ASU has been applied retrospectively to all periods presented.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – LIQUIDITY AND AVAILABILITY (continued)

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 158,552	\$ 119,043
Restricted cash	16,890	40,012
Funds held for others	26,618	30,843
Accounts receivable	51,933	17,431
Contracts receivable	70,337	55,731
Property maintenance receivable	26,669	16,623
Related party receivable	80,863	23,527
	<u>431,862</u>	<u>303,210</u>
Less amounts not available within one year:		
Restricted cash	(16,890)	(40,012)
Funds held for others	(26,618)	(30,843)
	<u>(43,508)</u>	<u>(70,855)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 388,354</u>	<u>\$ 232,355</u>

HCEB and Affiliates maintains Home Equity Line of Credit accounts totaling \$400,000 that can be made available for short-term cash flow needs. Another \$500,000 can be made available from additional borrowing from the properties that are owned by HCEB and Affiliates. In addition, HCEB and Affiliates projects a positive cash flow over the next two years.

NOTE 4 – FUNDS HELD FOR OTHER

HCEB acts as a third party property manager on behalf of a group that provides benefits to the community for affordable housing. HCEB handles the cash accounts and reports the transactions as an asset and a liability. The funds have no impact on the operations of HCEB and Affiliates.

NOTE 5 – PROPERTY MAINTENANCE RECEIVABLE

HCEB and ICEB submits requests to RCEB for reimbursement of certain property maintenance items as part of the leasing costs of the properties. As of June 30, 2019 and 2018, property maintenance receivable from RCEB totaled \$26,669 and \$16,623, respectively. Management believes that the receivable is collectible in full, therefore no allowance for uncollectible receivables has been provided.

NOTE 6 – RELATED PARTY RECEIVABLE

As described in Note 2, LSH and LFGH were not included in the consolidated financial statements. HCEB made operating advances to LSH and LFGH. Also, for the years ended June 30, 2019 and 2018, HCEB earned a management fee of \$9,588 each year from LSH. For the years ended June 30, 2019 and 2018, HCEB earned a bookkeeping fee of \$8,028 each year from LSH. For the years ended June 30, 2019 and 2018, HCEB earned a management fee of \$4,204 and \$2,704, respectively, from LFGH. For the years ended June 30, 2019 and 2018, HCEB earned a bookkeeping fee of \$8,057 and \$7,080, respectively, from LFGH.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 6 – RELATED PARTY RECEIVABLE (continued)

The amount receivable at June 30, 2019 and 2018 is summarized below:

	<u>2019</u>	<u>2018</u>
LSH	\$ 53,054	\$ (16)
LFGH	<u>27,809</u>	<u>23,543</u>
	<u>\$ 80,863</u>	<u>\$ 23,527</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018 is summarized as follows:

Entity	2019						
	Land	Building and Improvements	Construction in Progress	Furniture and Equipment	Total	Accumulated Depreciation	Net Fixed Assets
HCEB	\$ 2,415,392	\$ 4,443,023	\$ -	\$ 10,360	\$ 6,868,775	\$ (168,319)	\$ 6,700,456
ICEB	3,353,500	16,413,040	-	19,941	19,786,481	(4,393,820)	15,392,661
MHCO	825,032	974,817	-	3,207	1,803,056	(498,273)	1,304,783
Magnolia	153,171	2,251,681	-	55,388	2,460,240	(478,789)	1,981,451
Ashland	1,071,627	2,323,812	-	48,557	3,443,996	(389,997)	3,053,999
Fairview	322,698	753,582	-	-	1,076,280	(146,007)	930,273
Tri Valley	240,000	2,186,755	486,056	2,044	2,914,855	(35,186)	2,879,669
CCT	557,565	2,424,853	-	-	2,982,418	(107,436)	2,874,982
Total	<u>\$ 8,938,985</u>	<u>\$ 31,771,563</u>	<u>\$ 486,056</u>	<u>\$ 139,497</u>	<u>\$ 41,336,101</u>	<u>\$ (6,217,827)</u>	<u>\$ 35,118,274</u>

Entity	2018						
	Land	Building and Improvements	Construction in Progress	Furniture and Equipment	Total	Accumulated Depreciation	Net Fixed Assets
HCEB	\$ 2,415,392	\$ 4,443,023	\$ -	\$ 10,360	\$ 6,868,775	\$ (56,900)	\$ 6,811,875
ICEB	3,353,500	16,413,040	-	19,941	19,786,481	(3,978,943)	15,807,538
MHCO	825,032	974,817	-	3,207	1,803,056	(482,655)	1,320,401
Magnolia	153,171	2,251,681	-	55,388	2,460,240	(419,952)	2,040,288
Ashland	1,071,627	2,323,812	-	48,557	3,443,996	(331,085)	3,112,911
Fairview	322,698	753,582	-	-	1,076,280	(127,167)	949,113
Tri Valley	-	176,755	273,015	2,044	451,814	(30,767)	421,047
CCT	345,325	821,157	-	-	1,166,482	(86,909)	1,079,573
Total	<u>\$ 8,486,745</u>	<u>\$ 28,157,867</u>	<u>\$ 273,015</u>	<u>\$ 139,497</u>	<u>\$ 37,057,124</u>	<u>\$ (5,514,378)</u>	<u>\$ 31,542,746</u>

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8 – DEFERRED COSTS

Deferred costs at June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Bond acquisition costs	\$ 1,156,984	\$ 1,156,984
Loan acquisition costs	<u>166,007</u>	<u>145,644</u>
	1,322,991	1,302,628
Less: accumulated amortization	<u>(693,544)</u>	<u>(611,413)</u>
	<u>\$ 629,447</u>	<u>\$ 691,215</u>

NOTE 9 – NOTES PAYABLE

Long-term debt at June 30, 2019 and 2018, respectively, is secured by the property unless noted and consists of:

	<u>2019</u>	<u>2018</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.	\$ 7,674,895	\$ 8,617,694
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.	3,005,548	3,353,732
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, 2019 and 2018, accrued interest was \$183,498 and \$159,348, 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		

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
December 2025 at 5.75% with principal and interest payments of \$1,603.	103,863	116,640
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 2030. As of June 30, 2019, and 2018, accrued interest was \$84,647 and \$74,912, 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 applied first to interest. The note is due in full in 2031. As of June 30, 2019, and 2018, accrued interest was \$99,580 and \$86,601, 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, 2019 and 2018, accrued interest was \$91,345 and \$78,058, 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, 2019 and 2018, accrued interest was \$65,380 and \$55,573, 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, 2019 and 2018, accrued interest was \$44,507 and \$39,397, respectively.	170,341	170,341

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</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 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, 2019 and 2018, accrued interest was \$42,412 and \$36,893, respectively.</p>	183,961	183,961
<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, 2019 and 2018, accrued interest was \$35,194 and \$30,050, 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, 2019 and 2018, accrued interest was \$41,567 and \$35,332, 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, 2019 and 2018, accrued interest was \$70,312 and \$50,863, respectively.</p>	648,325	648,325

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
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, 2019 and 2018, accrued interest was \$74,613 and \$54,106, respectively.	683,575	683,575
Note payable to Redevelopment Agency of the City of Livermore, secured by the deed of trust a Tri Valley property. The note bears simple interest at 3% per annum and is due in full in 2073. As of June 30, 2019 and 2018, accrued interest was \$7,387 and \$1,847, respectively.	184,652	184,652
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.	678,615	754,834
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 \$531,391 (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, 2018 and 2017, the deferred contribution was \$531,391 and \$541,381, respectively.	173,115	163,125
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		

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
a) date of unauthorized transfer of property, b) date of default, or c) expiration of the term of the loan. As of June 30, 2019 and 2018, accrued interest was \$55,130 and \$44,270, 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, 2019 and 2018, accrued interest was \$14,250 and \$11,250, 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.	253,467	267,115
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.	360,546	379,960
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.	387,580	408,062
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.	467,078	476,873
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.	395,227	403,262

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</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 \$213,645 (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, 2019 and 2018, the deferred contribution was \$213,645 and \$221,485, respectively.</p>	206,355	198,515
<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 \$284,698 (effective interest rate, 3%), with face amount of \$526,866. 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, 2019 and 2018, the deferred contribution was \$284,698 and \$295,178, respectively.</p>	242,168	231,688
<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 \$116,992 (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, 2019 and 2018, the deferred contribution was \$116,992 and \$126,542, respectively.</p>	303,008	293,458
<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 \$152,721 (effective interest rate, 3%), with face amount of \$552,003. 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, 2019 and 2018, the deferred contribution was \$152,721 and \$166,300, respectively.</p>	399,283	385,703

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
<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 \$124,304 (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 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, 2019 and 2018, the deferred contribution was \$124,304 and \$134,451, respectively.</p>	300,696	290,549
<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 \$142,325 (effective interest rate, 3%), with face amount of \$472,815. 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, 2019 and 2018, the deferred contribution was \$142,325 and \$153,861, respectively.</p>	330,490	318,954
<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 \$198,335 (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, 2019 and 2018, the deferred contribution was \$198,335 and \$207,216, respectively.</p>	226,665	217,784
<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 \$252,440 (effective interest rate, 3%), with face amount of \$532,204. 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, 2019 and 2018, the deferred contribution was \$252,440 and \$263,743, respectively.</p>	279,764	268,461

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
<p>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 \$223,323 (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, 2019 and 2018, the deferred contribution was \$223,323 and \$233,249, respectively.</p>	251,677	241,751
<p>*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 \$208,225 (effective interest rate, 3%), with face amount of \$438,466. 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, 2019 and 2018, the deferred contribution was \$208,225 and \$217,547, respectively.</p>	230,241	220,919
<p>Note payable to the City of San Leandro to be used for capital improvements for a property owned by LFGH. The City of San Leandro was the recipient of CDBG funds that were passed through to HCEB. The loan bears interest of 3% per annum. The loan matures in 2038. As long as HCEB is not in default under the loan documents, the City of San Leandro shall annually forgive 1/20th (\$500) of the outstanding principal loan balance.</p>	9,500	10,000
<p>Note payable to First Republic Bank secured by a deed of trust for a MHCO property. The note bears interest at 3.95% interest per annum. Monthly interest of \$658 is due through 2028. Beginning in 2028, monthly payments of principal and recalculated interest (as a result of an interest rate change) are due, until December 2047, the maturity date.</p>	200,000	200,000
<p>Note payable to First Republic Bank secured by a deed of trust for a MHCO property. The note bears interest at 5.2% interest per annum. Monthly payment of principal and interest of \$275 are due through 2028. Beginning in 2029, monthly payments principal and recalculated interest (as a result of an interest rate change) are due, until December 2049, the maturity date.</p>	49,646	-

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
Note payable to the City of Livermore, secured by the deed of trust for a Tri Valley property. The note bears interest of 3% per annum. Annual payments shall be made from 50% of Surplus Cash. The full amount of principal and interest are payable at the earlier of date of default or the expiration of the term of the loan in 2078. As of June 30, 2019, accrued interest was \$51,075	2,270,000	-
Predevelopment loan payable to the City of Livermore up to a maximum \$855,000 for a Tri Valley property, secured by a deed of trust. The loan bears interest of 3% from the date of disbursement. No annual payments are due. All principal and on accrued interest on the loan shall be due in full on earlier of a) the date of any unauthorized transfer, b) the date of any date of default, or c) the expiration of the term. Upon termination of the agreement, the loan can be forgiven under certain circumstances. As of June 30, 2019 and 2018, accrued interest was \$15,755 and \$4,571, respectively.	452,293	220,908
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 \$1,498,466 (effective interest rate, 3%), with face amount of \$1,815,937. Amortization of the discount is reported in the Statement of Activities. Principal and interest are deferred until 2036, 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 2075. 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, 2019, the deferred contribution was \$1,498,466	317,471	-
Total	<u>24,612,399</u>	<u>23,083,191</u>
Less: current portion	<u>(1,521,934)</u>	<u>(1,447,854)</u>
Long-term portion	<u>\$ 23,090,461</u>	<u>\$ 21,635,337</u>

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – NOTES PAYABLE (continued)

* Notes payable with the Department of Development Services were recorded for the reimbursements of the renovation costs for the five homes purchased by HCEB. There is no formal loan agreement, however, management anticipates that the amount of the reimbursements will be due along with the promissory notes issued by the Department of Development Services when the property was purchased.

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

2020	\$ 1,521,934
2021	1,624,198
2022	1,727,772
2023	1,833,696
2024	1,965,584

NOTE 10 – LINES OF CREDIT

MHCO established lines of credit totaling \$550,000 with First Republic Bank. The lines of credit are secured by deeds of trust on MHCO's properties. As of June 30, 2019 and 2018, the outstanding balances were \$150,000 and \$146,030, respectively. The interest rate was 3.35% on June 30, 2019.

NOTE 11 – DONOR RESTRICTED NET ASSETS

As of June 30, 2019 and 2018, donor restricted net assets were available to purchase, rehab and operation of affordable housing for individuals with developmental disabilities in Walnut Creek, California.

NOTE 12 – CONCENTRATION OF CREDIT RISK

As of June 30, 2019, ICEB maintained a balance for the Debt Reserve with US Bank that exceeds the \$250,000 Federal Deposit Insurance Corporation limit by approximately \$1,823,709. These funds are held, controlled and invested by the bondholders who assume all risks associated with these reserves.

NOTE 13 – OPERATING LEASES

In March 2011 HCEB and Alegria Community Living (ACL) entered into a lease agreement for office space. The lease was shared with each paying one-half of the total rent of \$5,672 of which HCEB's share was \$2,836 per month. 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, 2019 and 2018 was \$42,603 and \$40,818, respectively.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 13 – OPERATING LEASES (continued)

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

2020	43,465
2021	43,465
2022	43,465
2023	25,355

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

NOTE 14 – RETIREMENT PLAN

In September 2018, HCEB established a 403(b)-retirement savings plan for all eligible employees. HCEB elected not to contribute to the plan.

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.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 16 – COMMITMENTS AND CONTINGENCIES (continued)

The City of Emeryville Redevelopment Agency (RDA) Regulatory Agreement between RDA and HCEB is in effect for the property owned by Magnolia for 55 years from the date the owner obtained a final certificate of occupancy from the City of Emeryville building division. The property owned by Magnolia is subject to restrictions limiting their use as housing for the developmentally disabled and that the project units are rent-restricted and occupied and affordable to very low income households.

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

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 for the loan shall being 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 are subject to CDBG and Neighborhood Stabilization Program (NSP) 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. Some of the properties are subject to CDBG, and HOME and NSP requirements. In the event of default, the loans 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.

A 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.

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 16 – COMMITMENTS AND CONTINGENCIES (continued)

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.

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.

NOTE 17 – SUBSEQUENT EVENTS

The company has evaluated subsequent events through December 12, 2019, 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, 2019

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Consolidating Statement of Activities	31

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

	HCEB	ICEB	MHCO	Magnolia	Ashland	Fairview	TriValley	CCT EB	Eliminations	Consolidated Total
ASSETS										
Current Assets:										
Cash and cash equivalents	\$ 99,851	\$ 1,951	\$ 2,603	\$ 5,464	\$ 1,497	\$ 2,951	\$ 4,682	\$ 39,553		\$ 158,552
Restricted cash	16,890	-	-	-	-	-	-	-		16,890
Funds held for others	26,618	-	-	-	-	-	-	-		26,618
Accounts receivable	12,696	5,095	-	563	10,685	-	8	22,886		51,933
Contracts receivable	70,337	-	-	-	-	-	-	-		70,337
Property maintenance receivable - RCEB	1,313	25,356	-	-	-	-	-	-		26,669
Related party receivable	151,128	-	891,475	-	9,992	-	1,839	-	(973,571)	80,863
Prepaid expenses	17,074	-	-	-	-	-	-	-		17,074
Total current assets	395,907	32,402	894,078	6,027	22,174	2,951	6,529	62,439		448,936
Restricted Deposits										
Debt service reserve	-	2,073,709	-	-	-	-	-	-		2,073,709
Replacement reserves	48,429	375,856	-	11,978	99,092	16,890	1,015	18,788		572,048
Operating reserves	-	-	-	18,611	38,646	-	5,125	11,552		73,934
Tax and insurance impounds	-	403,698	-	-	-	47,248	-	-		450,946
Tenant security deposits	-	-	1,547	1,157	6,538	-	196	3,407		12,845
Property and equipment, net	6,700,456	15,392,661	1,304,783	1,981,451	3,053,999	930,273	2,879,669	2,874,982		35,118,274
Deferred costs, net	27,997	510,994	-	1,933	61,939	-	26,584	-		629,447
Deposits	4,000	-	-	-	-	-	-	-		4,000
Total assets	\$ 7,176,789	\$ 18,789,320	\$ 2,200,408	\$ 2,021,157	\$ 3,282,388	\$ 997,362	\$ 2,919,118	\$ 2,971,168		\$ 39,384,139
LIABILITIES AND NET ASSETS										
Current liabilities:										
Accounts payable and accrued expenses	\$ 52,884	\$ 2,893	\$ 498	\$ 936	\$ 2,324	\$ 400	\$ 18,413	\$ 1,835		\$ 80,183
Contract advance	144,920	-	-	-	-	-	-	-		144,920
Related party payable	903,306	28,742	-	18	-	29,241	-	12,264	(973,571)	-
Notes payable - current portion	75,457	1,367,870	-	13,527	-	65,080	-	-		1,521,934
Deferred revenue - contributions	102,565	-	-	-	-	-	-	36,828		139,393
Deferred revenue - other	-	-	-	-	456	-	7,343	41		7,840
Funds held for others	26,618	-	-	-	-	-	-	-		26,618
Line of credit payable	-	-	150,000	-	-	-	-	-		150,000
Total current liabilities	1,305,750	1,399,505	150,498	14,481	2,780	94,721	25,756	50,968		2,070,888
Interest payable - net of current portion	-	-	-	183,498	649,557	-	74,216	69,381		976,652
Notes payable - net of current portion	4,568,288	9,312,573	249,645	895,339	3,591,573	613,534	2,906,946	952,563		23,090,461
Deferred revenue - contributions	1,814,446	-	-	-	-	-	-	1,993,028		3,807,474
Deferred revenue - other	-	172,012	-	-	-	-	-	-		172,012
Tenant security deposits	-	-	1,567	1,186	6,563	-	450	2,251		12,017
Total liabilities	7,688,484	10,884,090	401,710	1,094,504	4,250,473	708,255	3,007,368	3,068,191		30,129,504
Net assets:										
Without donor restrictions	(528,585)	7,905,230	1,798,698	926,653	(968,085)	289,107	(88,250)	(97,023)		9,237,745
With donor restrictions	16,890	-	-	-	-	-	-	-		16,890
Total net assets	(511,695)	7,905,230	1,798,698	926,653	(968,085)	289,107	(88,250)	(97,023)		9,254,635
Total liabilities and net assets	\$ 7,176,789	\$ 18,789,320	\$ 2,200,408	\$ 2,021,157	\$ 3,282,388	\$ 997,362	\$ 2,919,118	\$ 2,971,168		\$ 39,384,139

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	HCEB	ICEB	MHCO	Magnolia	Ashland	Fairview	TriValley	CCTEB	Eliminations	Consolidated Total
Support and revenue:										
Lease income	\$ 278,472	\$ 2,308,131	\$ 119,871	\$ 63,060	\$ 187,826	\$ 146,303	\$ 6,249	\$ 68,110		\$ 3,178,022
Contract income - State Government	468,838	-	-	-	-	-	-	-		468,838
Contract income - other	247,100	-	-	-	-	-	-	-		247,100
Contributions - State Government (noncash)	103,071	-	-	-	-	-	-	9,990		113,061
Contributions - other	2,250	-	-	-	-	-	-	-		2,250
Developer fees	33,033	-	-	-	-	-	-	-		33,033
Management and bookkeeping fees	396,130	-	-	-	-	-	-	-	(189,338)	206,792
Maintenance fees	-	94,974	-	-	-	-	-	-		94,974
Property tax refunds	22,831	-	-	-	-	-	-	-		22,831
Tax exemption refunds	-	40,855	-	-	-	-	-	-		40,855
Program income	8,913	-	-	-	-	-	-	-		8,913
Interest income	17	16,234	1	-	2,589	32	4	17		18,894
Other income	13,129	15,329	-	1,247	14,109	-	10	5,095		48,919
Total support and revenue	1,573,784	2,475,523	119,872	64,307	204,524	146,335	6,263	83,212		4,484,482
Expenses:										
Program activities:										
Property management	709,510	1,561,646	75,065	124,397	328,489	100,140	74,909	77,037	(189,338)	2,861,855
Housing development services	74,771	-	-	-	-	-	-	-		74,771
Housing services	719,793	-	-	-	-	-	-	-		719,793
Supporting activities:										
Management and general	83,792	4,774	10,361	12,711	21,515	28,522	2,034	11,140		174,849
Fundraising	22,457	-	-	-	-	-	-	-		22,457
Total expenses	1,610,323	1,566,420	85,426	137,108	350,004	128,662	76,943	88,177		3,853,725
Change in net assets	(36,539)	909,103	34,446	(72,801)	(145,480)	17,673	(70,680)	(4,965)		630,757
Net assets at beginning of year	(475,156)	6,996,127	1,764,252	999,454	(822,605)	271,434	(17,570)	(92,058)		8,623,878
Net assets at end of year	<u>\$ (511,695)</u>	<u>\$ 7,905,230</u>	<u>\$ 1,798,698</u>	<u>\$ 926,653</u>	<u>\$ (968,085)</u>	<u>\$ 289,107</u>	<u>\$ (88,250)</u>	<u>\$ (97,023)</u>		<u>\$ 9,254,635</u>

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

Federal Grantor Pass-through Entity Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development:			
Current year loan:			
Passed-through loan - County of Alameda Community Development Blocks Grants/Entitlement Grants	14.218	None	\$ 273,892
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	125,386
Passed-through loan - City of San Leandro Community Development Blocks Grants/Entitlement Grants	14.218	None	10,000
			<u>370,386</u>
Total CDBG - Entitlement Grants Cluster			<u>644,278</u>
Current year loan:			
Passed-through loan - County of Alameda Home Investment Partnership Program	14.239	None	200,000
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	100,000
			<u>870,003</u>
Total HOME			<u>1,070,003</u>
Current year loan:			
Passed-through loan - County of Alameda Neighborhood Stabilization Program (Recovery Act Funded)			
Prior year loans for which continued compliance is required:			
Passed-through loan - County of Alameda Neighborhood Stabilization Program (Recovery Act Funded)	14.256	None	1,342,045
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	45,253
			<u>1,473,869</u>
Total Neighborhood Stabilization Program (Recovery Act Funded)			<u>2,815,914</u>
Passed-through Housing Authority:			
County of Alameda - Section 8 Housing Choice Vouchers	14.871	None	172,562
City of Oakland - Section 8 Housing Choice Vouchers	14.871	None	24,348
County of Contra Costa - Section 8 Housing Choice Vouchers	14.871	None	30,663
Total Housing Voucher - Cluster			<u>227,573</u>
Total expenditures of federal awards			<u>\$ 4,757,768</u>

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

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

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, 2019. 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. Housing Consortium of the East Bay and Affiliates has elected not to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

NOTE 3– FEDERAL LOAN PROGRAMS

The accompanying schedule of expenditures of federal awards includes loan balances at the beginning of the year for which continuing compliance was required. The balances of the loans which continuing compliance was required as of June 30, 2018 amounted to \$2,714,258. There were \$1,815,937 of loan additions during the year. During the fiscal year ended June 30, 2019 there was a forgiveness of a City of San Leandro loan in the amount of \$500. The balances of the loans outstanding included in the federal expenditures in which compliance was required as of June 30, 2019 amounted to \$4,529,695.

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 consolidated financial statements of Housing Consortium of the East Bay and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued my report thereon dated December 12, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the consolidated 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 consolidated 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 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 by governance.

My consideration of internal control was limited for the purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be a material weakness. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Housing Consortium of the East Bay and Affiliates' consolidated 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 statements 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Meh Muehle, CPA

Burlingame, California
December 12, 2019

**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, 2019. 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 federal statutes, regulations, and the terms and conditions applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Housing Consortium of the East Bay and Affiliates' major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Housing Consortium of the East Bay and Affiliates' compliance with those requirements and performing such other procedures as 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.

Opinion on Each Major Federal Programs

In my opinion, Housing Consortium of the East Bay and Affiliates' compiled, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs the year ending June 30, 2019.

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 types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Housing Consortium of the East Bay and Affiliates' internal control over compliance with the types of 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 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. I did not identify any deficiencies in internal control over compliance to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

 Mark Muehle, CPA

Burlingame, California
December 12, 2019

HOUSING CONSORTIUM OF THE EAST BAY AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

Section I – Summary of Auditor’s Results

Consolidated Financial Statements

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to consolidated financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified? _____ Yes X None reported

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

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

Identification of major programs:

CFDA #14.218
CFDA #14.256

Federal Program or Cluster

Community Develop. Block Grants
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

Section II – Consolidated Financial Statements Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.