

**Housing Consortium of the East Bay and Affiliates**

Consolidated Financial Statements  
and Supplementary Information  
and Single Audit Reports and Schedules

June 30, 2020  
(With Comparative Totals for 2019)



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Housing Consortium of the East Bay and Affiliates (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, 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.

### **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**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



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associated with Moore  
Global Network Limited

## **Opinion**

In our 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, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in Note 2 to the consolidated financial statements, the Organization has adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-08, *Statement of Cash Flow (Topic 230): Restricted Cash*, ASU 2018-08, *Not-For-Profit Entities (Topics 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2014-09, *Revenue from Contracts with Customers (Topics 606)*. Our opinion is not modified with respect to that matter.

## **Emphasis of Matter**

As discussed in Note 14 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 33 - 35 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

## Report on Summarized Comparative Information

The consolidated financial statements of Housing Consortium of the East Bay and Affiliates as of June 30, 2019, were audited by other auditors whose report dated December 12, 2019, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
San Francisco, California

October 15, 2020

Housing Consortium of the East Bay and Affiliates  
Consolidated Statement of Financial Position  
June 30, 2020  
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash	\$ 589,994	\$ 158,496
Restricted cash	-	16,890
Funds held for others	59,343	26,618
Accounts, contracts and other receivables	469,459	148,933
Due from related parties	50,023	80,863
Prepaid expenses	17,594	16,824
Other current assets	11,956	145
Total current assets	1,198,369	448,769
Property and equipment, net	34,513,446	35,118,274
Other assets		
Debt service reserve	2,123,989	2,073,709
Replacement reserves	593,659	572,057
Tax and insurance impounds	461,151	450,955
Operating reserves	84,744	73,934
Tenant security deposits	13,806	12,845
Deposits	104,000	4,000
Total other assets	3,381,349	3,187,500
Total assets	\$ 39,093,164	\$ 38,754,543

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

Housing Consortium of the East Bay and Affiliates  
Consolidated Statement of Financial Position  
June 30, 2020  
(With Comparative Totals for 2019)

	2020	2019
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 118,341	\$ 48,800
Accrued expenses	84,540	31,233
Deferred revenue	252,308	179,355
Deferred rent	-	497
Current portion of notes payable	1,634,957	1,521,935
SBA PPP loan	196,170	-
Line of credit	150,000	150,000
Funds held for others	59,343	26,618
Security deposits	13,906	12,017
Contract advance	269,968	144,920
Total current liabilities	2,779,533	2,115,375
Long-term liabilities		
Notes payable, net of current portion	24,860,315	26,407,881
Accrued interest	1,213,128	976,652
Total long-term liabilities	26,073,443	27,384,533
Total liabilities	28,852,976	29,499,908
Net assets		
Without donor restrictions	10,140,188	9,237,745
With donor restrictions	100,000	16,890
Total net assets	10,240,188	9,254,635
Total liabilities and net assets	\$ 39,093,164	\$ 38,754,543

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

Housing Consortium of the East Bay and Affiliates  
Consolidated Statement of Activities  
For the Year Ended June 30, 2020  
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenues and support				
Rental income	\$ 3,103,999	\$ -	\$ 3,103,999	\$ 3,078,488
Property management reimbursement	1,729,281	-	1,729,281	917,345
Contributions	195,199	100,000	295,199	114,811
Property management income	290,538	-	290,538	190,707
Contract revenue	285,909	-	285,909	12,913
Miscellaneous	134,349	-	134,349	15,215
Interest income	68,936	-	68,936	8,293
Other revenue	21,905	-	21,905	113,677
Developer fee	15,000	-	15,000	33,033
Net assets released from restriction	<u>16,890</u>	<u>(16,890)</u>	<u>-</u>	<u>-</u>
Total revenues and support	<u>5,862,006</u>	<u>83,110</u>	<u>5,945,116</u>	<u>4,484,482</u>
Functional expenses				
Program services				
Property management	2,899,206	-	2,899,206	2,861,855
Housing development services	69,903	-	69,903	74,771
Housing services	<u>1,620,919</u>	<u>-</u>	<u>1,620,919</u>	<u>719,793</u>
Total program services	<u>4,590,028</u>	<u>-</u>	<u>4,590,028</u>	<u>3,656,419</u>
Support services				
Management and general	303,028	-	303,028	174,849
Fundraising	<u>66,507</u>	<u>-</u>	<u>66,507</u>	<u>22,457</u>
Total support services	<u>369,535</u>	<u>-</u>	<u>369,535</u>	<u>197,306</u>
Total functional expenses	<u>4,959,563</u>	<u>-</u>	<u>4,959,563</u>	<u>3,853,725</u>
Change in net assets	902,443	83,110	985,553	630,757
Net assets, beginning of year	<u>9,237,745</u>	<u>16,890</u>	<u>9,254,635</u>	<u>8,623,878</u>
Net assets, end of year	<u>\$ 10,140,188</u>	<u>\$ 100,000</u>	<u>\$ 10,240,188</u>	<u>\$ 9,254,635</u>

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

Housing Consortium of the East Bay and Affiliates  
Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2020  
(With Comparative Totals for 2019)

	Program Services			Total Program Services	Support Services		2020 Total	2019 Total
	Property Management	Housing Development Services	Housing Services		Management and General	Fundraising		
Salaries and wages	\$ 117,869	\$ 31,635	\$ 672,098	\$ 821,602	\$ 150,249	\$ 46,492	\$ 1,018,343	\$ 650,291
Employee benefits	8,885	4,240	188,281	201,406	20,139	6,233	227,778	89,898
Professional fees	-	24,650	-	24,650	-	-	24,650	53,558
Audit and accounting	-	-	-	-	61,185	-	61,185	55,965
Legal fees	3,381	-	-	3,381	14,000	-	17,381	2,575
Office expenses	10,169	2,227	-	12,396	10,576	3,273	26,245	26,565
Advertising	437	117	-	554	558	172	1,284	1,303
Telephone	7,996	1,129	-	9,125	5,364	1,659	16,148	13,112
Transportation	4,263	1,144	-	5,407	5,435	1,682	12,524	10,934
Training and conferences	41	11	-	52	51	16	119	599
Postage	871	234	-	1,105	1,111	344	2,560	2,903
Program management	39,000	-	760,540	799,540	-	-	799,540	169,607
Rent	15,945	4,280	-	20,225	20,326	6,289	46,840	45,433
Utilities	53,657	-	-	53,657	-	-	53,657	48,450
Property maintenance	375,574	-	-	375,574	-	-	375,574	402,505
Insurance	59,913	-	-	59,913	5,177	-	65,090	72,642
Taxes and licenses	100,910	-	-	100,910	-	-	100,910	126,122
Interest expense	1,319,129	-	-	1,319,129	355	-	1,319,484	1,368,180
Bank charges	38,447	-	-	38,447	7,017	-	45,464	7,335
Miscellaneous	879	236	-	1,115	1,485	347	2,947	2,297
Depreciation	741,840	-	-	741,840	-	-	741,840	703,451
	<u>\$ 2,899,206</u>	<u>\$ 69,903</u>	<u>\$ 1,620,919</u>	<u>\$ 4,590,028</u>	<u>\$ 303,028</u>	<u>\$ 66,507</u>	<u>\$ 4,959,563</u>	<u>\$ 3,853,725</u>

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

Housing Consortium of the East Bay and Affiliates  
Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 985,553	\$ 630,757
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	741,840	703,451
Amortization of debt issuance cost	82,130	82,130
Changes in operating assets and liabilities		
Accounts receivable	(320,526)	(59,148)
Prepaid expenses	(770)	(5,941)
Other current assets	(11,811)	-
Accounts payable and accrued expense	122,847	(76,036)
Accrued interest	236,476	213,581
Deferred revenue	72,953	(100,090)
Deferred rent	(497)	497
Net cash provided by operating activities	<u>1,908,195</u>	<u>1,389,201</u>
Cash flows from investing activities		
Purchase of property and equipment	(137,010)	(213,040)
Net increase in deposit	(65,386)	(4,225)
Net cash used in investing activities	<u>(202,396)</u>	<u>(217,265)</u>
Cash flows from financing activities		
Proceeds from notes payable	-	201,856
Payments of notes payable	(1,516,675)	(1,373,042)
Increase from line of credit	-	3,970
Proceeds from PPP loan	196,170	-
Net change in amounts due to/from related parties	30,840	(57,336)
Contract advance	125,048	144,920
Net cash used in financing activities	<u>(1,164,617)</u>	<u>(1,079,632)</u>
Net increase in cash, cash equivalents and restricted cash	541,182	92,304
Cash, cash equivalents and restricted cash, beginning of year	<u>3,385,504</u>	<u>3,293,200</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 3,926,686</u>	<u>\$ 3,385,504</u>

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

Housing Consortium of the East Bay and Affiliates  
Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2020  
(With Comparative Totals for 2019)

	2020	2019
Cash, cash equivalents and restricted cash consisted of the following:		
Cash	\$ 589,994	\$ 158,496
Restricted cash	-	16,890
Debt service reserve	2,123,989	2,073,709
Replacement reserves	593,659	572,057
Tax and insurance impounds	461,151	450,955
Operating reserves	84,744	73,934
Funds held for others	59,343	26,618
Tenant security deposits	13,806	12,845
	\$ 3,926,686	\$ 3,385,504

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 1,004,321	\$ 959,908
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Supplemental schedule of noncash investing and financing activities

Assets acquired by assuming long-term debt	\$ -	\$ 4,065,937
Loan financing fees	\$ -	\$ 20,363
Debt forgiveness of loan	\$ -	\$ 500

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

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS

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 selfsufficiency 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 LLCs. These entities are included in the consolidated financial statements 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)

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of HCEB, MHCO and the LLCs of which HCEB is the sole member. All significant intercompany transactions and balances have been eliminated upon consolidation. HCEB and its affiliates will be referred to as the "Organization".

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. LSH has a seven member board of directors, of which certain members are appointed by HCEB and Satellite, but neither HCEB nor Satellite have majority control. HCEB and Satellite have also provided loan guarantees to LSH. In addition, the property's operation and use is highly regulated by the U.S. Department of Housing and Urban Development (HUD). HCEB has determined that consolidation of LSH in the Organization's financial statements is not required.

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. The members of LFGH's Board of Directors are to be appointed by MHCO. The assets of LFGH are not available to HCEB nor is HCEB responsible for any liabilities of LFGH. In addition, the property's operation and use is highly regulated by HUD. HCEB has determined that consolidation of LFGH in the Organization's financial statements is not required.

Basis of accounting and financial statement presentation

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

- *Net assets without donor restrictions* - include those assets 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 the Organization's Board of Directors.
- *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  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting method

The Organization 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.

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.

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.

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

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.

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation is computed based on the straight-line method over the estimated useful lives of the assets, which are estimated as follows:

Buildings	40 years
Furniture and fixtures	3 - 7 years
Automobiles	5 years

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of the debt issuance costs is calculated using the straight-line method, which approximates the effective interest method and is included as a component of interest expense. Debt issuance costs will be amortized to financial expense as interest over the life of the related instrument.

Below-market interest rate loans

The Organization receives certain loans that are interest free or that have below-market interest rates. The loans generally have requirements which include providing housing for the benefit of persons with developmental disabilities.

Income tax status

HCEB and MHCO are exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and 23701d of the California code sections.

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  
June 30, 2020  
(With Comparative Totals for 2019)

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 do not receive commensurate 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.

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.

Reclassification

Certain amounts previously reported in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

Adoption of accounting principles

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019 using the modified prospective method. The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of the standard.

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of accounting principles (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flow (Topic 230): Restricted Cash*. Under this new accounting policy, statement of cash flow is required to explain the change of total cash including restricted cash. As a result, restricted cash is included with cash and cash equivalent activities in the statement of cash flows. The Organization adopted ASU 2016-18 with a date of the initial application of July 1, 2019 using the full retrospective method. The adoption of ASU 2016-18 did not have a significant impact on the Organization's financial position and result of operations. Changes resulting from this ASU are reflected for all periods presented.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topics 606)*. This ASU provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted ASU 2014-09 with a date of the initial application of January 1, 2019, using the full retrospective method. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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. As of June 30, 2020 and 2019, the balance of debt service reserve was \$2,123,989 and \$2,073,709, respectively.

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 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 CDBG loan agreement. As of June 30, 2020 and 2019, the balance of reserves was \$593,659 and \$572,057, respectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating reserves

An operating reserve for the five Ashland properties is required by the MHSR 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 CDBG loan agreement. As of June 30, 2020 and 2019, the balance of reserves was \$84,744 and \$73,934, respectively.

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:

	2020	2019
Financial assets		
Cash	\$ 589,994	\$ 158,552
Restricted cash	-	16,890
Funds held for others	59,343	26,618
Accounts, contracts and other receivables	469,459	148,933
Due from related parties	50,023	80,863
	1,168,819	431,856
Less amounts not available within one year:		
Restricted cash	-	(16,890)
Funds held for others	(59,343)	(26,618)
Funds subject to donor restrictions	(100,000)	-
	(159,343)	(43,508)
	\$ 1,009,476	\$ 388,348

As part of HCEB's liquidity management, it structures its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. To meet liquidity needs, HCEB maintains adequate levels of cash and cash equivalents available. Accounts, contracts and other receivables considered current will be collected within one year.

In addition, the Organization maintains funds in reserves for operating and replacement accounts. These funds are used for the benefit of the tenants and or the Organization. Such funds are not considered by the Organization to have donor restrictions. If there are emergency replacements and repairs that cannot be covered by operating cash, the Organization can request funds to be temporarily released from the reserve accounts. Funds will then be returned back to the reserve accounts once operating cash becomes available.

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3. LIQUIDITY AND AVAILABILITY (continued)

The Organization maintains Home Equity Line of Credit accounts totaling \$550,000 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 the Organization.

4. FUNDS HELD FOR OTHERS

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 the Organization.

5. RELATED PARTY RECEIVABLE

HCEB made operating advances to LSH and LFGH. Also, for the years ended June 30, 2020 and 2019, HCEB earned a management fee of \$9,588 and bookkeeping fee of \$8,028 each year from LSH, and a management fee of \$4,500 and \$4,204 and a bookkeeping fee of \$0 and \$8,057, respectively, from LFGH.

The receivables are summarized below:

	2020	2019
LSH	\$ 50,023	\$ 53,053
LFGH	-	27,810
	\$ 50,023	\$ 80,863

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Entity	2020						
	Land	Building and Improvements	Construction in Progress	Furniture and Equipment	Total	Accumulated Depreciation	Net Fixed Assets
HCEB	\$ 2,415,392	\$ 4,443,024	\$ -	\$ 10,360	\$ 6,868,776	\$ (279,704)	\$ 6,589,072
ICEB	3,353,500	16,413,039	-	19,941	19,786,480	(4,807,028)	14,979,452
MHCO	825,032	974,817	-	3,207	1,803,056	(513,890)	1,289,166
Magnolia	153,171	2,251,681	-	55,388	2,460,240	(537,626)	1,922,614
Ashland	1,071,627	2,323,811	-	48,557	3,443,995	(448,908)	2,995,087
Fairview	322,698	753,583	-	-	1,076,281	(164,847)	911,434
Tri Valley	240,000	2,186,755	623,066	2,044	3,051,865	(39,605)	3,012,260
CCT	557,566	2,424,853	-	-	2,982,419	(168,058)	2,814,361
	\$ 8,938,986	\$ 31,771,563	\$ 623,066	\$ 139,497	\$ 41,473,112	\$ (6,959,666)	\$ 34,513,446

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6. PROPERTY AND EQUIPMENT (continued)

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
TriValley	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
	<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>

7. NOTES PAYABLE

Notes payable are detailed as follows:

	<u>2020</u>	<u>2019</u>
California Health Facilities Financing Authority note, 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% per annum over the term of the loan.	\$ 6,679,093	\$ 7,674,895
California Health Facilities Financing Authority note, secured by the deed of trust on ICEB's properties, monthly variable payments of principal and interest. The note is due in 2026, and bears interest at rates from 3.3% to 7.8% per annum over the term of the loan.	2,633,482	3,005,548
County of Alameda note, 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, 2020 and 2019, accrued interest was \$208,008 and \$183,498, respectively.	805,003	805,003

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7. NOTES PAYABLE (continued)

	2020	2019
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 \$1,622.	90,336	103,863
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, 2020 and 2019, accrued interest was \$94,379 and \$84,647, respectively.	324,480	324,480
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, 2020, and 2019, accrued interest was \$112,552 and \$99,580, respectively.	432,640	432,640
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, 2020 and 2019, accrued interest was \$104,629 and \$91,345, respectively.	442,880	442,880
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, 2020 and 2019, accrued interest was \$75,184 and \$65,380, respectively.	326,900	326,900

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7. NOTES PAYABLE (continued)

	2020	2019
<p>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, 2020 and 2019, accrued interest was \$49,607 and \$44,507, respectively.</p>	170,341	170,341
<p>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, 2020 and 2019, accrued interest was \$47,932 and \$42,412, respectively.</p>	183,961	183,961
<p>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 2032 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, 2020 and 2019, accrued interest was \$40,306 and \$35,194, respectively.</p>	170,639	170,639
<p>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 2032 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, 2020 and 2019, accrued interest was \$47,807 and \$41,567, respectively.</p>	207,832	207,832

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7. NOTES PAYABLE (continued)

	2020	2019
<p>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, 2020 and 2019, accrued interest was \$89,764 and \$70,312, respectively.</p>	648,325	648,325
<p>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, 2020 and 2019, accrued interest was \$95,121 and \$74,613, respectively.</p>	683,575	683,575
<p>Redevelopment Agency of the City of Livermore, secured by the deed of trust on a Tri Valley property. The note bears simple interest at 3% per annum and is due in full in 2073. As of June 30, 2020 and 2019, accrued interest was \$12,926 and \$7,386, respectively.</p>	184,652	184,652
<p>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.</p>	481,297	678,615
<p>County of Alameda, secured by the deed of trust for a CCT property. The note bears no interest, with a face amount of \$704,506, and principal is 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. Interest expense and contribution from imputed interest calculation, with effective interest rate of 3%, are reported in the Statement of Activities. The full amount of principal 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.</p>	704,506	704,506

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7. NOTES PAYABLE (continued)

	2020	2019
<p>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 default, or c) expiration of the term of the loan. As of June 30, 2020 and 2019, accrued interest was \$65,991 and \$55,131, respectively.</p>	361,976	361,976
<p>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, 2020 and 2019, accrued interest was \$17,250 and \$14,250, respectively.</p>	100,000	100,000
<p>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.</p>	239,086	253,467
<p>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.</p>	340,091	360,547
<p>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.</p>	366,002	387,581
<p>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.</p>	456,852	467,079

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7. NOTES PAYABLE (continued)

	2020	2019
<p>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.</p>	386,631	395,228
<p>Department of Developmental Services, secured by the deed of trust for the HCEB Woodland property. The note bears no interest, with a face amount of \$420,000. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2046, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	420,000	420,000
<p>* Department of Developmental Services, secured by the deed of trust for the HCEB Woodland property. The note bears no interest, with a face amount of \$526,866. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2046, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	526,866	526,866
<p>Department of Developmental Services, secured by the HCEB Trifari property. The note bears no interest, with a face amount of \$420,000. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2031, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	420,000	420,000
<p>* Department of Developmental Services, secured by the HCEB Trifari property. The note bears no interest, with a face amount of \$552,003. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2031, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	552,003	552,003

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7. NOTES PAYABLE (continued)

	2020	2019
<p>Department of Developmental Services, secured by the deed of trust for the HCEB Las Juntas property. The note bears no interest, with a face amount of of \$425,000. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2031, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	425,000	425,000
<p>* Department of Developmental Services, secured by the deed of trust for the HCEB Las Juntas property. The note bears no interest, with a face amount of of \$472,815. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2031, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	472,815	472,815
<p>Department of Developmental Services, secured by the deed of trust for the HCEB School Court property. The note bears no interest, with a face amount of of \$425,000. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2041, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	425,000	425,000
<p>* Department of Developmental Services, secured by the deed of trust for the HCEB School Court property. The note bears no interest, with a face amount of \$532,204. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2041, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	532,204	532,204
<p>Department of Developmental Services, secured by the deed of trust for the HCEB Kelok property. The note bears no interest, with a face amount of \$475,000. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2041, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	475,000	475,000

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7. NOTES PAYABLE (continued)

	2020	2019
<p>* Department of Developmental Services, secured by the deed of trust for the HCEB Kelok property. The note bears no interest, with a face amount of \$438,466. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Payment of the loan is deferred until 2041, after which, if the loan is not in default, DDS shall forgive the loan in full and consider it to be repaid.</p>	438,466	438,466
<p>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>	9,000	9,500
<p>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>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>	48,793	49,646
<p>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, 2020 and 2019, accrued interest was \$119,175 and \$51,075, respectively.</p>	2,270,000	2,270,000

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7. NOTES PAYABLE (continued)

	2020	2019
<p>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, 2020 and 2019, accrued interest was \$32,142 and \$15,755, respectively.</p>	590,924	452,293
<p>County of Alameda, secured by the deed of trust for a CCT property. The note bears no interest, with a face amount of \$1,815,937. An effective market rate of interest of 3% is used to calculate interest expense and contribution revenue. Principal is 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 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.</p>	<u>1,815,937</u> 27,042,588	<u>1,815,937</u> 28,559,263
Less unamortized debt issuance costs	<u>(547,316)</u>	<u>(629,447)</u>
Current portion	26,495,272 <u>(1,634,957)</u>	27,929,816 <u>(1,521,935)</u>
	<u>\$ 24,860,315</u>	<u>\$ 26,407,881</u>

The future maturities of the notes payable are as follows:

<u>Year ending June 30,</u>	
2021	\$ 1,634,957
2022	1,727,772
2023	1,833,696
2024	1,965,584
2025	2,097,874
Thereafter	17,782,705
	<u>\$ 27,042,588</u>

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7. 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.

8. PAYCHECK PROTECTION PROGRAM LOAN

On April 24, 2020, the Organization obtained a Small Business Administration (SBA) Paycheck Protection Program Loan (PPP), in the amount of \$196,170, with an interest rate of 1%. This loan is subject in all respects to the Coronavirus Aid, Relief, and Economic Security Act and the requirements, rules, regulations, procedures and guidance concerning the PPP in effect as of the date of the loan, and as may be promulgated from time to time after the date of this loan by the U.S. Department of Treasury and/or SBA, including, without limitation, all PPP regulations applicable to permitted uses of loan proceeds and loan forgiveness. No payments are due on the PPP loan for 6 months from the date of first disbursement of the loan. Interest will continue to accrue during the deferment period. The loan can be forgiven in an amount equal to the sum of the eligible costs as stated in the loan agreement. Management anticipates that the PPP loan will be forgiven. As of June 30, 2020, the balance of the PPP loan amounted to \$196,170.

9. LINE 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, 2020 and 2019, the outstanding balances were \$150,000 and \$150,000, respectively. The interest rate was 3.35% as of June 30, 2020.

10. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020 and 2019, donor restricted net assets were available to purchase, rehab and maintain affordable housing for individuals with developmental disabilities.

Net assets with donor restrictions consisted of the following:

	2020	2019
Maintenance of individual home in Walnut Creek	\$ -	\$ 16,890
Vineyard project development	100,000	-
	\$ 100,000	\$ 16,890

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11. 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, 2020 and 2019 was \$44,093 and \$42,603, respectively.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2021	\$ 43,465
2022	43,465
2023	<u>25,355</u>
	<u>\$ 112,285</u>

ICEB entered into individual lease agreements with service providers to operate 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.

12. 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.

13. COMMITMENTS

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.

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

13. COMMITMENTS (continued)

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 ending 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 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.

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

13. COMMITMENTS (continued)

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 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 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.

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.

Housing Consortium of the East Bay and Affiliates  
Notes to Consolidated Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

14. COVID-19 IMPACT

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. The Organization did not have material financial impact from the COVID-19 outbreak through the report date of October 15, 2020. Although the Organization is continuing to monitor impact of the COVID-19 outbreak, the future financial impact and duration cannot be reasonably estimated at this time.

15. SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to June 30, 2020 for potential recognition or disclosure in the financial statements. Such events were evaluated through October 15, 2020, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Housing Consortium of the East Bay and Affiliates  
Consolidating Statement of Financial Position  
June 30, 2020

ASSETS

	Housing Consortium of the East Bay	Inclusive Communities East Bay	Mentally Handicapped Children's Organization	Magnolia Terrace, LLC	Ashland NSP, LLC	Fairview Homes, LLC	Tri Valley BMR, LLC	CCT East Bay, LLC	Eliminating Entries	2020 Total	2019 Total
<b>Current assets</b>											
Cash	\$ 339,257	\$ 7,924	\$ 16,761	\$ 4,820	\$ 75,456	\$ 958	\$ 100,681	\$ 44,137	\$ -	\$ 589,994	\$ 158,496
Restricted cash	-	-	-	-	-	-	-	-	-	-	16,890
Funds held for others	59,343	-	-	-	-	-	-	-	-	59,343	26,618
Accounts, contracts and other receivables	405,883	16,890	47	996	8,828	-	18,713	18,102	-	469,459	148,933
Due from related parties	112,066	-	931,573	-	-	-	-	-	(993,616)	50,023	80,863
Prepaid expenses	17,594	-	-	-	-	-	-	-	-	17,594	16,824
Other current assets	11,956	-	-	-	-	-	-	-	-	11,956	145
<b>Total current assets</b>	<b>946,099</b>	<b>24,814</b>	<b>948,381</b>	<b>5,816</b>	<b>84,284</b>	<b>958</b>	<b>119,394</b>	<b>62,239</b>	<b>(993,616)</b>	<b>1,198,369</b>	<b>448,769</b>
Debt service reserve	-	2,123,989	-	-	-	-	-	-	-	2,123,989	2,073,709
Replacement reserves	72,303	348,928	10	11,983	120,940	12,584	1,515	25,396	-	593,659	572,057
Tax and insurance impounds	-	409,507	-	-	-	51,644	-	-	-	461,151	450,955
Operating reserves	-	-	-	18,617	39,016	-	-	27,111	-	84,744	73,934
Tenant security deposits	-	-	1,548	1,157	8,429	-	450	2,222	-	13,806	12,845
Deposits	104,000	-	-	-	-	-	-	-	-	104,000	4,000
Property and equipment, net	6,589,072	14,979,452	1,289,166	1,922,614	2,995,087	911,434	3,012,260	2,814,361	-	34,513,446	35,118,274
<b>Total noncurrent assets</b>	<b>6,765,375</b>	<b>17,861,876</b>	<b>1,290,724</b>	<b>1,954,371</b>	<b>3,163,472</b>	<b>975,662</b>	<b>3,014,225</b>	<b>2,869,090</b>	<b>-</b>	<b>37,894,795</b>	<b>38,305,774</b>
<b>Total assets</b>	<b>\$ 7,711,474</b>	<b>\$ 17,886,690</b>	<b>\$ 2,239,105</b>	<b>\$ 1,960,187</b>	<b>\$ 3,247,756</b>	<b>\$ 976,620</b>	<b>\$ 3,133,619</b>	<b>\$ 2,931,329</b>	<b>\$ (993,616)</b>	<b>\$ 39,093,164</b>	<b>\$ 38,754,543</b>

Housing Consortium of the East Bay and Affiliates  
Consolidating Statement of Financial Position  
June 30, 2020

LIABILITIES AND NET ASSETS

	Housing Consortium of the East Bay	Inclusive Communities East Bay	Mentally Handicapped Children's Organization	Magnolia Terrace, LLC	Ashland NSP, LLC	Fairview Homes, LLC	Tri Valley BMR, LLC	CCT East Bay, LLC	Eliminating Entries	2020 Total	2019 Total
<b>Current liabilities</b>											
Accounts payable	\$ 88,240	\$ 6,761	\$ 969	\$ 4,739	\$ 11,471	\$ 295	\$ 4,623	\$ 1,243	\$ -	\$ 118,341	\$ 48,800
Accrued expenses	84,540	-	-	-	-	-	-	-	-	84,540	31,233
Deferred revenue	-	172,012	-	-	80,296	-	-	-	-	252,308	179,355
Deferred rent	-	-	-	-	-	-	-	-	-	-	497
Due to related parties	931,573	17,271	-	-	-	25,415	19,357	-	(993,616)	-	-
Current portion of notes payable	82,747	1,449,965	-	13,182	-	89,063	-	-	-	1,634,957	1,521,935
SBA PPP loan	196,170	-	-	-	-	-	-	-	-	196,170	-
Line of credit	-	-	150,000	-	-	-	-	-	-	150,000	150,000
Funds held for others	59,343	-	-	-	-	-	-	-	-	59,343	26,618
Security deposits	-	-	1,567	1,186	8,452	-	450	2,251	-	13,906	12,017
Contract advance	269,968	-	-	-	-	-	-	-	-	269,968	144,920
<b>Total current liabilities</b>	<b>1,712,581</b>	<b>1,646,009</b>	<b>152,536</b>	<b>19,107</b>	<b>100,219</b>	<b>114,773</b>	<b>24,430</b>	<b>3,494</b>	<b>(993,616)</b>	<b>2,779,533</b>	<b>2,115,375</b>
<b>Long-term liabilities</b>											
Notes payable, net of current portion	6,376,090	7,428,746	248,793	880,523	3,531,296	392,234	3,020,214	2,982,419	-	24,860,315	26,407,881
Accrued interest	355	-	-	208,008	757,281	-	164,243	83,241	-	1,213,128	976,652
<b>Total long-term liabilities</b>	<b>6,376,445</b>	<b>7,428,746</b>	<b>248,793</b>	<b>1,088,531</b>	<b>4,288,577</b>	<b>392,234</b>	<b>3,184,457</b>	<b>3,065,660</b>	<b>-</b>	<b>26,073,443</b>	<b>27,384,533</b>
<b>Total liabilities</b>	<b>8,089,026</b>	<b>9,074,755</b>	<b>401,329</b>	<b>1,107,638</b>	<b>4,388,796</b>	<b>507,007</b>	<b>3,208,887</b>	<b>3,069,154</b>	<b>(993,616)</b>	<b>28,852,976</b>	<b>29,499,908</b>
<b>Net assets</b>											
Without donor restrictions	(377,552)	8,811,935	1,837,776	852,552	(1,141,043)	469,613	(175,268)	(137,825)	-	10,140,188	9,237,745
With donor restrictions	-	-	-	-	-	-	100,000	-	-	100,000	16,890
<b>Total net assets</b>	<b>(377,552)</b>	<b>8,811,935</b>	<b>1,837,776</b>	<b>852,552</b>	<b>(1,141,043)</b>	<b>469,613</b>	<b>(75,268)</b>	<b>(137,825)</b>	<b>-</b>	<b>10,240,188</b>	<b>9,254,635</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,711,474</b>	<b>\$ 17,886,690</b>	<b>\$ 2,239,105</b>	<b>\$ 1,960,190</b>	<b>\$ 3,247,753</b>	<b>\$ 976,620</b>	<b>\$ 3,133,619</b>	<b>\$ 2,931,329</b>	<b>\$ (993,616)</b>	<b>\$ 39,093,164</b>	<b>\$ 38,754,543</b>

Housing Consortium of the East Bay and Affiliates  
Consolidating Statement of Activities  
For The Year Ended June 30, 2020

	Housing Consortium of the East Bay	Inclusive Communities East Bay	Mentally Handicapped Children's Organization	Magnolia Terrace, LLC	Ashland NSP, LLC	Fairview Homes, LLC	Tri Valley BMR, LLC	CCT East Bay, LLC	Eliminating Entries	2020 Total	2019 Total
Support and revenue											
Rental income	\$ 218,278	\$ 2,269,841	\$ 113,723	\$ 63,060	\$ 183,042	\$ 137,314	\$ 6,252	\$ 112,489	\$ -	\$ 3,103,999	\$ 3,078,488
Property management reimbursement	1,565,009	117,326	-	-	-	46,946	-	-	-	1,729,281	917,345
Contributions	158,339	-	32	-	-	-	100,000	36,828	-	295,199	114,811
Property management income	491,804	-	-	-	-	-	-	-	(201,266)	290,538	190,707
Contract revenue	285,909	-	-	-	-	-	-	-	-	285,909	12,913
Miscellaneous	147	-	5	-	-	133,215	-	982	-	134,349	15,215
Interest income	18	66,019	1	12	2,855	15	1	15	-	68,936	8,293
Other revenue	4,293	1,456	-	-	16,156	-	-	-	-	21,905	113,677
Developer fee	15,000	-	-	-	-	-	-	-	-	15,000	33,033
Total support and revenue	<u>2,738,797</u>	<u>2,454,642</u>	<u>113,761</u>	<u>63,072</u>	<u>202,053</u>	<u>317,490</u>	<u>106,253</u>	<u>150,314</u>	<u>(201,266)</u>	<u>5,945,116</u>	<u>4,484,482</u>
Operating expenses											
Property management	639,476	1,528,645	68,307	120,282	344,058	130,598	91,461	177,141	(201,266)	2,898,702	3,853,725
Housing development services	69,913	-	-	-	-	-	-	-	-	69,913	-
Housing services	1,621,212	-	-	-	-	-	-	-	-	1,621,212	-
Management and general	207,537	19,291	6,376	16,890	30,953	6,385	1,810	13,975	-	303,217	-
Fundraising	66,520	-	-	-	-	-	-	-	-	66,520	-
Total operating expenses	<u>2,604,658</u>	<u>1,547,936</u>	<u>74,683</u>	<u>137,172</u>	<u>375,011</u>	<u>136,983</u>	<u>93,271</u>	<u>191,116</u>	<u>201,266</u>	<u>4,959,564</u>	<u>3,853,725</u>
Changes in net assets	134,139	906,706	39,078	(74,100)	(172,958)	180,507	12,982	(40,802)	-	985,552	630,757
Net assets, beginning 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>-</u>	<u>9,254,635</u>	<u>8,623,878</u>
Net assets, end of year	<u><u>\$ (377,556)</u></u>	<u><u>\$ 8,811,936</u></u>	<u><u>\$ 1,837,776</u></u>	<u><u>\$ 852,553</u></u>	<u><u>\$ (1,141,043)</u></u>	<u><u>\$ 469,614</u></u>	<u><u>\$ (75,268)</u></u>	<u><u>\$ (137,825)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,240,187</u></u>	<u><u>\$ 9,254,635</u></u>

SINGLE AUDIT REPORTS AND SCHEDULES

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Housing Consortium of the East Bay and Affiliates (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2020, 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 our report thereon dated October 15, 2020.

### **Internal Control Over Financial Reporting**

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

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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



Armanino<sup>LLP</sup>  
San Francisco, California

October 15, 2020

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**

We have audited Housing Consortium of the East Bay and Affiliates (a California nonprofit corporation) (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2020. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

We did not identify any deficiencies in internal control over compliance that we consider 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 our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
San Francisco, California

October 15, 2020

Housing Consortium of the East Bay and Affiliates  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Housing and Urban Development			
Pass-through County of Alameda			
Community Development Block Grants/Entitlement Grants	14.218	N/A	\$ 273,892
Community Development Block Grants/Entitlement Grants	14.218	N/A	235,000
Community Development Block Grants/Entitlement Grants	14.218	N/A	125,386
Community Development Block Grants/Entitlement Grants	14.218	N/A	10,000
HOME Investment Partners Program	14.239	N/A	200,000
HOME Investment Partners Program	14.239	N/A	570,003
HOME Investment Partners Program	14.239	N/A	200,000
HOME Investment Partners Program	14.239	N/A	100,000
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	1,342,045
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	504,506
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	361,976
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	207,832
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	183,961
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	170,341
Neighborhood Stabilization Program (Recovery Act Funded)	14.256	N/A	45,253
			<u>4,530,195</u>
Pass-through Housing Authority			
County of Alameda - Section 8 Housing Assistance Payments	14.871	N/A	189,431
City of Oakland - Section 8 Housing Assistance Payments	14.871	N/A	28,673
County of Contra Costa - Section 8 Housing Assistance Payments	14.871	N/A	30,663
			<u>248,767</u>
Total U.S. Department of Housing and Urban Development			<u>4,778,962</u>
Total Expenditures of Federal Awards			<u>\$ 4,778,962</u>

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

Housing Consortium of the East Bay and Affiliates  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2020

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 (the "Organization") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. FEDERAL LOAN PROGRAMS

The accompanying schedule of expenditures of federal awards includes loan balances for which continuing compliance is required. The balances of the loans which continuing compliance was required as of June 30, 2020 amounted to \$4,530,195.

4. INDIRECT COST RATE

HCEB has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Housing Consortium of the East Bay and Affiliates  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Neighborhood Stabilization Program (Recovery Act Funded)	14.256
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Housing Consortium of the East Bay and Affiliates  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Housing Consortium of the East Bay and Affiliates  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2020

There were no prior year findings.