

Housing Consortium of the East Bay and Affiliates

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

June 30, 2022
(With Comparative Totals for 2021)



TABLE OF CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| Independent Auditor's Report | 1 - 3 |
| Consolidated Statement of Financial Position | 4 - 5 |
| Consolidated Statement of Activities | 6 |
| Consolidated Statement of Functional Expenses | 7 |
| Consolidated Statement of Cash Flows | 8 - 9 |
| Notes to Consolidated Financial Statements | 10 - 30 |
| Supplementary Information | |
| Consolidating Statement of Financial Position | 32 - 33 |
| Consolidating Statement of Activities | 34 |
| 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 <i>Government Auditing Standards</i> | 36 - 37 |
| Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance | 38 - 40 |
| Schedule of Expenditures of Federal Awards | 41 |
| Notes to Schedule of Expenditures of Federal Awards | 42 |
| Schedule of Findings and Questioned Costs | 43 - 44 |
| Summary Schedule of Prior Audit Findings | 45 |

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Housing Consortium of the East Bay and Affiliates (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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.

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, 2022, 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.

Basis of Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Housing Consortium of the East Bay and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited Housing Consortium of the East Bay's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Housing Consortium of the East Bay's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Housing Consortium of the East Bay's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Housing Consortium of the East Bay's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 32 - 34 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 February 28, 2023, 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.



Armanino^{LLP}
San Francisco, California

February 28, 2023

Housing Consortium of the East Bay and Affiliates
Consolidated Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

| | 2022 | 2021 |
|---|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 583,183 | \$ 1,407,226 |
| Funds held for others | 73,238 | 103,130 |
| Accounts, contracts and other receivables | 2,225,372 | 1,337,538 |
| Due from related parties | 179,821 | 59,242 |
| Prepaid expenses | 94,494 | 38,426 |
| Other current assets | 2,045 | 131 |
| Total current assets | 3,158,153 | 2,945,693 |
| Property and equipment, net | 39,820,995 | 39,462,169 |
| Other assets | | |
| Debt service reserve | 2,101,370 | 2,101,370 |
| Replacement reserves | 705,194 | 696,248 |
| Tax and insurance impounds | 502,273 | 458,853 |
| Operating reserves | 90,327 | 84,105 |
| Tenant security deposits | 66,029 | 63,710 |
| Deposits | 302,722 | 4,000 |
| Total other assets | 3,767,915 | 3,408,286 |
| Total assets | \$ 46,747,063 | \$ 45,816,148 |

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, 2022
(With Comparative Totals for 2021)

| | 2022 | 2021 |
|---------------------------------------|---------------|---------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 847,677 | \$ 255,414 |
| Accrued expenses | 83,951 | 57,877 |
| Deferred revenue | 184,450 | 291,699 |
| Deferred rent | 6,227 | - |
| Due to related parties | 300 | - |
| Current portion of notes payable | 1,812,544 | 1,734,751 |
| Line of credit | 62,645 | 550,000 |
| Funds held for others | - | 103,130 |
| Security deposits | 63,614 | 65,530 |
| Refundable advances | 2,369 | 370,981 |
| Total current liabilities | 3,063,777 | 3,429,382 |
| Long-term liabilities | | |
| Notes payable, net of current portion | 27,238,472 | 28,689,004 |
| Accrued interest | 1,881,046 | 1,530,391 |
| Total long-term liabilities | 29,119,518 | 30,219,395 |
| Total liabilities | 32,183,295 | 33,648,777 |
| Net assets | | |
| Without donor restrictions | 13,103,768 | 11,533,735 |
| With donor restrictions | 1,460,000 | 633,636 |
| Total net assets | 14,563,768 | 12,167,371 |
| Total liabilities and net assets | \$ 46,747,063 | \$ 45,816,148 |

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, 2022
(With Comparative Totals for 2021)

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total | 2021 Total |
|--|----------------------------------|----------------------------|----------------------|----------------------|
| Revenues and support | | | | |
| Rental income | \$ 3,487,181 | \$ - | \$ 3,487,181 | \$ 3,311,614 |
| Property management reimbursement | 6,197,637 | - | 6,197,637 | 3,609,328 |
| Contributions | 74,770 | 1,060,000 | 1,134,770 | 846,891 |
| Property management income | 200,111 | - | 200,111 | 157,092 |
| Contract revenue | 1,585,190 | - | 1,585,190 | 1,071,014 |
| Miscellaneous | 112,741 | - | 112,741 | 14,901 |
| Interest income | 454 | - | 454 | 429 |
| Other revenue | 48,925 | - | 48,925 | 66,691 |
| Other income - Paycheck Protection Program loan forgiveness | - | - | - | 196,170 |
| Net assets released from restriction | <u>233,636</u> | <u>(233,636)</u> | <u>-</u> | <u>-</u> |
| Total revenues and support | <u>11,940,645</u> | <u>826,364</u> | <u>12,767,009</u> | <u>9,274,130</u> |
| Functional expenses | | | | |
| Program services | | | | |
| Property management | 3,449,869 | - | 3,449,869 | 2,971,424 |
| Housing development services | 222,376 | - | 222,376 | 67,596 |
| Housing services | <u>6,168,883</u> | <u>-</u> | <u>6,168,883</u> | <u>4,004,950</u> |
| Total program services | <u>9,841,128</u> | <u>-</u> | <u>9,841,128</u> | <u>7,043,970</u> |
| Support services | | | | |
| Management and general | 500,490 | - | 500,490 | 284,919 |
| Fundraising | <u>28,994</u> | <u>-</u> | <u>28,994</u> | <u>18,058</u> |
| Total support services | <u>529,484</u> | <u>-</u> | <u>529,484</u> | <u>302,977</u> |
| Total functional expenses | <u>10,370,612</u> | <u>-</u> | <u>10,370,612</u> | <u>7,346,947</u> |
| Change in net assets | 1,570,033 | 826,364 | 2,396,397 | 1,927,183 |
| Net assets, beginning of year | <u>11,533,735</u> | <u>633,636</u> | <u>12,167,371</u> | <u>10,240,188</u> |
| Net assets, end of year | <u>\$ 13,103,768</u> | <u>\$ 1,460,000</u> | <u>\$ 14,563,768</u> | <u>\$ 12,167,371</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, 2022
(With Comparative Totals for 2021)

| | Program Services | | | Support Services | | 2022 Total | 2021 Total | |
|----------------------------------|------------------------|------------------------------------|---------------------|------------------------------|---------------------------|------------------|---------------------|---------------------|
| | Property Management | Housing Development Services | Housing Services | Total Program Services | Management and General | | | Fundraising |
| Salaries and wages | \$ 336,219 | \$ 36,319 | \$ 2,257,706 | \$ 2,630,244 | \$ 273,852 | \$ 20,746 | \$ 2,924,842 | \$ 1,753,161 |
| Employee benefits | 46,363 | 5,008 | 311,324 | 362,695 | 37,762 | 2,860 | 403,317 | 273,551 |
| Professional fees | - | 171,049 | - | 171,049 | - | - | 171,049 | 35,592 |
| Audit and accounting | - | - | - | - | 56,840 | - | 56,840 | 53,098 |
| Legal fees | 23,048 | - | - | 23,048 | - | - | 23,048 | 16,965 |
| Office expenses | 22,701 | 2,159 | - | 24,860 | 9,965 | 1,163 | 35,988 | 21,170 |
| Advertising | 5,257 | 569 | - | 5,826 | 2,629 | 307 | 8,762 | 5,545 |
| Telephone | 20,581 | 1,163 | - | 21,744 | 5,367 | 627 | 27,738 | 16,378 |
| Transportation | 6,735 | 729 | - | 7,464 | 3,367 | 394 | 11,225 | 4,560 |
| Postage | 2,456 | 266 | - | 2,722 | 1,228 | 143 | 4,093 | 2,403 |
| Program management | - | - | 3,599,853 | 3,599,853 | 73,466 | - | 3,673,319 | 2,479,517 |
| Rent | 29,879 | 3,237 | - | 33,116 | 14,939 | 1,743 | 49,798 | 48,588 |
| Utilities | 122,445 | - | - | 122,445 | - | - | 122,445 | 93,897 |
| Property maintenance | 504,070 | - | - | 504,070 | - | - | 504,070 | 321,159 |
| Insurance | 87,667 | - | - | 87,667 | 5,653 | - | 93,320 | 72,664 |
| Taxes and licenses | 196,626 | - | - | 196,626 | - | - | 196,626 | 119,923 |
| Interest expense | 1,065,443 | - | - | 1,065,443 | - | - | 1,065,443 | 1,072,648 |
| Bank charges | 16,642 | - | - | 16,642 | 6,762 | - | 23,404 | 43,863 |
| Miscellaneous | 16,090 | 1,877 | - | 17,967 | 8,660 | 1,011 | 27,638 | 13,994 |
| Depreciation and amortization | <u>947,647</u> | <u>-</u> | <u>-</u> | <u>947,647</u> | <u>-</u> | <u>-</u> | <u>947,647</u> | <u>898,271</u> |
| | <u>\$ 3,449,869</u> | <u>\$ 222,376</u> | <u>\$ 6,168,883</u> | <u>\$ 9,841,128</u> | <u>\$ 500,490</u> | <u>\$ 28,994</u> | <u>\$10,370,612</u> | <u>\$ 7,346,947</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, 2022
(With Comparative Totals for 2021)

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 2,396,397 | \$ 1,927,183 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 863,748 | 814,963 |
| Amortization of debt issuance cost | 83,899 | 83,308 |
| Forgiveness of Paycheck Protection Program loan | - | (196,170) |
| Changes in operating assets and liabilities | | |
| Accounts, contracts and other receivable | (887,834) | (868,079) |
| Prepaid expenses | (56,068) | (20,832) |
| Other current assets | (1,914) | 11,825 |
| Accounts payable and accrued expense | 618,337 | 110,410 |
| Accrued interest | 350,655 | 317,263 |
| Deferred revenue | (107,249) | 39,391 |
| Deferred rent | 6,227 | - |
| Net cash provided by operating activities | <u>3,266,198</u> | <u>2,219,262</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (985,241) | (630,810) |
| Consideration received from acquisition of properties | - | 192,500 |
| Net increase (decrease) in deposit and funds held for others | (403,768) | 195,411 |
| Net cash used in investing activities | <u>(1,389,009)</u> | <u>(242,899)</u> |
| Cash flows from financing activities | | |
| Proceeds from notes payable | - | 154,756 |
| Payments of notes payable | (1,693,971) | (1,634,957) |
| Net proceeds (payments) on line of credit | (487,355) | 400,000 |
| Net change in amounts due to/from related parties | (120,279) | (9,219) |
| Refundable advance | (368,612) | 101,013 |
| Net cash used in financing activities | <u>(2,670,217)</u> | <u>(988,407)</u> |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (793,028) | 987,956 |
| Cash, cash equivalents and restricted cash, beginning of year | <u>4,914,642</u> | <u>3,926,686</u> |
| Cash, cash equivalents and restricted cash, end of year | <u>\$ 4,121,614</u> | <u>\$ 4,914,642</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, 2022
(With Comparative Totals for 2021)

| | 2022 | 2021 |
|--|--------------|--------------|
| Cash, cash equivalents and restricted cash consisted of the following: | | |
| Cash | \$ 583,183 | \$ 1,407,226 |
| Debt service reserve | 2,101,370 | 2,101,370 |
| Replacement reserves | 705,194 | 696,248 |
| Tax and insurance impounds | 502,273 | 458,853 |
| Funds held for others | 73,238 | 103,130 |
| Operating reserves | 90,327 | 84,105 |
| Tenant security deposits | 66,029 | 63,710 |
| | \$ 4,121,614 | \$ 4,914,642 |

Supplemental disclosure of cash flow information

| | | |
|--|--------------|--------------|
| Cash paid during the year for interest | \$ 1,416,097 | \$ 1,074,137 |
|--|--------------|--------------|

Supplemental schedule of noncash investing and financing activities

| | | |
|--|------------|--------------|
| Assets acquired by assuming long-term debt | \$ 237,333 | \$ 5,325,376 |
| Loan financing fees | \$ 367,183 | \$ 50,000 |

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, 2022
(With Comparative Totals for 2021)

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 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. During the year ended June 30, 2021, HCEB formed two new LLCs, Fremont Hotel Oakland, LLC and West County MHSA, LLC. 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)
- Fremont Hotel Oakland, LLC (Fremont)
- West County MHSA, LLC (West County)

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

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, 2022
(With Comparative Totals for 2021)

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, 2022
(With Comparative Totals for 2021)

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, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Organization recognizes revenues from exchange transactions based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, five basic criteria must be met before revenue can be recognized:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Organization satisfies a performance obligation.

Revenues from property management are recognized over the term of the management agreement as the management services are provided.

Rental income is recognized as it is earned over the term of the related rent agreement.

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 Consolidated 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.

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 and 2021, the balance of debt service reserve was \$2,101,370 and \$2,101,370, 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, 2022 and 2021, the balance of reserves was \$705,194 and \$696,248, respectively.

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 CDBG loan agreement. As of June 30, 2022 and 2021, the balance of reserves was \$90,327 and \$84,105, respectively.

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

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:

| | 2022 | 2021 |
|---|--------------|--------------|
| Financial assets | | |
| Cash | \$ 583,183 | \$ 1,407,226 |
| Funds held for others | 73,238 | 103,130 |
| Accounts, contracts and other receivables | 2,225,372 | 1,337,538 |
| Due from related parties | 179,821 | 59,242 |
| | 3,061,614 | 2,907,136 |
| Less amounts not available within one year: | | |
| Funds held for others | (73,238) | (103,130) |
| Funds subject to donor restrictions | (1,460,000) | (633,636) |
| | (1,533,238) | (736,766) |
| | \$ 1,528,376 | \$ 2,170,370 |

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.

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.

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

5. RELATED PARTY RECEIVABLE

HCEB made operating advances to LSH and LFGH. Also, for the years ended June 30, 2022 and 2021, 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 a bookkeeping fee of \$8,052 each year from LFGH.

The receivables are summarized below:

| | 2022 | 2021 |
|-------|------------|-----------|
| LSH | \$ 102,894 | \$ 52,753 |
| Other | 76,927 | 6,489 |
| | \$ 179,821 | \$ 59,242 |

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| 2022 | | | | | | | |
|-------------|--------------|------------------------------|-----------------------------|----------------------------|---------------|-----------------------------|---------------------|
| Entity | 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 | \$ (502,340) | \$ 6,366,436 |
| ICEB | 3,353,500 | 16,413,039 | - | 19,941 | 19,786,480 | (5,631,776) | 14,154,704 |
| MHCO | 825,032 | 974,817 | - | 3,207 | 1,803,056 | (545,126) | 1,257,930 |
| Magnolia | 153,171 | 2,251,681 | - | 55,388 | 2,460,240 | (655,299) | 1,804,941 |
| Ashland | 1,071,627 | 2,323,811 | - | 48,557 | 3,443,995 | (566,732) | 2,877,263 |
| Fairview | 322,698 | 753,583 | - | - | 1,076,281 | (202,527) | 873,754 |
| Tri Valley | 240,000 | 2,186,755 | 2,459,800 | 2,044 | 4,888,599 | (48,443) | 4,840,156 |
| CCT | 557,566 | 2,424,853 | - | - | 2,982,419 | (289,300) | 2,693,119 |
| Fremont | 248,956 | 3,772,479 | - | - | 4,021,435 | (165,067) | 3,856,368 |
| West County | 90,811 | 1,037,279 | - | - | 1,128,090 | (31,766) | 1,096,324 |
| | \$ 9,278,753 | \$ 36,581,321 | \$ 2,459,800 | \$ 139,497 | \$ 48,459,371 | \$ (8,638,376) | \$ 39,820,995 |

| 2021 | | | | | | | |
|-------------|--------------|------------------------------|-----------------------------|----------------------------|---------------|-----------------------------|---------------------|
| Entity | 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 | \$ (391,022) | \$ 6,477,754 |
| ICEB | 3,353,500 | 16,413,039 | - | 19,941 | 19,786,480 | (5,219,402) | 14,567,078 |
| MHCO | 825,032 | 974,817 | - | 3,207 | 1,803,056 | (529,508) | 1,273,548 |
| Magnolia | 153,171 | 2,251,681 | - | 55,388 | 2,460,240 | (596,462) | 1,863,778 |
| Ashland | 1,071,627 | 2,323,812 | - | 48,557 | 3,443,996 | (507,820) | 2,936,176 |
| Fairview | 322,698 | 753,582 | - | - | 1,076,280 | (183,687) | 892,593 |
| Tri Valley | 240,000 | 2,186,755 | 1,237,226 | 2,044 | 3,666,025 | (44,024) | 3,622,001 |
| CCT | 557,566 | 2,424,853 | - | - | 2,982,419 | (228,679) | 2,753,740 |
| Fremont | 248,956 | 3,772,479 | - | - | 4,021,435 | (67,541) | 3,953,894 |
| West County | 90,811 | 1,037,279 | - | - | 1,128,090 | (6,483) | 1,121,607 |
| | \$ 9,278,753 | \$ 36,581,321 | \$ 1,237,226 | \$ 139,497 | \$ 47,236,797 | \$ (7,774,628) | \$ 39,462,169 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE

Notes payable are detailed as follows:

| | 2022 | 2021 |
|--|--------------|--------------|
| 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. | \$ 4,517,054 | \$ 5,629,747 |
| 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. | 1,804,114 | 2,232,861 |
| 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, 2022 and 2021, accrued interest was \$257,028 and \$232,518, respectively. | 805,003 | 805,003 |
| 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 \$591. | 62,302 | 75,984 |
| 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, 2022 and 2021, accrued interest was \$113,843 and \$104,111, respectively. | 324,480 | 324,480 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|---|---------|---------|
| 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, 2022 and 2021, accrued interest was \$138,496 and \$125,524, 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, 2022 and 2021, accrued interest was \$131,197 and \$117,913, 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, 2022 and 2021, accrued interest was \$94,792 and \$84,998, respectively. | 326,900 | 326,900 |
| 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, 2022 and 2021, accrued interest was \$59,807 and \$54,707, respectively. | 170,341 | 170,341 |
| 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, 2022 and 2021, accrued interest was \$58,972 and \$53,452, respectively. | 183,961 | 183,961 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|---|---------|---------|
| 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, 2022 and 2021, accrued interest was \$50,530 and \$45,418, respectively. | 170,639 | 170,639 |
| 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, 2022 and 2021, accrued interest was \$60,287 and \$54,047, respectively. | 207,832 | 207,832 |
| 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, 2022 and 2021, accrued interest was \$128,688 and \$109,216, respectively. | 648,325 | 648,325 |
| 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, 2022 and 2021, accrued interest was \$136,137 and \$115,629, respectively. | 683,575 | 683,575 |
| 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, 2022 and 2021, accrued interest was \$24,005 and \$18,465, respectively. | 184,652 | 184,652 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|---|---------|---------|
| <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 \$12,446 are due. The note is due in full in 2026.</p> | 313,027 | 383,236 |
| <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. 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 |
| <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, 2022 and 2021, accrued interest was \$87,711 and \$76,851, 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, 2022 and 2021, accrued interest was \$23,250 and \$20,250, 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 \$2,589. The note is due in full in 2031.</p> | 210,774 | 223,805 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|--|---------|---------|
| 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 \$3,699. The note is due in full in 2031. | 299,820 | 318,158 |
| 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 \$3,911. The note is due in full in 2031. | 323,406 | 343,071 |
| 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 \$3,260. The note is due in full in 2041. | 436,877 | 445,938 |
| 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 \$2,751. The note is due in full in 2042. | 369,821 | 377,457 |
| 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. 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. | 420,000 | 420,000 |
| * 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. 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. | 526,866 | 526,866 |
| Department of Developmental Services, secured by the HCEB Trifari property. The note bears no interest, with a face amount of \$420,000. 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. | 420,000 | 420,000 |
| * Department of Developmental Services, secured by the HCEB Trifari property. The note bears no interest, with a face amount of \$552,003. 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. | 552,003 | 552,003 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|--|---------|---------|
| 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. 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. | 425,000 | 425,000 |
| * 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. 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. | 472,815 | 472,815 |
| 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. 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. | 425,000 | 425,000 |
| * 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. 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. | 532,204 | 532,204 |
| 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. | 475,000 | 475,000 |
| * 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. 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. | 438,466 | 438,466 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|---|-----------|-----------|
| <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> | 8,000 | 8,500 |
| <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> | 47,613 | 48,024 |
| <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, 2022 and 2021, accrued interest was \$255,375 and \$187,275, respectively.</p> | 2,270,000 | 2,270,000 |
| <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, 2022 and 2021, accrued interest was \$48,528 and \$48,528, respectively.</p> | 590,924 | 590,924 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

| | 2022 | 2021 |
|---|---------------|---------------|
| 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. | 1,815,937 | 1,815,937 |
| City of Oakland, secured by deed of trust for a Fremont property. The note dated September 30, 2020, bears simple interest of 3% per annum with a face amount of \$4,364,055 and is due in full in 2075. 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, 2022 and 2021, accrued interest was \$212,421 and \$81,499, respectively. | 4,364,055 | 4,364,055 |
| County of Contra Costa, secured by the deed of trust for a West County property. The note bears no interest, with a face amount of \$1,175,000 and is due in full in 2075. No repayment is required if the Organization complies with the requirements of Grant Documents for continuing 55 years. | 1,175,000 | 1,175,000 |
| 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 County share of the residual receipts. Payments shall be applied first against interest and then principal. 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 2077. As of June 30, 2022, accrued interest was \$2,350 | 604,516 | - |
| | 29,848,304 | 30,937,761 |
| Less unamortized debt issuance costs | (797,288) | (514,006) |
| | 29,051,016 | 30,423,755 |
| Current portion | (1,812,544) | (1,734,751) |
| | \$ 27,238,472 | \$ 28,689,004 |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|-----------------------------|
| 2023 | \$ 1,812,544 |
| 2024 | 1,965,584 |
| 2025 | 2,097,875 |
| 2026 | 1,204,833 |
| 2027 | 117,079 |
| Thereafter | <u>22,650,389</u> |
| | <u><u>\$ 29,848,304</u></u> |

* 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. 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, 2022 and 2021, the outstanding balances were \$62,645 and \$550,000, respectively. The interest rate was 3.35% as of June 30, 2022.

9. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2022 and 2021, 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:

| | <u>2022</u> | <u>2021</u> |
|------------------------------|----------------------------|--------------------------|
| Vineyard project development | \$ 1,460,000 | \$ 400,000 |
| Taube Family Fund | <u>-</u> | <u>233,636</u> |
| | <u><u>\$ 1,460,000</u></u> | <u><u>\$ 633,636</u></u> |

Housing Consortium of the East Bay and Affiliates
Notes to Consolidated Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

10. 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, 2022 and 2021 was \$49,798 and \$44,093, respectively.

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

| <u>Year ending June 30,</u> | |
|-----------------------------|------------------|
| 2023 | \$ <u>26,541</u> |
| | <u>\$ 26,541</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.

11. 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.

12. 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, 2022
(With Comparative Totals for 2021)

12. 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, 2022
(With Comparative Totals for 2021)

12. 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, 2022
(With Comparative Totals for 2021)

12. COMMITMENTS (continued)

In 2020, HCEB purchased a thirty-nine unit rental housing and mixed use development to be commonly known as the "524-530 8th Street Project" and together with the Land in the City of Oakland, California for the purpose of providing affordable housing for low-income households. The financing for these properties was provided by the City of Oakland. The Regulatory Agreement between the City of Oakland and HCEB is in effect for the property owned by Fremont for 55 years from the date of the agreement. The property is subject to restrictions that 39 units will be rented at affordable rents to low income households.

In 2021, HCEB purchased two properties in the City of Richmond, California for the purpose of providing housing for low income individuals with developmental disabilities. The financing for these properties was provided by the Contra Costa County which received the funds from Mental Health Service Act (MHSA) and are administered by the County's Health Service Department. The Regulatory Agreement between the Contra Costa County and HCEB is in effect for the properties owned by West County for 55 years from the date of the agreement. The property owned by West County is subject to restrictions that it be used as a rental unit for very low-income households with a developmental disability.

13. SUBSEQUENT EVENTS

Management of the Organization has evaluated events and transactions subsequent to June 30, 2022 for potential recognition or disclosure in the financial statements. Such events were evaluated through February 28, 2023, 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, 2022

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 | Fremont Hotel Oakland LLC | West County MHSA LLC | Eliminating Entries | 2022 Total | 2021 Total |
|---|------------------------------------|--------------------------------|--|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|----------------------|-----------------------|----------------------|----------------------|
| Current assets | | | | | | | | | | | | | |
| Cash | \$ 226,640 | \$ 36,630 | \$ 75,688 | \$ 1,141 | \$ 12,806 | \$ 9,635 | \$ 6,998 | \$ 46,962 | \$ 81,996 | \$ 84,687 | \$ - | \$ 583,183 | \$ 1,407,226 |
| Funds held for others | 73,238 | - | - | - | - | - | - | - | - | - | - | 73,238 | 103,130 |
| Accounts, contracts and other receivables | 2,012,872 | 6,904 | 7,533 | (125) | 17,526 | 1,846 | - | 2,960 | 149,827 | 26,029 | - | 2,225,372 | 1,337,538 |
| Due from related parties | 636,010 | 15,353 | 874,012 | - | - | - | - | - | - | - | (1,345,554) | 179,821 | 59,242 |
| Prepaid expenses | 70,097 | - | - | - | - | - | 18,047 | - | 6,350 | - | - | 94,494 | 38,426 |
| Other current assets | 2,045 | - | - | - | - | - | - | - | - | - | - | 2,045 | 131 |
| Total current assets | 3,020,902 | 58,887 | 957,233 | 1,016 | 30,332 | 11,481 | 25,045 | 49,922 | 238,173 | 110,716 | (1,345,554) | 3,158,153 | 2,945,693 |
| Debt service reserve | - | 2,101,370 | - | - | - | - | - | - | - | - | - | 2,101,370 | 2,101,370 |
| Replacement reserves | 121,980 | 359,495 | 10 | 8,360 | 120,940 | 13,030 | 2,016 | 29,417 | 20,962 | 28,984 | - | 705,194 | 696,248 |
| Tax and insurance impounds | - | 410,437 | - | - | - | 50,364 | 146,267 | - | - | - | (104,795) | 502,273 | 458,853 |
| Operating reserves | - | - | - | - | 39,016 | - | - | 29,235 | - | 22,076 | - | 90,327 | 84,105 |
| Tenant security deposits | - | - | 1,569 | 713 | 11,759 | 10 | 540 | 1,745 | 36,712 | 12,981 | - | 66,029 | 63,710 |
| Deposits | 4,000 | - | - | - | - | - | 298,722 | - | - | - | - | 302,722 | 4,000 |
| Property and equipment, net | 6,366,436 | 14,154,704 | 1,257,930 | 1,804,941 | 2,877,263 | 873,754 | 4,840,156 | 2,693,119 | 3,856,368 | 1,096,324 | - | 39,820,995 | 39,462,169 |
| Total noncurrent assets | 6,492,416 | 17,026,006 | 1,259,509 | 1,814,014 | 3,048,978 | 937,158 | 5,287,701 | 2,753,516 | 3,914,042 | 1,160,365 | (104,795) | 43,588,910 | 42,870,455 |
| Total assets | \$ 9,513,318 | \$ 17,084,893 | \$ 2,216,742 | \$ 1,815,030 | \$ 3,079,310 | \$ 948,639 | \$ 5,312,746 | \$ 2,803,438 | \$ 4,152,215 | \$ 1,271,081 | \$ (1,450,349) | \$ 46,747,063 | \$ 45,816,148 |

Housing Consortium of the East Bay and Affiliates
Consolidating Statement of Financial Position
June 30, 2022

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 | Fremont Hotel Oakland LLC | West County MHSA LLC | Eliminating Entries | 2022 Total | 2021 Total |
|---|------------------------------------|--------------------------------|--|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|----------------------|-----------------------|----------------------|----------------------|
| Current liabilities | | | | | | | | | | | | | |
| Accounts payable | \$ 322,444 | \$ 4,334 | \$ 4,585 | \$ 1,214 | \$ 5,852 | \$ 6,967 | \$ 488,509 | \$ 2,545 | \$ 10,489 | \$ 738 | \$ - | \$ 847,677 | \$ 255,414 |
| Accrued expenses | 83,951 | - | - | - | - | - | - | - | - | - | - | 83,951 | 57,877 |
| Deferred revenue | 1,800 | 182,650 | - | - | - | - | - | - | - | - | - | 184,450 | 291,699 |
| Deferred rent | - | - | - | - | - | - | - | - | - | 6,227 | - | 6,227 | - |
| Due to related parties | 889,665 | 101,030 | 408 | 42,499 | 61,888 | 33,710 | 138,176 | 17,988 | 2,494 | 57,996 | (1,345,554) | 300 | - |
| Current portion of notes payable | 80,037 | 1,632,915 | - | 1,530 | - | 98,062 | - | - | - | - | - | 1,812,544 | 1,734,751 |
| Line of credit | - | - | 62,645 | - | - | - | - | - | - | - | - | 62,645 | 550,000 |
| Funds held for others | - | - | - | - | - | - | - | - | - | - | - | - | 103,130 |
| Security deposits | 845 | - | 1,566 | 711 | 9,899 | - | 540 | 1,742 | 35,280 | 13,031 | - | 63,614 | 65,530 |
| Refundable advances | 2,369 | - | - | - | - | - | - | - | - | - | - | 2,369 | 370,981 |
| Total current liabilities | 1,381,111 | 1,920,929 | 69,204 | 45,954 | 77,639 | 138,739 | 627,225 | 22,275 | 48,263 | 77,992 | (1,345,554) | 3,063,777 | 3,429,382 |
| Long-term liabilities | | | | | | | | | | | | | |
| Notes payable, net of current portion | 6,233,470 | 4,408,656 | 247,614 | 864,735 | 3,534,623 | 214,966 | 3,259,990 | 2,982,419 | 4,316,999 | 1,175,000 | - | 27,238,472 | 28,689,004 |
| Accrued interest | - | - | - | 257,028 | 972,729 | - | 327,908 | 110,961 | 212,420 | - | - | 1,881,046 | 1,530,391 |
| Total long-term liabilities | 6,233,470 | 4,408,656 | 247,614 | 1,121,763 | 4,507,352 | 214,966 | 3,587,898 | 3,093,380 | 4,529,419 | 1,175,000 | - | 29,119,518 | 30,219,395 |
| Total liabilities | 7,614,581 | 6,329,585 | 316,818 | 1,167,717 | 4,584,991 | 353,705 | 4,215,123 | 3,115,655 | 4,577,682 | 1,252,992 | (1,345,554) | 32,183,295 | 33,648,777 |
| Net assets | | | | | | | | | | | | | |
| Without donor restrictions | 1,898,739 | 10,755,298 | 1,899,925 | 647,314 | (1,505,681) | 594,933 | (362,377) | (312,219) | (425,467) | 18,098 | (104,795) | 13,103,768 | 11,533,735 |
| With donor restrictions | - | - | - | - | - | - | 1,460,000 | - | - | - | - | 1,460,000 | 633,636 |
| Total net assets | 1,898,739 | 10,755,298 | 1,899,925 | 647,314 | (1,505,681) | 594,933 | 1,097,623 | (312,219) | (425,467) | 18,098 | (104,795) | 14,563,768 | 12,167,371 |
| Total liabilities and net assets | \$ 9,513,320 | \$ 17,084,883 | \$ 2,216,743 | \$ 1,815,031 | \$ 3,079,310 | \$ 948,638 | \$ 5,312,746 | \$ 2,803,436 | \$ 4,152,215 | \$ 1,271,090 | \$ (1,450,349) | \$ 46,747,063 | \$ 45,816,148 |

Housing Consortium of the East Bay and Affiliates
Consolidating Statement of Activities
For the Year Ended June 30, 2022

| | 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 | Fremont Hotel Oakland LLC | West County MHSA LLC | Eliminating Entries | 2022 Total | 2021 Total |
|---|------------------------------------|--------------------------------|--|-----------------------|-----------------------|---------------------|---------------------|---------------------|---------------------------|----------------------|---------------------|----------------------|----------------------|
| Support and revenue | | | | | | | | | | | | | |
| Rental income | \$ 218,278 | \$ 2,269,463 | \$ 117,589 | \$ 37,344 | \$ 170,926 | \$ 143,389 | \$ 6,487 | \$ 51,134 | \$ 316,120 | \$ 156,451 | \$ - | \$ 3,487,181 | \$ 3,311,614 |
| Property management reimbursement | 6,118,955 | 67,797 | - | - | - | 10,885 | - | - | - | - | - | 6,197,637 | 3,609,328 |
| Contributions | 74,765 | - | 5 | - | - | - | 1,060,000 | - | - | - | - | 1,134,770 | 846,891 |
| Property management income | 518,037 | - | - | - | - | - | - | - | - | - | (317,926) | 200,111 | 157,092 |
| Contract revenue | 1,585,190 | - | - | - | - | - | - | - | - | - | - | 1,585,190 | 1,071,014 |
| Miscellaneous | 99,920 | - | 10 | - | 10,944 | 1,857 | - | 10 | - | - | - | 112,741 | 14,901 |
| Interest income | 52 | 337 | 1 | 14 | 4 | 20 | 1 | 25 | - | - | - | 454 | 429 |
| Other revenue | 15,545 | 814 | - | - | - | - | - | - | 74 | 32,492 | - | 48,925 | 66,691 |
| Other income - Paycheck Protection Program loan forgiveness | - | - | - | - | - | - | - | - | - | - | - | - | 196,170 |
| Developer fee | 104,795 | - | - | - | - | - | - | - | - | - | (104,795) | - | - |
| Total support and revenue | 8,735,537 | 2,338,411 | 117,605 | 37,358 | 181,874 | 156,151 | 1,066,488 | 51,169 | 316,194 | 188,943 | (422,721) | 12,767,009 | 9,274,130 |
| Operating expenses | | | | | | | | | | | | | |
| Property management | 4,456,206 | 1,345,782 | 82,763 | 130,578 | 354,297 | 102,774 | 96,747 | 148,957 | 499,607 | 149,937 | (317,926) | 7,049,722 | 2,971,424 |
| Housing development services | 222,376 | - | - | - | - | - | - | - | - | - | - | 222,376 | 67,596 |
| Housing services | 2,569,030 | - | - | - | - | - | - | - | - | - | - | 2,569,030 | 4,004,950 |
| Management and general | 411,674 | 4,480 | 7,920 | 7,520 | 11,720 | 2,800 | 4,480 | 12,040 | 19,043 | 18,813 | - | 500,490 | 284,919 |
| Fundraising | 28,994 | - | - | - | - | - | - | - | - | - | - | 28,994 | 18,058 |
| Total operating expenses | 7,688,280 | 1,350,262 | 90,683 | 138,098 | 366,017 | 105,574 | 101,227 | 160,997 | 518,650 | 168,750 | 317,926 | 10,370,612 | 7,346,947 |
| Changes in net assets | 1,047,257 | 988,149 | 26,922 | (100,740) | (184,143) | 50,577 | 965,261 | (109,828) | (202,456) | 20,193 | (104,795) | 2,396,397 | 1,927,183 |
| Net assets, beginning of year | 851,482 | 9,767,149 | 1,873,003 | 748,054 | (1,321,538) | 544,356 | 132,362 | (202,391) | (223,011) | (2,095) | - | 12,167,371 | 10,240,188 |
| Net assets, end of year | \$ 1,898,739 | \$ 10,755,298 | \$ 1,899,925 | \$ 647,314 | \$ (1,505,681) | \$ 594,933 | \$ 1,097,623 | \$ (312,219) | \$ (425,467) | \$ 18,098 | \$ (104,795) | \$ 14,563,768 | \$ 12,167,371 |

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 (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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 February 28, 2023.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 that we consider to be material weaknesses.

Report on 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 consolidated financial statements. 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.

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

Armanino^{LLP}
San Francisco, California

February 28, 2023

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

Opinion on Each Major Federal Program

We have audited Housing Consortium of the East Bay and Affiliates (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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

Armanino^{LLP}
San Francisco, California

February 28, 2023

Housing Consortium of the East Bay and Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Assistance Listing 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 | 136,984 |
| City of Oakland - Section 8 Housing Assistance Payments | 14.871 | N/A | 30,617 |
| County of Contra Costa - Section 8 Housing Assistance Payments | 14.871 | N/A | 107,265 |
| | | | <u>274,866</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>4,805,061</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 4,805,061</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, 2022

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, 2022. 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, 2022 amounted to \$4,860,195.

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, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes |
| 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>Assistance Listing Number</u> |
|---|----------------------------------|
| HOME Investment Partners Program | 14.239 |
| 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, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

| | |
|--------------------------------|---|
| Finding number: | 2022-001 |
| Criteria: | Management is responsible for establishing internal controls to ensure account reconciliations are completed accurately and timely, thereby permitting the preparation of financial statements conformity with accounting principles generally accepted in the U.S. (GAAP). The Organization should assign accounting staff to reconcile accounts on a monthly basis with another individual reviewing the reconciliations and/or financial reports for accuracy. |
| Condition: | Various general ledger accounts including assets, liabilities, revenues, and expenses were not reconciled in a timely manner throughout the year. Adjustments were proposed by the auditors and other entries were provided by management after the commencement of the audit. Certain of these adjustments were of a material amount. |
| Cause: | The Organization experienced turnover in the Controller position. In addition, the Organization's accounting department may need additional resources to support the Organization's growth. |
| Effect or potential effect: | The Organization's unaudited financial statements may not be accurate and presented in accordance with GAAP. |
| Recommendation: | We recommend that management implement a more robust process to reconcile accounts on a timely basis. The reconciliation process should include an indication of the individual performing the reconciliation and the reviewer of the reconciliation. We also recommend that the Organization ensure its infrastructure and resources are sufficient to support the Organization's operations. |
| View of responsible officials: | Management concurs with the finding and is in the process of implementing a more robust internal controls process to ensure the timely and accurate completion of account reconciliations throughout the year. Management is also evaluating resource needs to support the Organization's operations. |

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, 2022

There were no prior year findings.



**Corrective Action Plan
For the Year Ended June 30, 2022**

Finding 2022-001

Corrective Action Plan: Management is in the process of implementing a stronger internal controls process to ensure the timely and accurate completion of account reconciliations throughout the year. Management is also evaluating resource needs to support the Organization's growth and operations.

Name of Responsible Person: Darin Lounds, Executive Director

Anticipated Completion Date: June 30, 2023

Darin Lounds, Executive Director

3/14/23

Date