

**EBSV COMMUNITY
DEVELOPMENT, INC.**

(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2019

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

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Board of Directors
EBSV Community Development, Inc.
Oakland, California

JAMES M. KRAFT
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CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH

CRISANTO S. FRANCISCO
JOE F. HUIE

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of EBSV Community Development, Inc., a California nonprofit public benefit corporation,, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EBSV Community Development, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lindquist, von Huen and Joyce LLP

December 13, 2019

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current assets:

| | |
|---|---------------|
| Cash and cash equivalents | \$ 1,466,501 |
| Mortgages receivable – current (Note 3) | 94,663 |
| Prepaid expenses – current | <u>11,151</u> |
| Total current assets | 1,572,315 |

| | |
|--|----------------------------|
| Mortgages receivable – net of current portion (Note 3) | 1,469,637 |
| Prepaid expenses – net of current portion | 14,868 |
| Deferred costs (Note 4) | <u>38,001</u> |
| Total assets | <u><u>\$ 3,094,821</u></u> |

LIABILITIES AND NET ASSETS

Current liabilities:

| | |
|--|---------------|
| Related-party payable – current (Note 5) | \$ 4,358 |
| Deferred revenue | <u>10,000</u> |
| Total current liabilities | 14,358 |

| | |
|---------------------------------|------------------|
| Other subordinate debt (Note 6) | <u>2,219,262</u> |
| Total liabilities | <u>2,233,620</u> |

Net assets:

| | |
|----------------------------------|----------------------------|
| Without donor restrictions | <u>861,201</u> |
| Total net assets | <u>861,201</u> |
| Total liabilities and net assets | <u><u>\$ 3,094,821</u></u> |

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

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2019

| | <i><u>Without Donor Restrictions</u></i> |
|--|--|
| Support and revenue: | |
| Grants and contributions | \$ 111,500 |
| | |
| Total support and revenue | <u>111,500</u> |
| Expenses: | |
| | |
| Program services | 105,023 |
| Management and general | <u>68,320</u> |
| Total expenses | <u>173,343</u> |
| | |
| Change in net assets before other revenue: | <u>(61,843)</u> |
| Other revenue: | |
| Mortgage discount amortization | <u>20,921</u> |
| | |
| Total other revenue and expenses | <u>20,921</u> |
| | |
| Change in net assets | (40,922) |
| | |
| Net assets, beginning of year | <u>902,123</u> |
| | |
| Net assets, end of year | <u><u>\$ 861,201</u></u> |

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

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2019

| | <i>Program Services</i> | <i>Management and General</i> | <i>Total</i> |
|-----------------------|-----------------------------|-----------------------------------|-------------------|
| Homeowner relations | \$ 56,214 | \$ - | \$ 56,214 |
| Professional services | 48,809 | - | 48,809 |
| Interest | - | 66,946 | 66,946 |
| Amortization | - | 1,299 | 1,299 |
| Miscellaneous | - | 75 | 75 |
| Total expenses | <u>\$ 105,023</u> | <u>\$ 68,320</u> | <u>\$ 173,343</u> |

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

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ (40,922) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Mortgage discount amortization | (20,921) |
| Amortization | 1,299 |
| Interest expense – permanent loan cost amortization (Note 6) | 5,890 |
| (Increase) decrease in assets: | |
| Related-party | 115,649 |
| Prepaid expenses | (17,130) |
| Increase (decrease) in liabilities: | |
| Related-party | (114,187) |
| Deferred revenue | 10,000 |
| Net cash used in operating activities | <u>(60,322)</u> |
| Cash flows from investing activities: | |
| Issuance of mortgages receivable | (527,167) |
| Collection of mortgages receivable | 65,021 |
| Deferred costs paid | <u>(39,300)</u> |
| Net cash used in investing activities | <u>(501,446)</u> |
| Decrease in cash and cash equivalents | (561,768) |
| Cash and cash equivalents, beginning of year | <u>2,028,269</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,466,501</u></u> |
| Supplementary information: | |
| Cash paid for interest | <u><u>\$ 61,056</u></u> |

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

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

EBSV Community Development, Inc. (EBSV) is a California nonprofit public benefit corporation, which was formed on May 25, 2016 as an instrument to further Habitat of East Bay Silicon Valley's (HEBSV) organizational objectives. EBSV's purposes are the attraction of long-term capital in order to finance community development activities of HEBSV and other affordable housing organizations, and to provide development services to participants in the programs of those entities. EBSV obtained Community Development Financial Institution certification of the CDFI Fund of the U.S. Department of Treasury on May 5, 2017.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Methods

EBSV 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 (GAAP) 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.

Basis of 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 and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- 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 restrictions 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions. Contributions restricted for the purchase of long-lived assets, are reported as without donor restriction when the assets are placed in service.

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. EBSV occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance limit or Security Investor Protection Corporation Coverage. The uninsured cash balance, including restricted accounts, was approximately \$1,224,000 as of June 30, 2019. EBSV has not experienced any losses in such accounts.

Mortgages Receivable

Mortgages receivable bear no interest and are discounted to reflect imputed interest over the lives of the mortgages. The discount rate used to impute interest of the first liens and second/third liens is 3% and 4%, respectively. For acquired mortgages, the discount is calculated as the difference between the gross value of the mortgages acquired and the acquisition price. Mortgages are reported net of unamortized discount and amortization is recognized on a straight-line basis. Management estimates that the difference between amortization calculated using the straight-line method and the effective interest method is not material.

Management may sell a portion of the first-lien mortgages. Due to the uncertainty of the timing and amount of each sale of those mortgage receivables, any loss resulting from such transactions will be recorded when the transactions are settled or when amounts can be reasonably estimated.

Allowance for Mortgages Receivable Losses

Management's determination of the level of the allowance for mortgages receivable losses rests upon various judgments and assumptions, including current and projected economic conditions, prior loan loss experience, the value of the underlying collateral, continuing review of the loan, and evaluation of credit risk. The allowance is increased or decreased by a provision (recapture) for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. As of June 30, 2019, management believed the mortgages receivable were fully collectible and as such, no allowance for mortgage losses was necessary.

Deferred Costs

Deferred costs were incurred in order to acquire mortgages. Deferred costs are amortized on a straight-line basis over the term of the acquired mortgages.

Notes Payable

GAAP requires that notes payable bearing no interest are discounted to reflect imputed interest using the effective interest method over the lives of the loan, if the financial statement impact is material. Notes payable to governmental entities are exempt from the requirement to impute interest.

Permanent Loan Costs

Costs incurred in order to obtain permanent financing are stated at cost and amortized on a straight-line basis into interest expense over the term of the loan. Permanent loan costs are reported as a direct deduction from the face amount of the related debt.

Income Taxes

EBSV has applied for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code and related California code sections and is awaiting approval.

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

EBSV believes that it has appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. EBSV's federal and state information returns for the years 2015 through 2018 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources. Directly identifiable expenses are charged to programs and supporting services.

Subsequent Events

Management has evaluated subsequent events through December 13, 2019, the date on which the financial statements were available to be issued.

NOTE 3 – MORTGAGES RECEIVABLE

Mortgages receivable is summarized as follows:

| | <u>2019</u> |
|-----------------------------|----------------------------|
| Mortgages receivable, gross | \$ 2,136,806 |
| Less: unamortized discount | <u>(572,506)</u> |
| | 1,564,300 |
| Less: current portion | <u>(94,663)</u> |
| Long-term portion | <u><u>\$ 1,469,637</u></u> |

The Organization had 28 1st liens mortgages outstanding in 2019.

NOTE 4 – DEFERRED COSTS

Deferred costs are summarized as follows:

| | <u>2019</u> |
|--------------------------------|-------------------------|
| Mortgage acquisition costs | \$ 39,300 |
| Less: accumulated amortization | <u>(1,299)</u> |
| Total deferred costs | <u><u>\$ 38,001</u></u> |

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
 STATEMENT OF FUNCTIONAL EXPENSES
 YEAR ENDED JUNE 30, 2019

NOTE 5 – RELATED-PARTY TRANSACTIONS

Expenses from related parties included on the statement of activities is summarized as follows:

| | 2019 |
|--|-----------|
| HEBSV: | |
| Community counseling services ⁽¹⁾ | \$ 56,214 |
| Outsourced services ⁽¹⁾ | 41,369 |
| | <hr/> |
| Total | \$ 97,583 |
| | <hr/> |

- ⁽¹⁾ The Organization contracted HEBSV to provide the following services to residents of Alameda County, Contra Costa County and Santa Clara County: pre-purchase counseling; pre-purchase homebuyers education workshops; financial management counseling; financial, budgeting and credit workshops and non-delinquency post purchase workshops.

The operating advances due to HEBSV as of June 30, 2019 amounted to \$4,358.

NOTE 6 – OTHER SUBORDINATE DEBT

In June 2016, EBSV entered into a subordinated equity note agreement with Heritage Bank of Commerce. The agreement provides for Heritage Bank of Commerce to purchase from EBSV a subordinated equity note at a purchase price of \$350,000 which is structured as a subordinated unsecured equity equivalent investment (EQ). The EQ requires quarterly interest-only payments at a rate of 2.50% per annum. The maturity date of the EQ is April 1, 2021, which may be extended annually through April 2041. The EQ was made subordinate to all other obligations of EBSV. The interest expense for 2019 was \$11,056.

A second EQ, in the amount of \$2,000,000 was obtained by EBSV from City National Bank in November 2016. The EQ bears quarterly interest-only payments at a rate of 2.50% per annum. The loan is due in full on January 1, 2022, which may be extended annually through January 1, 2042. The interest expense for 2019 was \$50,000.

Costs incurred in order to obtain permanent financing were \$146,875 and are amortized on a straight-line basis into interest expense over the term of the subordinate debts. The unamortized permanent loan costs balance as of June 30, 2019 was \$130,738. Interest expense for amortization of permanent loan costs for 2019 was \$5,890.

NOTE 7 – LIQUIDITY AND AVAILABILITY

The Organization has \$1,561,164 of financial assets available within one year of the statement of financial position date consisting of cash of \$1,466,501 and receivables of \$94,663. Agreements with lenders designate \$900,000 of the cash balance to be used only for lending activity. The remaining balance of \$661,164 is not subject to donor or other contractual restrictions and is available to be used to pay accounts payable, accrued expenses and interest expense in the subsequent year. In addition, the Organization can receive advances from HEBSV in the event of an unanticipated liquidity need.