

**EBSV COMMUNITY
DEVELOPMENT, INC.**

(A California Nonprofit Public Benefit Corporation)

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

YEAR ENDED JUNE 30, 2023

EBSV COMMUNITY DEVELOPMENT, INC.
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023

TABLE OF CONTENTS

	Page
Independent Auditor's Report.....	1
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7

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

INDEPENDENT AUDITOR'S REPORT

Opinion

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 EBSV Community Development, Inc. 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.

Emphasis of Matter – Related-party Transactions

As discussed in Note 1 to the financial statements, EBSV Community Development, Inc. is controlled by the Board of Directors of Habitat for Humanity East Bay/Silicon Valley. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about EBSV Community Development, Inc.'s ability to continue as a going concern within one year after the date that the 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 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 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 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, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 EBSV Community Development, Inc.'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about EBSV Community Development, Inc.'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.

Lindquist, von Husen and Joyce LLP

November 28, 2023

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

ASSETS

Current assets:	
Cash	\$ 2,195,400
Receivables, net:	
Related-party (Note 6)	245,000
Mortgages receivable, net – current portion (Note 3)	219,919
Other	7,820
Total current assets	<u>2,668,139</u>
Mortgages receivable, net – net of current portion (Note 3)	3,181,082
Property and equipment – net (Note 4)	22,912
Deferred costs – net (Note 5)	<u>124,401</u>
Total assets	<u><u>\$ 5,996,534</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 41,674
Related-party payable (Note 6)	40,325
Note payable – current portion (Note 7)	57,799
Total current liabilities	<u>139,798</u>
Note payable – net of current portion (Note 7)	1,181,315
Other subordinate debt (Note 8)	<u>3,871,714</u>
Total liabilities	<u>5,192,827</u>
Net assets:	
Without donor restrictions	<u>803,707</u>
Total net assets	<u>803,707</u>
Total liabilities and net assets	<u><u>\$ 5,996,534</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, 2023

	<u><i>Without Donor Restrictions</i></u>
Support and revenue:	
Grants and contributions	\$ <u> -</u>
Total support and revenue	<u> -</u>
Expenses:	
Program services	395,479
Management and general	<u>238,737</u>
Total expenses	<u>634,216</u>
Change in net assets before other revenue	(634,216)
Other revenue (expense):	
Interest and other income (Note 10)	91,025
Mortgage discount amortization	52,710
Other expense	<u>(50,172)</u>
Total other revenue and expense	<u>93,563</u>
Change in net assets	(540,653)
Net assets, beginning of year	<u>1,344,360</u>
Net assets, end of year	<u><u>\$ 803,707</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, 2023

	<i>Program Services</i>	<i>Management and General</i>	<i>Total</i>
Homeowner relations	\$ 24,000	\$ -	\$ 24,000
Professional services	350,340	2,410	352,750
Interest (Note 8)	-	232,101	232,101
Depreciation and amortization	688	2,308	2,996
Miscellaneous	20,451	1,918	22,369
Total expenses as shown in the statement of activities	395,479	238,737	634,216
Other expenses	50,172	-	50,172
Total expenses	\$ 445,651	\$ 238,737	\$ 684,388

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, 2023

Cash flows from operating activities:	
Change in net assets	\$ (540,653)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Mortgage discount amortization	(52,710)
Depreciation and amortization	2,996
Interest expense – permanent loan cost amortization	135,752
(Increase) decrease in assets:	
Other receivable	(7,820)
Prepaid expenses	19,999
Increase in liabilities:	
Accounts payable and accrued expenses	17,413
Related-party payable	<u>40,325</u>
Net cash used in operating activities	<u>(384,698)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(23,600)
Issuance/acquisition of mortgages receivable	(1,451,817)
Collection of mortgages receivable	299,522
Collection of related-party receivable	186,092
Deferred costs paid	<u>(30,398)</u>
Net cash used in investing activities	<u>(1,020,201)</u>
Cash flows from financing activities:	
Repayment of note payable	(57,799)
Payment of permanent loan fees	<u>(324,501)</u>
Net cash used in financing activities	<u>(382,300)</u>
Decrease in cash	(1,787,199)
Cash, beginning of year	<u>3,982,599</u>
Cash, end of year	<u><u>\$ 2,195,400</u></u>
Supplementary information:	
Cash paid for interest	<u><u>\$ 96,349</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, 2023

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. Habitat for Humanity East Bay/Silicon Valley (HEBSV), a California nonprofit public benefit corporation, is affiliated with and has majority board control of EBSV, which was formed as an instrument to further HEBSV's organizational objectives. EBSV's purposes are the attraction of long-term capital in order to finance a portion of the community development activities of HEBSV, and to provide development services to participants in the programs of that entity. EBSV obtained Community Development Financial Institution certification of the CDFI Fund of the U.S. Department of Treasury on May 5, 2017.

In July 2023, EBSV filed to change the name of the corporation to Habitat Community Capital.

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

EBSV 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. Accordingly, all net assets are accounted for as net assets without 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 EBSV.
- 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. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. EBSV has no net assets with non-expiring donor restrictions as of June 30, 2023.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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, unless continuing use restrictions apply.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand.

Mortgages Receivable

Mortgages receivable generally bear no interest and are discounted to reflect imputed interest over the lives of the mortgages. For acquired mortgages, the discount is calculated as the difference between the gross value of the mortgages acquired and the acquisition price. The discount rates based on this calculation which is used to impute interest range between 2.50% and 6.26%. 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 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.

Property and Equipment

Property and equipment are stated at cost of acquisition, or fair market value if donated. The costs of maintenance and repairs below \$3,000 that neither significantly add to the permanent value of property and equipment nor prolong its intended useful life are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Office equipment	5 years
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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, 2023, management believed the mortgages receivable were fully collectible and as such, no allowance for mortgage losses was necessary. At June 30, 2023, the mortgages receivable balances were all current.

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.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

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 is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections, except on net income derived from unrelated business activities.

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 2019 through 2022 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 November 28, 2023, the date on which the financial statements were available to be issued.

NOTE 3 – MORTGAGES RECEIVABLE

Mortgages receivable are summarized as follows:

Mortgage receivable, gross	\$ 4,577,692
Less: unamortized discount	<u>(1,176,691)</u>
	3,401,001
Less: current portion	<u>(219,919)</u>
Long-term portion	<u>\$ 3,181,082</u>

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

EBSV had 65 1st lien mortgages outstanding in 2023. The mortgages were purchased from the following Habitat for Humanity organizations:

Habitat for Humanity East Bay/Silicon Valley (a related party): 14 mortgages with an aggregate balance of \$1,611,837 purchased at a discount of 29% in July 2016. Monthly payment due is \$4,817 as adjusted based on collections anticipated through 2045.

Habitat for Humanity Fresno: 12 mortgages with an aggregate balance of \$645,610 purchased at a discount of 23% in February 2019. Monthly payment due is \$4,844 as adjusted based on collections anticipated through 2033.

Habitat for Humanity Tulare/Kings Counties: 13 mortgages with an aggregate balance of \$371,012 purchased at a discount of 23% in June 2020. Monthly payment due is \$3,738 as adjusted based on collections anticipated through 2036.

Habitat for Humanity Fresno: 9 mortgages with an aggregate balance of \$474,755 purchased at a discount of 34% in September 2020. Monthly payment due is \$2,528 as adjusted based on collections anticipated through 2043.

Habitat for Humanity Fresno: 9 mortgages with an aggregate balance of \$654,200 purchased at a discount of 36% in July 2021. Monthly payment due is \$3,094 as adjusted based on collections anticipated through 2042.

Habitat for Humanity Calaveras: 6 mortgages with an aggregate balance of \$511,661 purchased at a discount of 40% in April 2023. Monthly payment due is \$2,208 as adjusted based on collections anticipated through 2050.

Habitat for Humanity East Bay/Silicon Valley (a related party): 2 mortgages with an aggregate balance of \$296,892 purchased at a discount of 25% in June 2023. Monthly payment due is \$1,073 as adjusted based on collections anticipated through 2050.

Collected payments from the mortgages are remitted to EBSV through a loan servicing agent or the Habitat for Humanity organizations who continue to service the loans. EBSV issued two mortgages related to homes sold by HEBSV in June 2023, with original principal balance of \$466,976 and \$455,000 and monthly payment of \$2,297 and \$2,238, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

Office equipment	\$	23,600
Less: accumulated depreciation		<u>(688)</u>
Total property and equipment	\$	<u><u>22,912</u></u>

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 5 – DEFERRED COSTS

Deferred costs are summarized as follows:

Mortgage acquisition costs	\$ 147,850
Less: accumulated amortization	<u>(23,449)</u>
Total deferred costs	<u>\$ 124,401</u>

NOTE 6 – RELATED-PARTY TRANSACTIONS

Expenses paid to related parties included on the statement of activities are summarized as follows:

HEBSV:	
Outsourced services ⁽¹⁾	\$ 303,965
Community counseling services ⁽¹⁾	<u>24,000</u>
Total	<u>\$ 327,965</u>

- ⁽¹⁾ EBSV 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. EBSV also pays HEBSV for outsourced services related to contracted labor related to certain officers and other employee positions.

The operating advances owed to HEBSV as of June 30, 2023 amounted to \$40,325.

In June 2020, EBSV entered into a loan agreement with HEBSV in the amount of \$375,000, accruing interest at the rate of 4.0% per annum. Effective June 2021, the \$375,000 project loan was paid off, and a new loan was made for the same project (Pacifica Landing) in the amount of \$425,000, accruing interest at the rate of 3.6% per annum. EBSV is entitled to receive monthly interest payments of \$1,275 through June 19, 2022, at which time the remaining principal and interest shall be due in full. The loan was amended effective June 19, 2022, to extend the due date to June 19, 2023. In June 2023, the remaining principal and interest were paid in full.

In August 2022, EBSV entered into a loan agreement with HEBSV in the amount of \$670,000, accruing interest at the rate of 5.0% per annum. EBSV is entitled to receive monthly interest payments of \$2,792 through August 31, 2023, at which time the remaining principal and interest shall be due in full. The remaining principal as of June 30, 2023 was \$245,000.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 7 – NOTE PAYABLE

Note payable consists of the following:

Northern Trust, in the original amount of \$1,383,612, bears no interest, with monthly installments of \$4,817, payable in full in May 2045.	<u>\$ 1,239,114</u>
Total	1,239,114
Less: current portion	<u>(57,799)</u>
Long-term portion	<u><u>\$ 1,181,315</u></u>

Scheduled principal payments on the note payable for the next five years are estimated as follows:

	<i>Year Ending June 30,</i>
2024	\$ 57,799
2025	57,799
2026	57,799
2027	57,799
2028	57,799
Thereafter	<u>950,119</u>
Total	<u><u>\$ 1,239,114</u></u>

NOTE 8 – 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 original maturity date of the EQ was April 1, 2021, which is expected to be extended annually through April 2041. Currently, the extended maturity date is April 1, 2028. The EQ was made subordinate to all other obligations of EBSV. The interest expense for 2023 was \$8,849.

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 was originally due in full on January 1, 2022, which is expected to be extended annually through January 1, 2042. Currently, the extended maturity date is January 1, 2028. The interest expense was \$50,000 for 2023.

A third EQ, in the amount of \$2,000,000 was obtained by EBSV from Western Alliance Bank in October 2021. The EQ bears quarterly interest-only payments at a rate of 1.50% per annum and has a maturity date of January 1, 2027, which is expected to be extended annually through January 1, 2029. Currently, the extended maturity is January 1, 2028. The interest expense was \$37,500 for 2023.

Costs incurred in order to obtain permanent financing were \$661,801 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, 2023 was \$478,286. Interest expense for amortization of permanent loan costs for 2023 was \$135,752.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2023

NOTE 9 – LIQUIDITY AND AVAILABILITY

As of June 30, 2023, the following financial assets can be readily made available within one year of the statement of financial position date to meeting general expenditures:

Cash	\$ 2,195,400
Related party receivable	245,000
Mortgage receivable – current portion	219,919
Other receivable	<u>7,820</u>
Total	<u><u>\$ 2,668,139</u></u>

NOTE 10 – INTEREST AND OTHER INCOME

Interest and other income are summarized as follows:

Interest income	\$ 58,750
Miscellaneous other income	<u>32,275</u>
Total	<u><u>\$ 91,025</u></u>