EBSV COMMUNITY DEVELOPMENT, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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Advisory Assurance Tax Private Client

EBSV COMMUNITY DEVELOPMENT, INC.

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<u>JUNE 30, 2022 AND 2021</u>

Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of EBSV Community Development, Inc., a California nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2022, 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, 2022, 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 audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

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

Prior Period Financial Statements

The financial statements as of June 30, 2021, were audited by RINA Accountancy LLP, who merged with Aprio LLP as of August 1, 2022, and whose report dated December 17, 2021, expressed an unmodified opinion on those statements.

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.

Auditors' 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 auditors' 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.

Aprio, LLP

Firm's signature

San Francisco, California
December 27, 2022

EBSV COMMUNITY DEVELOPMENT, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30, 2022	June 30, 2021
CURRENT:		
Cash	$ 3,982,599	$ 1,519,083
Related party receivables	431,092	425,000
Current portion of mortgages receivable, net of unamortized discount of $66,870 (2022) and $54,065 (2021)	172,082	150,237
Current portion of prepaid expenses	344,500	14,528
TOTAL CURRENT ASSETS	4,930,273	2,108,848
OTHER:		
Mortgages receivable, net of current portion and unamortized discount of $828,205 (2022) and $674,893 (2021)	2,023,914	1,792,914
Prepaid expenses, net of current portion	-	8,672
Deferred costs, net of amortization of $21,141 (2022) and $9,095 (2021)	96,311	63,205
TOTAL ASSETS	$ 7,050,498	$ 3,973,639
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of note payable	$ 57,799	$ 57,799
Accounts payable	324,500	-
Related party payable	24,262	11,858
TOTAL CURRENT LIABILITIES	406,561	69,657
LONG-TERM LIABILITIES:		
Note payable, net of current portion	1,239,114	1,296,913
Other subordinate debt	4,060,463	2,225,153
TOTAL LIABILITIES	5,706,138	3,591,723
NET ASSETS:		
Without donor restrictions	1,344,360	381,916
TOTAL NET ASSETS	1,344,360	381,916
TOTAL LIABILITIES AND NET ASSETS	$ 7,050,498	$ 3,973,639

See notes to financial statements.

EBSV COMMUNITY DEVELOPMENT, INC.

STATEMENTS OF ACTIVITIES

	Without Donor Restrictions	
	Year Ended June 30, 2022	Year Ended June 30, 2021
SUPPORT AND REVENUE:		
Grants and contributions	$ 1,126,000	$ -
TOTAL SUPPORT AND REVENUE	1,126,000	-
EXPENSES:		
Program	210,261	324,058
Management and general	110,888	62,849
TOTAL EXPENSES	321,149	386,907
CHANGE IN NET ASSETS BEFORE OTHER REVENUE	804,851	(386,907)
OTHER REVENUE:		
Investment and other income	83,246	26,290
Mortgage discount amortization	74,347	67,044
CHANGE IN NET ASSETS	962,444	(293,573)
NET ASSETS, beginning of year	381,916	675,489
NET ASSETS, end of year	$ 1,344,360	$ 381,916

See notes to financial statements.

EBSV COMMUNITY DEVELOPMENT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services	Management and General	Totals
Professional services	$ 185,911	$ -	$ 185,911
Interest	-	90,116	90,116
Homeowner relations	24,350	-	24,350
Amortization	-	10,741	10,741
Miscellaneous	-	10,031	10,031
TOTAL EXPENSES	$ 210,261	$ 110,888	$ 321,149

See notes to financial statements.

EBSV COMMUNITY DEVELOPMENT, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Totals
Professional services	$ 273,458	$ -	$ 273,458
Interest	-	58,926	58,926
Homeowner relations	50,600	-	50,600
Amortization	-	3,898	3,898
Miscellaneous	-	25	25
TOTAL EXPENSES	$ 324,058	$ 62,849	$ 386,907

See notes to financial statements.

EBSV COMMUNITY DEVELOPMENT, INC.

STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2022	Year Ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 962,444	$ (293,573)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Mortgage discount amortization	17,610	(67,044)
Amortization	10,741	3,898
Discount on purchased mortgages	235,647	-
Decrease (increase) in assets:		
Prepaid expenses	(321,300)	-
Increase (decrease) in liabilities:		
Accounts payable	324,500	(1,000)
Deferred revenue	-	(10,000)
Related party	12,404	10,358
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,242,046	(357,361)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Issuance of mortgages receivable	(654,200)	(407,711)
Collection of mortgages receivable	121,861	294,058
NET CASH USED BY INVESTING ACTIVITIES	(532,339)	(113,653)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	2,000,000	1,354,712
Repayment of debt	(57,799)	-
Loan fees	(182,300)	-
Loan to related-party	(6,092)	(50,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,753,809	1,304,712
NET INCREASE IN CASH	2,463,516	833,698
CASH AND CASH EQUIVALENTS, beginning of year	1,519,083	685,385
CASH AND CASH EQUIVALENTS, end of year	$ 3,982,599	$ 1,519,083
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 72,506	$ 37,335

See notes to financial statements.

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 Humanity 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:

The following is a summary of significant accounting policies followed in preparation of the financial statements:

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.

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 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.

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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued);

Cash:

For purposes of the statement of cash flows, the EBSV considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash consists of cash in demand deposit accounts as well as cash on hand.

Mortgages receivable:

Mortgages receivable 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 of the first liens and second/third liens, 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 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, 2022 and 2021, management believed the mortgages receivable were fully collectible and as such, no allowance for mortgage losses was necessary. At June 30, 2022, mortgages were current in their payment.

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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued);

Income taxes:

EBSV received approval for exemption from federal income taxes under section 501(c)(3) of the Internal Revenue Code and related California code sections in January 2020.

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 returns for years 2019 through 2021 and the state information returns for the years 2018 through 2021 are subject to examination by regulatory agencies, generally for three years and four years after they were filed federal and state, respectively.

Functional allocation of expenses:

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 27, 2022 the date on which the financial statements were available to be issued.

Note 3. NATURE OF 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.

Note 4. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the EBSV to concentrations of credit risk consist primarily of cash and investments. EBSV places its cash and investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. EBSV has not experienced any losses in such accounts.

Note 5. LIQUIDITY AND AVAILABILITY:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at June 30, 2022 and 2021:

	2022	2021
Cash	$ 3,982,599	$ 1,519,083
Related party receivable - current	431,092	425,000
Mortgage receivable - current	172,082	150,237
	$ 4,585,773	$ 2,094,320

Note 6. MORTGAGES RECEIVABLE:

Mortgages receivable are summarized as follows at June 30:

	2022	2021
Mortgages receivable, gross	$ 3,091,071	$ 2,672,109
Less: unamortized discount	(895,075)	(728,958)
	2,195,996	1,943,151
Less: current portion	(172,082)	(150,237)
Long-term portion	$ 2,023,914	$ 1,792,914

The Organization had 60 and 51 1st and 2nd lien mortgages outstanding in 2022 and 2021, respectively. The mortgages were purchased from the following Habitat for Humanity organizations who continue to service the loans and remit payments to EBSV:

Habitat for Humanity East Bay/Silicon Valley (a related party): 14 mortgages with an aggregate balance of $1,612,377 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: 14 mortgages with an aggregate balance of $684,183 purchased at a discount of 23% in February 2019. Monthly payment due is $5,633 as adjusted based on collections anticipated through 2033.

Habitat for Humanity Tulare/Kings Counties: 14 mortgages with an aggregate balance of $382,673 purchased at a discount of 23% in June 2020. Monthly payment due is $4,048 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.

Note 7. DEFERRED COSTS:

Deferred costs are summarized as follows at June 30:

	2022	2021
Mortgages acquisition costs	$ 117,452	$ 72,300
Less: accumulated amortization	(21,141)	(9,095)
Total deferred cost	$ 96,311	$ 63,205

EBSV COMMUNITY DEVELOPMENT, INC.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2022 AND 2021

Note 8. RELATED PARTY TRANSACTIONS:

Expenses paid to related parties included on the statements of activities are summarized as follows at June 30:

	2022	2021
HEBSV:		
Community counseling services	$ 24,000	$ 50,775
Other outsourced services	185,167	155,166
Totals	$ 209,167	$ 205,941

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 owed to HEBSV as of June 30, 2022 and 2021 amounted to $24,262 and $11,858, respectively.

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. Loan was amended effective June 19, 2022, to extend due date to June 19, 2023.

Note 9. NOTES PAYABLE:

Notes payable consist of the following at June 30:

	June 30,	
	2022	2021
Northern Trust, original amount of $1,383,612 bears no interest, with monthly installments of $4,817, payable in full in May 2045.	$ 1,296,913	$ 1,354,712
Totals	1,296,913	1,354,712
Less: portion due in one year	(57,799)	(57,799)
Long-term portion notes payable	$ 1,239,114	$ 1,296,913

Note 9. NOTES PAYABLE (Continued):

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

Year Ending June 30,		
2023	$	57,799
2024		57,799
2025		57,799
2026		57,799
2027		57,799
Thereafter		1,007,918
Total	$	1,296,913

Note 10. 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, 2026. The EQ was made subordinate to all other obligations of EBSV. The interest expense for 2022 and 2021 was $7,506 and $11,137, respectively.

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, 2026. The interest expense was $50,000 for both 2022 and 2021.

A third EQ, in the amount $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. The interest expense was $15,000 for 2022.

Costs incurred in order to obtain permanent financing were $337,301 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, 2022 and 2021 was $289,537 and $124,847, respectively. Interest expense for amortization of permanent loan costs for 2022 and 2021 was $17,610 and $5,891, respectively.