

**EBSV COMMUNITY  
DEVELOPMENT, INC.**

*(A California Nonprofit Public Benefit Corporation)*

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
  
YEARS ENDED JUNE 30, 2020 AND 2019**

EBSV COMMUNITY DEVELOPMENT, INC.  
(A California Nonprofit Public Benefit Corporation)  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2020 AND 2019

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

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

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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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2020 and 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.

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 of East Bay Silicon Valley. Our report is not modified with respect to this matter.

*Lindquist, von Husen and Joyce LLP*

November 17, 2020

EBSV COMMUNITY DEVELOPMENT, INC.  
*(A California Nonprofit Public Benefit Corporation)*  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash	\$ 685,385	\$ 1,466,501
Receivables, net:		
Related-party – current (Note 5)	375,000	-
Mortgages receivable – current (Note 3)	137,927	94,663
Prepaid expenses – current	14,528	11,151
Total current assets	<u>1,212,840</u>	<u>1,572,315</u>
Mortgages receivable – net of current portion (Note 3)	1,624,527	1,469,637
Prepaid expenses – net of current portion	8,672	14,868
Deferred costs (Note 4)	<u>67,103</u>	<u>38,001</u>
Total assets	<u><u>\$ 2,913,142</u></u>	<u><u>\$ 3,094,821</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,000	\$ -
Related-party payable – current (Note 5)	1,500	4,358
Deferred revenue	10,000	10,000
Total current liabilities	<u>12,500</u>	<u>14,358</u>
Other subordinate debt (Note 6)	<u>2,225,153</u>	<u>2,219,262</u>
Total liabilities	<u>2,237,653</u>	<u>2,233,620</u>
Net assets:		
Without donor restrictions	<u>675,489</u>	<u>861,201</u>
Total net assets	<u>675,489</u>	<u>861,201</u>
Total liabilities and net assets	<u><u>\$ 2,913,142</u></u>	<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)*

STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2020 AND 2019

	<i>Without Donor Restrictions</i>	
	2020	2019
Support and revenue:		
Grants and contributions	\$ -	\$ 111,500
Total support and revenue	-	111,500
Expenses:		
Program services	148,956	105,023
Management and general	67,193	68,320
Total expenses	216,149	173,343
Change in net assets before other revenue:	(216,149)	(61,843)
Other revenue:		
Mortgage discount amortization	30,437	20,921
Total other revenue and expenses	30,437	20,921
Change in net assets	(185,712)	(40,922)
Net assets, beginning of year	861,201	902,123
Net assets, end of year	\$ 675,489	\$ 861,201

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EBSV COMMUNITY DEVELOPMENT, INC.  
*(A California Nonprofit Public Benefit Corporation)*  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	<i>Program Services</i>	<i>Management and General</i>	<i>Total</i>	<i>Program Services</i>	<i>Management and General</i>	<i>Total</i>
Homeowner relations	\$ 73,612	\$ -	\$ 73,612	\$ 56,214	\$ -	\$ 56,214
Professional services	75,344	-	75,344	48,809	-	48,809
Interest (Note 6)	-	62,580	62,580	-	66,946	66,946
Amortization	-	3,898	3,898	-	1,299	1,299
Miscellaneous	-	715	715	-	75	75
Total expenses	\$ 148,956	\$ 67,193	\$ 216,149	\$ 105,023	\$ 68,320	\$ 173,343

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

STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (185,712)	\$ (40,922)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Mortgage discount amortization	(30,437)	(20,921)
Amortization	3,898	1,299
Interest expense – permanent loan cost amortization	5,891	5,890
(Increase) decrease in assets:		
Related-party	-	115,649
Prepaid expenses	2,819	(17,130)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,000	
Related-party	(2,858)	(114,187)
Deferred revenue	-	10,000
Net cash used in operating activities	<u>(205,399)</u>	<u>(60,322)</u>
Cash flows from investing activities:		
Issuance of mortgages receivable	(292,818)	(527,167)
Collection of mortgages receivable	125,101	65,021
Deferred costs paid	<u>(33,000)</u>	<u>(39,300)</u>
Net cash used in investing activities	<u>(200,717)</u>	<u>(501,446)</u>
Cash flows from investing activities:		
Loan to related-party	<u>(375,000)</u>	-
Net cash used in financing activities	<u>(375,000)</u>	-
Decrease in cash	(781,116)	(561,768)
Cash, beginning of year	<u>1,466,501</u>	<u>2,028,269</u>
Cash, end of year	<u><u>\$ 685,385</u></u>	<u><u>\$ 1,466,501</u></u>
Supplementary information:		
Cash paid for interest	<u><u>\$ 56,689</u></u>	<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  
YEARS ENDED JUNE 30, 2020 AND 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.  
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NOTES TO FINANCIAL STATEMENTS  
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Cash

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, was approximately \$453,000 as of June 30, 2020. 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. 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 ranges 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, 2020 and 2019, management believed the mortgages receivable were fully collectible and as such, no allowance for mortgage losses was necessary. At June 30, 2020 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.

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 approval was granted in January 2020, retroactive to 2019.

EBSV COMMUNITY DEVELOPMENT, INC.  
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YEARS ENDED JUNE 30, 2020 AND 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 2016 through 2019 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 17, 2020, the date on which the financial statements were available to be issued.

The emergence and spread of the coronavirus (COVID-19) during 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on EBSV's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

**NOTE 3 – MORTGAGES RECEIVABLE**

Mortgages receivable are summarized as follows:

	2020	2019
Mortgages receivable, gross	\$ 2,394,378	\$ 2,136,806
Less: unamortized discount	(631,924)	(572,506)
	<u>1,762,454</u>	<u>1,564,300</u>
Less: current portion	(137,927)	(94,663)
Long-term portion	<u>\$ 1,624,527</u>	<u>\$ 1,469,637</u>

The Organization had 42 and 28 1<sup>st</sup> and 2<sup>nd</sup> lien mortgages outstanding in 2020 and 2019, 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 \$1,633,294 purchased at a discount of 29% in July 2016. Monthly payment due is \$4,792 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.

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 – DEFERRED COSTS**

Deferred costs are summarized as follows:

	2020	2019
Mortgage acquisition costs	\$ 72,300	\$ 39,300
Less: accumulated amortization	(5,197)	(1,299)
Total deferred costs	<u>\$ 67,103</u>	<u>\$ 38,001</u>

**NOTE 5 – RELATED-PARTY TRANSACTIONS**

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

	2020	2019
HEBSV:		
Community counseling services <sup>(1)</sup>	\$ 69,624	\$ 56,214
Other outsourced services <sup>(1)</sup>	52,525	41,369
Total	<u>\$ 122,149</u>	<u>\$ 97,583</u>

- <sup>(1)</sup> 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, 2020 and 2019 amounted to \$1,500 and \$4,358, 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. EBSV is entitled to receive monthly interest payments of \$1,250 beginning July 19, 2020 through June 19, 2021, at which time the remaining principal and interest shall be due in full.

**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 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, 2025. The EQ was made subordinate to all other obligations of EBSV. The interest expense for 2020 and 2019 was \$6,689 and \$11,056, 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, 2025. The interest expense was \$50,000 for both 2020 and 2019.

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NOTES TO FINANCIAL STATEMENTS  
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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, 2020 and 2019 was \$124,847 and \$130,738, respectively. Interest expense for amortization of permanent loan costs for 2020 and 2019 was \$5,891 and \$5,890, respectively.

**NOTE 7 – LIQUIDITY AND AVAILABILITY**

As of June 30, 2020 and 2019, the following financial assets could be readily be made available within one year of the statement of financial position date to meeting general expenditures:

	2020	2019
Cash <sup>(1)</sup>	\$ 685,385	\$ 1,466,501
Related party receivable – current	375,000	-
Mortgage receivable – current	137,927	94,663
	<u>1,198,312</u>	<u>1,561,164</u>
Less:		
Current liabilities	(12,500)	(14,358)
Lender designated funds <sup>(1)</sup>	-	(900,000)
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 1,185,812</u>	<u>\$ 646,806</u>

<sup>(1)</sup> As of June 30, 2020 and 2019, agreements with lenders designated \$ -0- and \$900,000 of cash balances, respectively, for lending activities.