

Bay Area Housing Corporation and Affiliates

Consolidated Financial Statements
and Supplementary Information
and Other Audit Report

June 30, 2021
(With Comparative Totals for 2020)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bay Area Housing Corporation and Affiliates
Los Gatos, California

We have audited the accompanying consolidated financial statements of Bay Area Housing Corporation and Affiliates (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bay Area Housing Corporation and Affiliates as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



An independent firm
associated with Moore
Global Network Limited

Emphasis of Matter

As discussed in Note 16 to the consolidated financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 30 - 32 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Bay Area Housing Corporation and Affiliates's 2020 consolidated financial statements, and our report dated January 11, 2021 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 22, 2021

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

| | 2021 | 2020 |
|--|---------------|---------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 1,533,650 | \$ 1,542,665 |
| Accounts receivable | 276,007 | 268,718 |
| Contributions and grants receivable | 12,747 | 12,747 |
| Note receivable - West Bay Housing Corporation, current portion | 37,381 | 37,381 |
| Prepaid expenses and deposits | 21,292 | 30,576 |
| Total current assets | 1,881,077 | 1,892,087 |
| Property and equipment, net | 59,617,108 | 59,096,093 |
| Other assets | | |
| Note receivable - West Bay Housing Corporation, net of current portion | 89,324 | 123,636 |
| Housing pre-development funds | 135,055 | 128,288 |
| Replacement reserves | 1,423,342 | 1,444,476 |
| Operating reserve | 66,887 | 63,241 |
| Surplus funds reserve | 722,242 | 641,434 |
| Debt service reserve | 4,280,109 | 4,280,110 |
| Total other assets | 6,716,959 | 6,681,185 |
| Total assets | \$ 68,215,144 | \$ 67,669,365 |

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

| | 2021 | 2020 |
|---|---------------|---------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 48,922 | \$ 70,297 |
| Deferred revenue | 387,042 | 372,186 |
| CHFFA bonds payable, current portion | 3,225,122 | 3,032,121 |
| Mortgages and notes payable, current portion | 120,855 | 108,873 |
| Paycheck Protection Program forgivable loan | - | 114,332 |
| Accrued interest, current portion | 70,000 | 60,000 |
| Total current liabilities | 3,851,941 | 3,757,809 |
| Long-term liabilities | | |
| CHFFA bonds payable, net of current portion | 12,377,159 | 15,461,031 |
| Mortgages and notes payable, net of current portion | 8,997,333 | 8,511,311 |
| Accrued interest, net of current portion | 383,791 | 363,771 |
| Total long-term liabilities | 21,758,283 | 24,336,113 |
| Total liabilities | 25,610,224 | 28,093,922 |
| Net assets | | |
| Without donor restrictions | 42,343,160 | 39,286,138 |
| With donor restrictions | 261,760 | 289,305 |
| Total net assets | 42,604,920 | 39,575,443 |
| Total liabilities and net assets | \$ 68,215,144 | \$ 67,669,365 |

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

| | Without Donor Restrictions | With Donor Restrictions | 2021 Total | 2020 Total |
|--|----------------------------------|----------------------------|----------------------|----------------------|
| Support and revenue | | | | |
| Rental income | \$ 5,815,594 | \$ - | \$ 5,815,594 | \$ 5,746,183 |
| Property management income | 1,205,201 | - | 1,205,201 | 1,065,862 |
| Contributions and grants | 885,574 | - | 885,574 | 1,050,000 |
| Forgiveness of Paycheck Protection Program loan | 114,332 | - | 114,332 | - |
| Other income | 44,691 | - | 44,691 | 67,739 |
| Interest income | 1,077 | 4,334 | 5,411 | 7,481 |
| Losses on disposal of assets | (4,575) | - | (4,575) | - |
| Net assets released from restriction | <u>31,879</u> | <u>(31,879)</u> | <u>-</u> | <u>-</u> |
| Total support and revenue | <u>8,093,773</u> | <u>(27,545)</u> | <u>8,066,228</u> | <u>7,937,265</u> |
| Functional expenses | | | | |
| Program services | | | | |
| Project development | 406,285 | - | 406,285 | 345,100 |
| Project management | <u>4,196,726</u> | <u>-</u> | <u>4,196,726</u> | <u>4,072,696</u> |
| Total program services | <u>4,603,011</u> | <u>-</u> | <u>4,603,011</u> | <u>4,417,796</u> |
| Support services | | | | |
| Management and general | 286,392 | - | 286,392 | 259,149 |
| Fundraising | <u>147,348</u> | <u>-</u> | <u>147,348</u> | <u>132,598</u> |
| Total support services | <u>433,740</u> | <u>-</u> | <u>433,740</u> | <u>391,747</u> |
| Total functional expenses | <u>5,036,751</u> | <u>-</u> | <u>5,036,751</u> | <u>4,809,543</u> |
| Change in net assets | 3,057,022 | (27,545) | 3,029,477 | 3,127,722 |
| Net assets, beginning of year | <u>39,286,138</u> | <u>289,305</u> | <u>39,575,443</u> | <u>36,447,721</u> |
| Net assets, end of year | <u>\$ 42,343,160</u> | <u>\$ 261,760</u> | <u>\$ 42,604,920</u> | <u>\$ 39,575,443</u> |

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

| | Program Services | | | Support Services | | 2021 Total | 2020 Total |
|----------------------------|------------------------|-----------------------|---------------------------|---------------------------|-------------------|---------------------|---------------------|
| | Project Development | Project Management | Total Program Services | Management and General | Fundraising | | |
| Personnel expenses | | | | | | | |
| Salaries | \$ 273,253 | \$ 192,896 | \$ 466,149 | \$ 133,723 | \$ 107,540 | \$ 707,412 | \$ 556,412 |
| Payroll taxes and benefits | 40,567 | 28,638 | 69,205 | 19,853 | 15,965 | 105,023 | 106,098 |
| Total personnel expenses | <u>313,820</u> | <u>221,534</u> | <u>535,354</u> | <u>153,576</u> | <u>123,505</u> | <u>812,435</u> | <u>662,510</u> |
| Interest | - | 1,810,501 | 1,810,501 | - | - | 1,810,501 | 1,961,039 |
| Depreciation | - | 1,085,614 | 1,085,614 | - | - | 1,085,614 | 1,058,093 |
| Repairs and maintenance | - | 644,301 | 644,301 | - | - | 644,301 | 444,609 |
| Property taxes | - | 323,724 | 323,724 | - | - | 323,724 | 276,553 |
| Insurance | 33,630 | 92,023 | 125,653 | 16,457 | 13,235 | 155,345 | 145,017 |
| Professional services | - | - | - | 88,949 | - | 88,949 | 97,019 |
| Rent | 12,900 | 9,106 | 22,006 | 6,313 | 5,076 | 33,395 | 31,800 |
| Pre-development expenses | 31,879 | - | 31,879 | - | - | 31,879 | 33,837 |
| Office expense | 6,789 | 4,793 | 11,582 | 3,323 | 2,672 | 17,577 | 10,680 |
| Telephone | 5,636 | 3,978 | 9,614 | 2,758 | 2,218 | 14,590 | 15,007 |
| California LLC taxes | - | - | - | 7,600 | - | 7,600 | 7,600 |
| Travel and conferences | 1,631 | 1,152 | 2,783 | 798 | 642 | 4,223 | 14,549 |
| Miscellaneous | - | - | - | 3,927 | - | 3,927 | 3,617 |
| Utilities | - | - | - | 2,691 | - | 2,691 | 1,360 |
| Bad debt expense | - | - | - | - | - | - | 46,253 |
| | <u>\$ 406,285</u> | <u>\$ 4,196,726</u> | <u>\$ 4,603,011</u> | <u>\$ 286,392</u> | <u>\$ 147,348</u> | <u>\$ 5,036,751</u> | <u>\$ 4,809,543</u> |
| Percentage of total | <u>8.1 %</u> | <u>83.3 %</u> | <u>91.4 %</u> | <u>5.7 %</u> | <u>2.9 %</u> | <u>100 %</u> | |

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 3,029,477 | \$ 3,127,722 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Proceeds from grants restricted for purchase of property and equipment | (885,574) | (1,050,000) |
| Depreciation | 1,085,614 | 1,058,093 |
| Amortization of debt issuance costs | 174,377 | 172,099 |
| Forgiveness of Paycheck Protection Program loan | (114,332) | - |
| Losses on disposal of assets | 4,575 | - |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (7,289) | (50,220) |
| Contributions and grants receivable | - | 7,000 |
| Prepaid expenses and deposits | 9,284 | 9,769 |
| Accounts payable and accrued expenses | (21,375) | (103,470) |
| Deferred revenue | 14,856 | 20 |
| Accrued interest | 30,020 | 30,020 |
| Net cash provided by operating activities | <u>3,319,633</u> | <u>3,201,033</u> |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (1,611,204) | (1,271,561) |
| Payments on notes receivable - WBHC | 34,312 | 39,255 |
| Net cash used in investing activities | <u>(1,576,892)</u> | <u>(1,232,306)</u> |
| Cash flows from financing activities | | |
| Payment for debt issuance costs | (17,359) | (45,708) |
| Proceeds from mortgages and notes payable | 622,102 | 660,000 |
| Payments on mortgages and notes payable | (113,666) | (96,876) |
| Payments on bonds payable | (3,058,321) | (2,887,330) |
| Proceeds from grants restricted for purchase of property and equipment | 885,574 | 1,050,000 |
| Proceeds from Paycheck Protection Program forgivable loan | - | 114,332 |
| Net cash used in financing activities | <u>(1,681,670)</u> | <u>(1,205,582)</u> |
| Net increase in cash | 61,071 | 763,145 |
| Cash and restricted cash, beginning of year | <u>8,100,214</u> | <u>7,337,069</u> |
| Cash and restricted cash, end of year | <u>\$ 8,161,285</u> | <u>\$ 8,100,214</u> |

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

Bay Area Housing Corporation and Affiliates
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

| | 2021 | 2020 |
|--|--------------|--------------|
| Cash and restricted cash consisted of the following: | | |
| Cash | \$ 1,533,650 | \$ 1,542,665 |
| Housing pre-development funds | 135,055 | 128,288 |
| Replacement reserves | 1,423,342 | 1,444,476 |
| Operating reserve | 66,887 | 63,241 |
| Surplus funds reserve | 722,242 | 641,434 |
| Debt service reserve | 4,280,109 | 4,280,110 |
| | \$ 8,161,285 | \$ 8,100,214 |

Supplemental disclosure of cash flow information

| | | |
|--|--------------|--------------|
| Cash paid during the year for interest | \$ 1,606,104 | \$ 1,758,920 |
|--|--------------|--------------|

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

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

1. NATURE OF ACTIVITIES

Bay Area Housing Corporation ("BAHC" or the "Organization") was established in April 2003 in response to the need of housing solutions for the individuals being displaced by the closure of Agnews Developmental Center.

The mission was to develop and maintain housing, scattered within the community, which would provide a safe, supportive environment for people with intellectual and developmental disabilities.

BAHC's history

In cooperation with the Department of Developmental Services, San Andreas Regional Center ("SARC") and Golden Gate Regional Center ("GGRC"), the Organization has developed a well-respected housing organization with a financially sustainable portfolio.

BAHC currently owns 49, scattered site, single family homes in the Bay Area. Homes will provide permanent housing opportunities for a vulnerable and often invisible part of the Community. Current capacity provides specialized housing for up to 195 individuals at any one time. Over the years, BAHC's homes have been a safe, supportive home for an estimated 400 people, and will continue to be a community resource into the future.

Casa Milagro

In 2007, the Organization formed a limited liability company, Casa Milagro, LLC. This LLC holds the 32 homes acquired under the Bay Area Housing Plan, between 2003 and 2011. These properties were refinanced with a 15 year Bond issued in 2011.

Mas Milagros

In 2010, the Organization formed another limited liability company, Mas Milagros, LLC. This LLC holds 5 properties, including Mulberry (On the Market) acquired between 2011 and 2015. These properties have "forgivable" loans from City and County of Santa Clara, and are encumbered by Restrictive Covenants. Interest is accrued annually, however no payments are made and loans will be forgiven over time.

CPP properties

CPP holds 12 properties acquired under the Community Placement Plan ("CPP"), between 2016 and 2021. These properties were financed with a combination of grants from the State of California and commercial loans. In fiscal year 2020-21 the Organization added one home to the CPP portfolio. Renovations are ongoing at year end. BAHC is actively working contracts to acquire and renovate two additional CPP homes in the next year.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

1. NATURE OF ACTIVITIES (continued)

Primary sources of revenues

The Organization's primary sources of revenue are rental income from the 49 homes and associated property management fees. A long-term lease agreement has been entered into with Tenants (Service Providers) sponsored by SARC and paid with State appropriated funds. These funds are obligated under state law to provide services to persons with developmental disabilities. The Organization also offers property management services for low-income properties, and special projects such as construction management and providing consultation for creating and managing customized housing for persons with developmental disabilities.

In general

Since its inception, the Organization has sustained an experienced, supportive Board of Directors consisting primarily of parents of children with developmental disabilities.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Not-for-profits that: 1) have a majority of voting interest; 2) have economic interest; and 3) exercise economic control over a related entity, are required to consolidate their financial statements. Casa Milagro, LLC and Mas Milagros, LLC meet the above criteria and are consolidated into the Organization's financial statements. The two LLCs, of which the Organization is the sole member, are California limited liability companies operated exclusively to further the tax exempt charitable purposes of the sole member. All significant intercompany transactions have been eliminated.

Method of accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation (continued)

- *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 which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting year (see Note 13). Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments. There are no net assets held in perpetuity for the years ended June 30, 2021 and 2020.

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. The adoption of ASU 2014-09 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. Part of the Organization's revenue stream is rental income from residential units under leases. The Organization believes that rental income is exempted from compliance with ASU 2014-09 due to their inclusion under current and future lease standards.

Revenue stream subject to ASU 2014-09 includes revenue earned from property management income. Such income is recognized when the services are provided. No changes were required to previously reported revenue as a result of the adoption of this standard.

Use of estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include the expected useful lives of property and equipment, and the determination of functional expense allocations.

Cash and cash equivalents

Cash consists of cash on hand and cash in demand deposit accounts. Not included in cash are funds restricted as to their use, regardless of their liquidity. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. The Organization's cash balance included no cash equivalents as of June 30, 2021 and 2020.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables and allowance for doubtful accounts

The Organization uses the specific write-off method to provide for doubtful accounts since management's estimation indicates an adequate allowance for such accounts is immaterial.

Property and equipment

All property and equipment are stated at cost, or if donated, recorded as support at the estimated fair value at the time of donation. Major improvements or additions over \$2,500 are charged to the property and equipment accounts. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Impairment of long-lived assets

The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2021 and 2020, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

Depreciation

Depreciation is computed based on the straight-line method over the estimated useful lives of fixed assets, which range from 3 to 40 years (see Note 5).

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and grants

Contributions and grants are recorded as revenue without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. 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 statement of activities as net assets released from restriction. Contributions and grants with donor restrictions are reported as an increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. Contributions and grants including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional, which is when donor stipulated barriers are overcome and the Organization is entitled to the assets transferred or promised.

Revenue recognition

Rental income is shown at its maximum gross potential.

The Organization follows the following steps to determine revenue recognition for program income:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),
- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Organization satisfies a performance obligation.

Forgivable loans

During years ended June 30, 2021 and 2020, the Department of Developmental Service ("DDS") provided a total of \$500,000 and \$420,000, respectively, in acquisition loans through its Community Placement Program ("CPP") to the Organization for the purpose of furthering the Organization's mission. The lender's intent, as evidenced by conditions for loan forgiveness in the loan agreement, is that the funds are not to be repaid although the loan agreement includes a due date and interest rate. Accordingly, the transaction is deemed to meet the standards normally associated with a contribution and the revenue associated with the contribution is recognized in the period the funds are unconditionally communicated. For the years ended June 30, 2021 and 2020, \$500,000 and \$420,000 has been recognized as grants, respectively.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of the debt issuance costs is calculated using the straight-line method, which approximates the effective interest method and is included as a component of interest expense.

Retirement plan

The Organization has a Simple IRA retirement plan, which covers substantially all full-time employees. The Organization contributes up to 3% of the employee's gross salary. The annual contribution for the years ended June 30, 2021 and 2020 was \$12,155 and \$15,935, respectively.

Functional expense allocations

Directly identifiable expenses are charged to program and support services. Expenses related to more than one function are charged to programs and support services on the basis of salary expense. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income tax status

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns and its state limited liability company tax returns are more likely than not to be sustained upon examination.

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the previous 3 years remain subject to examination by the Internal Revenue Service. The Organization's California returns for the previous 4 years remain subject to examination by the Franchise Tax Board.

Summarized comparative information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional revenue and expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2020 for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 22, 2021.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Organization's liquidity management, it structures its financial assets to be available as its operating expenditures, liabilities, and other obligations come due.

To meet liquidity needs, the Organization maintains adequate levels of cash and cash equivalents available. Accounts receivable, Note receivable - West Bay Housing Corporation, and contributions and grants receivable that are considered current will be collected within one year.

In addition, the Organization maintains funds in reserves for operating and replacement accounts. These funds are used for the benefit of the tenants and/or the Organization. Such funds are not considered by the Organization to have donor restrictions. If there are emergency replacements and repairs that cannot be covered by operating cash, the Organization can request funds to be temporarily released from the reserve accounts. Funds will then be returned back to the reserve accounts once operating cash becomes available.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due:

| | |
|---|---------------------|
| Financial assets | |
| Cash | \$ 1,533,650 |
| Accounts receivable | 276,007 |
| Contributions and grants receivable | 12,747 |
| | <u>1,822,404</u> |
| Less: amounts unavailable to meet cash needs for general expenditures | |
| Cash restricted for CPP property development | <u>(279,143)</u> |
| | <u>(279,143)</u> |
| | <u>\$ 1,543,261</u> |

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

4. NOTE RECEIVABLE

West Bay Housing Corporation

The Organization advanced \$500,000 to West Bay Housing Corporation ("WBHC") per authorization of the Steering Committee of the Bay Area Housing Plan for the purchase of properties pursuant to the Bay Area Housing Plan. The source of the funds is the SARC housing predevelopment advance (see Note 7). The advance to WBHC is subject to the conditions established in a promissory note agreement between WBHC and the Organization dated July 20, 2009. Monthly payments of principal and interest in the amount of \$3,513 are due through July 2024 at an interest rate of 3.25% per annum. The balance of the advance due from WBHC is \$126,705 and \$161,017 as of June 30, 2021 and 2020, respectively. Interest earned and paid for the years ended June 30, 2021 and 2020 in the amount of \$4,334 and \$6,419, respectively, is restricted for related predevelopment expenses.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | 2021 | 2020 |
|-------------------------------------|---------------|---------------|
| Land | \$ 26,704,077 | \$ 26,304,077 |
| Land improvements | 825,398 | 825,398 |
| Buildings and building improvements | 41,721,871 | 40,460,184 |
| Furniture and fixtures | 17,826 | 42,276 |
| Construction in progress | 1,085,600 | 1,136,083 |
| | 70,354,772 | 68,768,018 |
| Accumulated depreciation | (10,737,664) | (9,671,925) |
| | \$ 59,617,108 | \$ 59,096,093 |

Depreciation expense for the years ended June 30, 2021 and 2020 was \$1,085,614 and \$1,058,093, respectively.

6. RESTRICTED DEPOSITS AND RESERVES

Housing predevelopment funds

The Organization holds housing predevelopment funds in trust on behalf of SARC available for disbursement. The balance as of June 30, 2021 and 2020 was \$135,055 and \$128,288, respectively (see Note 7).

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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6. RESTRICTED DEPOSITS AND RESERVES (continued)

Replacement reserves

The Organization is required to maintain reserves for capital improvements, maintenance, repair and replacement of major components of its properties, to be funded on a monthly basis at varying rates per property in the amount of \$2,400 to \$3,600 per year. Disbursements from the reserve require prior approval from the lender and/or SARC.

The replacement reserves activity detail is as follows:

| | 2021 | 2020 |
|-------------------------------------|--------------|--------------|
| Balance, beginning of year | \$ 1,444,476 | \$ 1,364,113 |
| Monthly funding and interest earned | 153,717 | 148,692 |
| Authorized withdrawals | (174,851) | (68,329) |
| Balance, end of year | \$ 1,423,342 | \$ 1,444,476 |

Interest included in reserves at June 30, 2021 and 2020, was \$1,077 and \$1,062, respectively.

Operating reserve

The Organization acquired 455 Cypress Avenue located in San Jose by assuming the seller's outstanding loans on the property, and carried operating reserves along with the loans. Reserves consist of restricted and unrestricted funds. The balance as of June 30, 2021 and 2020 was \$66,887 and \$63,241, respectively.

Surplus funds reserve

The surplus funds reserve, also known as the prepayment account, represents the accumulation of funds from rents which proved to be higher than the property taxes they were meant to pay. Currently the Organization uses the surplus funds reserve to pay two types of expenses: (1) maintenance and repair expenses as provided for in the November 2016 BAHP HOMES: Policies and Procedures for Maintenance Services and Repairs; and (2) certain professional fees and bank charges associated with Casa Milagro's ownership of 32 BAHP properties. The balance in the surplus funds reserve amounted to \$722,242 and \$641,434, as of June 30, 2021 and 2020, respectively.

Debt service reserve

Concurrent with the bond refinancing (see Note 9), \$4,269,387 was deposited to a debt service reserve fund held in trust by the bond trustee. As of June 30, 2021 and 2020, the reserve was \$4,280,109 and \$4,280,110, respectively.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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(With Comparative Totals for 2020)

7. HOUSING PREDEVELOPMENT FUND ADVANCE

SARC made available a fund, originally in the amount of \$3,360,672 to be used for housing predevelopment costs as outlined in a Bay Area Housing Plan agreement in which BAHC is the trustee. The funds are primarily lent out for the development of housing and repaid with interest. Any funds remaining plus interest earned less authorized expenditures will be repaid to SARC after the plan has been fully implemented. Undisbursed funds are held in BAHC bank accounts. Interest earned on advances made from the fund (see Note 4) is included in the net assets with donor restrictions balance (see Note 13). All interest earned is restricted for fund purposes. The current liability balance payable to SARC as of June 30, 2021 and 2020 is \$0 and \$0, respectively.

The fund balance detail is as follows:

| | 2021 | 2020 |
|--|------------|------------|
| Fund assets | | |
| Note receivable - West Bay Housing Corporation | \$ 126,705 | \$ 161,017 |
| Housing pre-development funds | 135,055 | 128,288 |
| | \$ 261,760 | \$ 289,305 |
| Fund net assets | | |
| Net assets with donor restrictions - interest income | \$ 261,760 | \$ 289,305 |
| | \$ 261,760 | \$ 289,305 |

8. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On April 15, 2020, the Organization received loan proceeds of \$114,332 from a promissory note issued by Santa Cruz County Bank under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The term on the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan proceeds. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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8. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN (continued)

On June 5, 2020, the Paycheck Protection Program Flexibility Act ("PPFPA") was signed into law, and was followed by revised forgiveness applications on June 16, 2020 and revised interim final rules "(IFRS)" on June 22, 2020. The enactment of PPFPA and subsequent releases of the related IFRS and forgiveness applications provided several structural changes to the program aimed to provide businesses with added flexibility to utilize the funds and to be able to obtain forgiveness. The Primary modifications include: a reduction from 75% to 60% the percent of a borrower's loan proceeds which must be used for payroll costs; an increase from 8 weeks to 24 weeks for the covered period, which is the period eligible costs can qualify for forgiveness; an extension of the deferral period for principal and interest on the loan to the date SBA remits the loan forgiveness amount to the lender or ten months after the loan forgiveness covered period if the borrower has not applied for forgiveness.

The Organization received formal forgiveness for the PPP loan on April 15, 2021 and recognized \$114,332 as Forgiveness of Paycheck Protection Program loan on the consolidated statement of activities for the year ended June 30, 2021.

9. CHFFA BONDS PAYABLE

The Organization refinanced its indebtedness on 32 homes under a loan agreement dated February 1, 2011 between Casa Milagro, LLC and California Health Facilities Financing Authority (CHFFA), a public instrumentality of the State of California, using proceeds allocated from its issuance of Tax-Exempt Series 2011A and Taxable Series 2011B Insured Revenue Bonds (Community Program for Persons with Developmental Disabilities), pursuant to the Bay Area Housing Plan. The total amount allocated to Casa Milagro, LLC net of premium and discount was \$41,610,258. The bond debt is fully amortizable over a fifteen-year term with payments of principal and interest due monthly in the amount of \$359,130 through February 1, 2026. Interest rates range from 2.12% in year one to 7.88% in year fifteen. The loan is secured by the underlying properties.

Bonds payable consisted of the following:

| | 2021 | 2020 |
|--|---------------|---------------|
| Bonds payable | \$ 16,261,430 | \$ 19,293,550 |
| Unamortized bond premium and discount, net | 122,268 | 148,469 |
| | 16,383,698 | 19,442,019 |
| Less: current portion | (3,225,122) | (3,032,121) |
| Less: unamortized debt issuance cost | (781,417) | (948,867) |
| | \$ 12,377,159 | \$ 15,461,031 |

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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(With Comparative Totals for 2020)

9. CHFFA BONDS PAYABLE (continued)

The future maturities of the bonds payable are as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|----------------------|
| 2022 | \$ 3,225,122 |
| 2023 | 3,440,133 |
| 2024 | 3,666,135 |
| 2025 | 3,910,755 |
| 2026 | <u>2,019,285</u> |
| | <u>\$ 16,261,430</u> |

Interest expense on the bonds for the years ended June 30, 2021 and 2020 was \$1,251,240 and \$1,422,229, respectively. Amortization of debt issuance costs on the bonds for the years ended June 30, 2021 and 2020 was \$167,447 and \$167,447, respectively.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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10. MORTGAGES AND NOTES PAYABLE

Mortgages and notes payable are detailed as follows:

| | 2021 | 2020 |
|---|--------------|--------------|
| <p>City of Santa Clara RDA note (2010) - The Organization assumed debt with the City of Santa Clara Redevelopment Agency through a loan assignment and assumption agreement dated November 9, 2010, in exchange for assets acquired from Bracher HDC, Inc. The note accrues simple interest at the rate of 2% per annum. Payments of \$10,000 are due annually starting on December 1, 2015, to be applied to accrued and current interest first. All unpaid principal and interest is due at maturity on August 1, 2033.</p> | \$ 1,246,000 | \$ 1,246,000 |
| <p>City of Santa Clara RDA loan (2012) - Mas Milagros, LLC assumed a note with the City of Santa Clara Redevelopment Agency through a loan assignment and assumption agreement dated August 28, 2012, in exchange for property acquired from Senior Housing Solutions. The note, bearing no interest, is due at maturity on August 31, 2065.</p> | 393,858 | 393,858 |
| <p>City of Santa Clara HOME loan - Mas Milagros, LLC assumed a note with the City of Santa Clara through a loan assignment and assumption agreement dated August 28, 2012, in exchange for property acquired from Senior Housing Solutions. The note, bearing no interest, is due at maturity on July 13, 2030. As long as the property continues to be used to provide affordable housing and services to extremely low income persons with developmental disabilities, no repayment is required to the City.</p> | 488,244 | 488,244 |

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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10. MORTGAGES AND NOTES PAYABLE (continued)

| | 2021 | 2020 |
|--|---------|---------|
| <p>County of Santa Clara HOME loan - Mas Milagros, LLC (Mas) assumed a note with the County of Santa Clara through a loan assignment and assumption agreement dated August 21, 2012, in exchange for property acquired from Senior Housing Solutions. The note, bearing 3% interest, is due at maturity on July 13, 2065. Payments of principal and interest are contingent on the availability of Residual Receipts. Residual Receipts are kept by Mas until the threshold of \$25,000 is reached. Once the threshold is attained, 50% of Residual Receipts will be used to make payments to the County of Santa Clara HOME loan.</p> | 170,000 | 170,000 |
| <p>Housing Trust loan - Mas Milagros, LLC assumed a note with the Opportunity Fund Northern California through a loan assignment and assumption agreement dated June 5, 2012, in exchange for property acquired from Senior Housing Solutions. The loan was assigned to Housing Trust Silicon Valley on January 1, 2013. The note bears no interest. Mas has an option to keep Residual Receipts or use 100% of Residual Receipts to pay down the loan. Unpaid principal is due at maturity on August 1, 2065.</p> | 100,000 | 100,000 |
| <p>First Republic Bank loan - the Organization entered into a loan agreement dated April 12, 2017, in the amount of \$404,799, bearing 4.5% simple interest, to acquire a property located in South San Francisco. In June 2017 monthly payments of principal and interest in the amount of \$2,051 commenced. Final payment of all outstanding principal and interest shall be made May 1, 2047.</p> | 376,184 | 383,684 |
| <p>First Republic Bank loan - the Organization entered into a loan agreement dated May 24, 2017, in the amount of \$584,000, bearing 4.5% simple interest, to acquire a property located in Daly City. In July 2017 monthly payments of principal and interest in the amount of \$2,595 commenced. Final payment of all outstanding principal and interest shall be made June 1, 2047.</p> | 543,637 | 554,418 |

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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10. MORTGAGES AND NOTES PAYABLE (continued)

| | 2021 | 2020 |
|---|---------|---------|
| <p>Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated December 2, 2016, in the amount of \$615,038, bearing 6.0% simple interest, to acquire a property located in San Martin. In February 2017 monthly payments of principal and interest in the amount of \$3,721 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2047.</p> | 579,367 | 588,522 |
| <p>Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated April 18, 2017, in the amount of \$593,722, bearing 6.15% simple interest, to acquire a property located in Morgan Hill. In June 2017 monthly payments of principal and interest in the amount of \$3,794 commenced. Final payment of all outstanding principal and interest shall be made May 1, 2044.</p> | 551,598 | 562,365 |
| <p>Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated April 18, 2017, in the amount of \$560,267, bearing 6.15% simple interest, to acquire a property located in Morgan Hill. In June 2017 monthly payments of principal and interest in the amount of \$3,581 commenced. Final payment of all outstanding principal and interest shall be made May 1, 2044.</p> | 520,517 | 530,677 |
| <p>Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated December 9, 2016, in the amount of \$666,000, bearing 6.15% simple interest, to acquire a property located in San Martin. In February 2017 monthly payments of principal and interest in the amount of \$4,030 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2047.</p> | 627,659 | 637,501 |

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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10. MORTGAGES AND NOTES PAYABLE (continued)

| | 2021 | 2020 |
|---|---------|---------|
| Santa Cruz County Bank - the Organization entered into a loan agreement dated September 19, 2016, in the amount of \$611,500, bearing 6.5% simple interest, to acquire a property located in Santa Cruz. In November 2016 monthly payments of principal and interest in the amount of \$3,903 commenced. Final payment of all outstanding principal and interest shall be made October 5, 2046. | 575,687 | 584,271 |
| First Republic Bank loan - the Organization entered into a loan agreement dated July 5, 2017, in the amount of \$811,292, bearing 4.5% simple interest, to acquire a property located in San Jose. In September 2017 monthly payments of principal and interest in the amount of \$4,111 commenced. Final payment of all outstanding principal and interest shall be made August 1, 2047. | 757,764 | 772,628 |
| Santa Cruz County Bank - the Organization entered into a loan agreement dated September 25, 2018, in the amount of \$535,000, bearing 6.5% simple interest, to acquire a property located in Hollister. In October 2018 monthly payments of principal and interest in the amount of \$3,599 commenced. Final payment of all outstanding principal and interest shall be made September 5, 2043. | 511,201 | 520,911 |
| Santa Cruz County Bank - the Organization entered into a loan agreement dated March 11, 2019, in the amount of \$640,000, bearing 6.5% simple interest, to acquire a property located in Hollister. In April 2019 monthly payments of principal and interest in the amount of \$4,044 commenced. Final payment of all outstanding principal and interest shall be made March 5, 2049. | 620,052 | 627,778 |
| Choice Financial Group - the Organization entered into a loan agreement dated December 20, 2019, in the amount of \$660,000, bearing 5.0% simple interest, to acquire a property located in San Juan Bautista. In February 2020 monthly payments of principal and interest in the amount of \$3,543 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2050. | 646,060 | 656,002 |

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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10. MORTGAGES AND NOTES PAYABLE (continued)

| | 2021 | 2020 |
|--|--------------|--------------|
| <p>Clearinghouse Community Development Financial Institution loan - the Organization entered into a loan agreement dated December 7, 2020, in the amount of \$622,102, bearing 5.75% simple interest, to acquire a property located in Watsonville. In February 2021 monthly payments of principal and interest in the amount of \$4,099 commenced. Final payment of all outstanding principal and interest shall be made January 1, 2044.</p> | 617,467 | - |
| | 9,325,295 | 8,816,859 |
| Less unamortized debt issuance costs | (207,107) | (196,675) |
| | 9,118,188 | 8,620,184 |
| Current portion | (120,855) | (108,873) |
| | \$ 8,997,333 | \$ 8,511,311 |

The future maturities of the mortgages and notes payable are as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|--------------|
| 2022 | \$ 120,855 |
| 2023 | 127,831 |
| 2024 | 134,465 |
| 2025 | 143,012 |
| 2026 | 151,317 |
| Thereafter | 8,647,815 |
| | \$ 9,325,295 |

Amortization of debt issuance costs on the mortgages and notes for the years ended June 30, 2021 and 2020 was \$6,930 and \$4,652, respectively.

Bay Area Housing Corporation and Affiliates
Notes to Consolidated Financial Statements
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(With Comparative Totals for 2020)

11. ACCRUED INTEREST

Accrued interest consisted of the following:

| | 2021 | 2020 |
|-------------------------------------|------------|------------|
| City of Santa Clara RDA note (2010) | \$ 408,841 | \$ 383,921 |
| County of Santa Clara HOME loan | 44,950 | 39,850 |
| | 453,791 | 423,771 |
| Accrued interest, current portion | (70,000) | (60,000) |
| | \$ 383,791 | \$ 363,771 |

12. INTEREST EXPENSE

Interest expense consisted of the following:

| | 2021 | 2020 |
|-------------------------------------|--------------|--------------|
| CHFFA bonds | \$ 1,251,240 | \$ 1,422,229 |
| City of Santa Clara RDA note (2010) | 24,920 | 24,920 |
| County of Santa Clara HOME loan | 5,100 | 5,100 |
| CPP Properties various loans | 354,864 | 336,691 |
| Amortization of debt issuance costs | 174,377 | 172,099 |
| | \$ 1,810,501 | \$ 1,961,039 |

\$22,886 and \$13,717 of interest incurred for the years ended June 30, 2021 and 2020 were capitalized to property costs, respectively.

13. NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2021 and 2020, net assets with donor restrictions consist of \$261,760 and \$289,305, respectively, restricted for housing predevelopment costs. In the event this amount is not used for the intended restricted purpose, the entire amount will be repaid to SARC at the culmination of the Bay Area Housing Plan (see Note 7).

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Notes to Consolidated Financial Statements
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14. RENTAL INCOME

Rental income consisted of the following:

| | 2021 | 2020 |
|------------------------------|--------------|--------------|
| Property lease income | \$ 5,508,602 | \$ 5,444,218 |
| Property tax reimbursement | 230,192 | 225,165 |
| Replacement reserve payments | 76,800 | 76,800 |
| | \$ 5,815,594 | \$ 5,746,183 |

15. PROPERTY MANAGEMENT INCOME

Property management income consisted of the following:

| | 2021 | 2020 |
|--|--------------|--------------|
| Property management fees | \$ 448,201 | \$ 452,915 |
| Property repairs and maintenance reimbursement | 509,159 | 353,944 |
| Property maintenance contract fees | 222,216 | 218,020 |
| Property insurance reimbursement | 17,921 | 20,077 |
| Property management administration fees | 7,704 | 20,906 |
| | \$ 1,205,201 | \$ 1,065,862 |

16. COMMITMENT, RISK AND UNCERTAINTIES

Commitment

The Organization, under restrictions as outlined in various agreements with the California Department of Developmental Services and the City of Santa Clara Redevelopment Agency, is to maintain all owned properties solely as long-term residences for the benefit of persons who are developmentally disabled, in perpetuity.

Bay Area Housing Corporation and Affiliates
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16. COMMITMENT, RISK AND UNCERTAINTIES (continued)

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. During the COVID-19 pandemic, the Organization's operations have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, the Organization is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it impacts its tenants, contractors and sub-contractors, suppliers and vendors, in addition to how the COVID-19 pandemic impacts its ability to provide services to its tenants. The Organization believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows and financial conditions is likely to be determined by factors which are uncertain, unpredictable and outside of its control.

SUPPLEMENTARY INFORMATION

Bay Area Housing Corporation and Affiliates
Consolidating Statement of Financial Position
June 30, 2021

ASSETS

| | BAHC (without CPP) | CPP Projects | Eliminating Entries | BAHC | Casa Milagro, LLC | Mas Milagros, LLC | Eliminating Entries | 2021 Total | 2020 Total |
|--|-----------------------|----------------------|------------------------|----------------------|----------------------|-------------------------|------------------------|----------------------|----------------------|
| Current assets | | | | | | | | | |
| Cash | \$ 589,255 | \$ 800,001 | \$ - | \$ 1,389,256 | \$ - | \$ 144,394 | \$ - | \$ 1,533,650 | \$ 1,542,665 |
| Due from related parties | 58,183 | - | (11,071) | 47,112 | - | 9,850 | (56,962) | - | - |
| Accounts receivable | 175,225 | - | - | 175,225 | 100,782 | - | - | 276,007 | 268,718 |
| Contributions and grants receivable | 12,747 | - | - | 12,747 | - | - | - | 12,747 | 12,747 |
| Note receivable - West Bay Housing Corporation, current portion | 37,381 | - | - | 37,381 | - | - | - | 37,381 | 37,381 |
| Prepaid expenses and deposits | <u>21,292</u> | <u>-</u> | <u>-</u> | <u>21,292</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>21,292</u> | <u>30,576</u> |
| Total current assets | <u>894,083</u> | <u>800,001</u> | <u>(11,071)</u> | <u>1,683,013</u> | <u>100,782</u> | <u>154,244</u> | <u>(56,962)</u> | <u>1,881,077</u> | <u>1,892,087</u> |
| Property and equipment, net | <u>-</u> | <u>16,337,119</u> | <u>-</u> | <u>16,337,119</u> | <u>38,556,461</u> | <u>4,723,528</u> | <u>-</u> | <u>59,617,108</u> | <u>59,096,093</u> |
| Other assets | | | | | | | | | |
| Note receivable - West Bay Housing Corporation, net of current portion | 89,324 | - | - | 89,324 | - | - | - | 89,324 | 123,636 |
| Housing pre-development funds | 135,055 | - | - | 135,055 | - | - | - | 135,055 | 128,288 |
| Replacement reserves | - | 109,718 | - | 109,718 | 832,561 | 481,063 | - | 1,423,342 | 1,444,476 |
| Operating reserve | - | - | - | - | - | 66,887 | - | 66,887 | 63,241 |
| Surplus funds reserve | - | - | - | - | 722,242 | - | - | 722,242 | 641,434 |
| Debt service reserve | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,280,109</u> | <u>-</u> | <u>-</u> | <u>4,280,109</u> | <u>4,280,110</u> |
| Total other assets | <u>224,379</u> | <u>109,718</u> | <u>-</u> | <u>334,097</u> | <u>5,834,912</u> | <u>547,950</u> | <u>-</u> | <u>6,716,959</u> | <u>6,681,185</u> |
| Total assets | <u>\$ 1,118,462</u> | <u>\$ 17,246,838</u> | <u>\$ (11,071)</u> | <u>\$ 18,354,229</u> | <u>\$ 44,492,155</u> | <u>\$ 5,425,722</u> | <u>\$ (56,962)</u> | <u>\$ 68,215,144</u> | <u>\$ 67,669,365</u> |

Bay Area Housing Corporation and Affiliates
Consolidating Statement of Financial Position
June 30, 2021

LIABILITIES AND NET ASSETS

| | BAHC (without CPP) | CPP Projects | Eliminating Entries | BAHC | Casa Milagro, LLC | Mas Milagros, LLC | Eliminating Entries | 2021 Total | 2020 Total |
|---|-----------------------|----------------------|------------------------|----------------------|----------------------|-------------------------|------------------------|----------------------|----------------------|
| Current liabilities | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 48,922 | \$ - | \$ - | \$ 48,922 | \$ - | \$ - | \$ - | \$ 48,922 | \$ 70,297 |
| Deferred revenue | - | 27,912 | - | 27,912 | 359,130 | - | - | 387,042 | 372,186 |
| CHFFA bonds payable, current portion | - | - | - | - | 3,225,122 | - | - | 3,225,122 | 3,032,121 |
| Mortgages and notes payable, current portion | - | 120,855 | - | 120,855 | - | - | - | 120,855 | 108,873 |
| Paycheck Protection Program forgivable loan | - | - | - | - | - | - | - | - | 114,332 |
| Accrued interest, current portion | - | - | - | - | - | 70,000 | - | 70,000 | 60,000 |
| Due to related parties | - | 11,071 | (11,071) | - | 43,345 | 13,617 | (56,962) | - | - |
| Total current liabilities | <u>48,922</u> | <u>159,838</u> | <u>(11,071)</u> | <u>197,689</u> | <u>3,627,597</u> | <u>83,617</u> | <u>(56,962)</u> | <u>3,851,941</u> | <u>3,757,809</u> |
| Long-term liabilities | | | | | | | | | |
| CHFFA bonds payable, net of current portion | - | - | - | - | 12,377,159 | - | - | 12,377,159 | 15,461,031 |
| Mortgages and notes payable, net of current portion | - | 6,634,297 | - | 6,634,297 | - | 2,363,036 | - | 8,997,333 | 8,511,311 |
| Accrued interest, net of current portion | - | - | - | - | - | 383,791 | - | 383,791 | 363,771 |
| Total long-term liabilities | <u>-</u> | <u>6,634,297</u> | <u>-</u> | <u>6,634,297</u> | <u>12,377,159</u> | <u>2,746,827</u> | <u>-</u> | <u>21,758,283</u> | <u>24,336,113</u> |
| Total liabilities | <u>48,922</u> | <u>6,794,135</u> | <u>(11,071)</u> | <u>6,831,986</u> | <u>16,004,756</u> | <u>2,830,444</u> | <u>(56,962)</u> | <u>25,610,224</u> | <u>28,093,922</u> |
| Net assets | | | | | | | | | |
| Without donor restrictions | 807,780 | 10,452,703 | - | 11,260,483 | 28,487,399 | 2,595,278 | - | 42,343,160 | 39,286,138 |
| With donor restrictions | 261,760 | - | - | 261,760 | - | - | - | 261,760 | 289,305 |
| Total net assets | <u>1,069,540</u> | <u>10,452,703</u> | <u>-</u> | <u>11,522,243</u> | <u>28,487,399</u> | <u>2,595,278</u> | <u>-</u> | <u>42,604,920</u> | <u>39,575,443</u> |
| Total liabilities and net assets | <u>\$ 1,118,462</u> | <u>\$ 17,246,838</u> | <u>\$ (11,071)</u> | <u>\$ 18,354,229</u> | <u>\$ 44,492,155</u> | <u>\$ 5,425,722</u> | <u>\$ (56,962)</u> | <u>\$ 68,215,144</u> | <u>\$ 67,669,365</u> |

Bay Area Housing Corporation and Affiliates
Consolidating Statement of Activities
For The Year Ended June 30, 2021

| | BAHC (without CPP) | CPP Projects | Eliminating Entries | BAHC | Casa Milagro, LLC | Mas Milagros, LLC | Eliminating Entries | 2021 Total | 2020 Total |
|--|-----------------------|----------------------|------------------------|----------------------|----------------------|-------------------------|------------------------|----------------------|----------------------|
| Support and revenue | | | | | | | | | |
| Rental income | \$ - | \$ 1,095,648 | \$ - | \$ 1,095,648 | \$ 4,616,554 | \$ 103,392 | \$ - | \$ 5,815,594 | \$ 5,746,183 |
| Property management income | 1,698,820 | - | (346,886) | 1,351,934 | 448,203 | 12,000 | (606,936) | 1,205,201 | 1,065,862 |
| Contributions and grants | - | 885,574 | - | 885,574 | - | - | - | 885,574 | 1,050,000 |
| Forgiveness of Paycheck Protection Program loan | 114,332 | - | - | 114,332 | - | - | - | 114,332 | - |
| Development fee revenue | 80,000 | - | (80,000) | - | - | - | - | - | - |
| Other income | 20,252 | - | - | 20,252 | 6,800 | 17,639 | - | 44,691 | 67,739 |
| Interest income | 4,341 | - | - | 4,341 | 170 | 900 | - | 5,411 | 7,481 |
| Losses on disposal of assets | (4,575) | - | - | (4,575) | - | - | - | (4,575) | - |
| Total support and revenue | <u>1,913,170</u> | <u>1,981,222</u> | <u>(426,886)</u> | <u>3,467,506</u> | <u>5,071,727</u> | <u>133,931</u> | <u>(606,936)</u> | <u>8,066,228</u> | <u>7,937,265</u> |
| Functional expenses | | | | | | | | | |
| Project development | 405,526 | 80,063 | (80,000) | 405,589 | - | 696 | - | 406,285 | 345,100 |
| Property management | 981,557 | 1,140,892 | (346,886) | 1,775,563 | 2,790,353 | 237,746 | (606,936) | 4,196,726 | 4,072,696 |
| Management and general | 235,865 | 16,527 | - | 252,392 | 27,443 | 6,557 | - | 286,392 | 259,149 |
| Fundraising | 147,051 | 25 | - | 147,076 | - | 272 | - | 147,348 | 132,598 |
| Total functional expenses | <u>1,769,999</u> | <u>1,237,507</u> | <u>426,886</u> | <u>2,580,620</u> | <u>2,817,796</u> | <u>245,271</u> | <u>606,936</u> | <u>5,036,751</u> | <u>4,809,543</u> |
| Changes in net assets | 143,171 | 743,715 | - | 886,886 | 2,253,931 | (111,340) | - | 3,029,477 | 3,127,722 |
| Net assets, beginning of year | <u>926,369</u> | <u>9,708,988</u> | <u>-</u> | <u>10,635,357</u> | <u>26,233,468</u> | <u>2,706,618</u> | <u>-</u> | <u>39,575,443</u> | <u>36,447,721</u> |
| Net assets, end of year | <u>\$ 1,069,540</u> | <u>\$ 10,452,703</u> | <u>\$ -</u> | <u>\$ 11,522,243</u> | <u>\$ 28,487,399</u> | <u>\$ 2,595,278</u> | <u>\$ -</u> | <u>\$ 42,604,920</u> | <u>\$ 39,575,443</u> |

OTHER AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Bay Area Housing Corporation and Affiliates
Los Gatos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Bay Area Housing Corporation and Affiliates (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
San Jose, California

December 22, 2021