

FRUITVALE DEVELOPMENT CORPORATION

(A California Corporation)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016



FRUITVALE DEVELOPMENT CORPORATION

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Independent Auditors' Report

The Board of Directors
Fruitvale Development Corporation

We have audited the accompanying financial statements of Fruitvale Development Corporation (a California not-for-profit corporation), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional support, revenue and 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.

Auditors' 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. Those standards require that we plan and perform the audit 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 the 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 Fruitvale Development Corporation as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RINA accountancy corporation

Certified Public Accountants

Oakland, California
March 28, 2018

FRUITVALE DEVELOPMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION - SEPTEMBER 30, 2017 (With comparative totals for the fiscal year ending September 30, 2016)

<u>ASSETS</u>	General/ Real Property	Fruitvale Village	Interdepartment Eliminations	<u>Totals</u>	
				9/30/2017	9/30/2016
CURRENT:					
Cash and cash equivalents	\$ -	\$ 421,617	\$ -	\$ 421,617	\$ 656,866
Cash and cash equivalents held by trustee for early bond redemption	-	59,158	-	59,158	57,275
Accounts receivable, net allowance	-	189,141	-	189,141	223,403
TOTAL CURRENT ASSETS	-	669,916	-	669,916	937,544
OTHER:					
Deferred charge	-	2,813,287	-	2,813,287	2,971,481
Deferred financing cost	-	83,534	-	83,534	71,000
Other prepaid expenses and deposits (incl. rate cap)	-	24,205	-	24,205	35,676
Fixed assets, net of accumulated depreciation	723,457	31,112,949	-	31,836,406	33,218,623
Interdepartmental asset	(669,138)	21,410,476	(20,741,338)	-	-
TOTAL ASSETS	\$ 54,319	\$ 56,114,367	\$ (20,741,338)	\$ 35,427,348	\$ 37,234,324
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	\$ 4,134	\$ 313,875	\$ -	\$ 318,009	\$ 118,388
Prepaid rents/deferred revenues	-	61,511	-	61,511	64,579
Security deposits	2,665	181,451	-	184,116	175,451
Mortgages payable - current portion	476,779	596,032	-	1,072,811	2,953,486
TOTAL CURRENT LIABILITIES	483,578	1,152,869	-	1,636,447	3,311,904
LONG-TERM:					
Accrued interest	4,850	389,135	-	393,985	427,449
Mortgages (Fruitvale Village)	-	14,680,951	-	14,680,951	13,775,001
Mortgages (Masonic Temple)	904,496	-	-	904,496	543,995
TOTAL LONG-TERM	909,346	15,070,086	-	15,979,432	14,746,445
Interdepartmental liability	-	20,741,338	(20,741,338)	-	-
TOTAL LIABILITIES	1,392,924	36,964,293	(20,741,338)	17,615,879	18,058,349
NET ASSETS:					
Unrestricted	(1,338,605)	19,150,074	-	17,811,469	19,175,975
TOTAL NET ASSETS	(1,338,605)	19,150,074	-	17,811,469	19,175,975
TOTAL LIABILITIES AND NET ASSETS	\$ 54,319	\$ 56,114,367	\$ (20,741,338)	\$ 35,427,348	\$ 37,234,324

See notes to financial statements.

FRUITVALE DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2017

(With comparative totals for the fiscal year ending September 30, 2016)

	General and Real Property	Fruitvale Village	Totals	
			9/30/2017	9/30/2016
SUPPORT AND REVENUES:				
Rents and common area maintenance (CAM)	\$ 191,142	\$ 3,919,461	\$ 4,110,603	\$ 4,059,256
Other	3,064,202	4,608	3,068,810	12,180
TOTAL SUPPORT AND REVENUES	3,255,344	3,924,069	7,179,413	4,071,436
EXPENSES:				
Program services	3,328,241	5,215,680	8,543,921	5,585,510
TOTAL EXPENSES	3,328,241	5,215,680	8,543,921	5,585,510
CHANGE IN NET ASSETS	(72,897)	(1,291,611)	(1,364,508)	(1,514,074)
NET ASSETS, October 1, 2016	(1,265,708)	20,441,685	19,175,977	20,690,051
NET ASSETS, September 30, 2017	\$ (1,338,605)	\$ 19,150,074	\$ 17,811,469	\$ 19,175,977

See notes to financial statements.

FRUITVALE DEVELOPMENT CORPORATION

STATEMENT OF FUNCTIONAL SUPPORT, REVENUES AND EXPENSES

YEAR ENDED SEPTEMBER 30, 2017

(With comparative totals for the fiscal year ending September 30, 2016)

	General	Real Property	Fruitvale Village	Total	
				9/30/2017	9/30/2016
SUPPORT AND REVENUES:					
Rents and common area maintenance (CAM)	\$ -	\$ 191,142	\$ 3,919,461	\$ 4,110,603	\$ 4,059,256
Other	3,064,202	-	4,608	3,068,810	12,180
TOTAL SUPPORT AND REVENUES	3,064,202	191,142	3,924,069	7,179,413	4,071,436
EXPENSES:					
OPERATING EXPENSES:					
Cleaning expense	-	-	420,291	420,291	348,176
Utilities	11,120	48,181	359,293	418,594	373,975
Property taxes	-	13,896	401,213	415,109	332,350
General building repair and maintenance	-	-	275,441	275,441	202,863
Security expense	-	-	361,228	361,228	341,419
Administration expense	18,190	2,783	279,942	300,915	324,101
Parking expenses	-	-	217,131	217,131	238,549
Ground lease rent	-	-	158,194	158,194	180,709
Insurance expense	-	8,423	107,769	116,192	115,756
Total operating expenses	29,310	73,283	2,580,502	2,683,095	2,457,898
NON-OPERATING EXPENSES:					
Grant made to Unity Council	3,050,000	-	-	3,050,000	815,242
Asset management fee	-	-	400,000	400,000	-
Property management fee	18,000	36,000	126,000	180,000	140,000
Leasing expenses	-	-	79,000	79,000	2,369
Audit and legal expenses	27,415	3,900	105	31,420	30,591
D&O insurance	-	-	10,624	10,624	10,144
Marketing expense	-	-	5,838	5,838	-
Total non-operating expenses	3,095,415	39,900	621,567	3,756,882	998,346
Interest	-	55,550	258,328	313,878	346,028
Financing charges	741	-	25,480	26,221	27,021
Amortization	-	-	11,582	11,582	11,583
Depreciation	-	34,042	1,718,221	1,752,263	1,744,634
TOTAL EXPENSES	3,125,466	202,775	5,215,680	8,543,921	5,585,510
CHANGE IN NET ASSETS	(61,264)	(11,633)	(1,291,611)	(1,364,508)	(1,514,074)
NET ASSETS, October 1, 2016	(1,303,245)	37,537	20,441,685	19,175,977	20,690,051
NET ASSETS, September 30, 2017	\$ (1,364,509)	\$ 25,904	\$ 19,150,074	\$ 17,811,469	\$ 19,175,977

See notes to financial statements.

FRUITVALE DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2017

(With comparative totals for the fiscal year ending September 30, 2016)

	9/30/2017	9/30/2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,364,508)	\$ (1,514,074)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,752,263	1,744,634
Amortization	11,582	11,583
Deferred charge - Ground lease rent	158,194	180,709
Grant to Unity Council	-	811,210
(Increase) decrease in:		
Accounts receivable	34,262	(191,139)
Prepaid expense	(109)	(114)
Increase (decrease) in:		
Prepaid rent	(3,068)	53,979
Security deposit	8,665	(7,375)
Accrued interest on Fruitvale Village notes	(33,464)	135,872
Accounts payable and accrued expenses	199,621	(3,231)
	<u>763,438</u>	<u>1,222,054</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Tenant improvements	(370,046)	(29,952)
	<u>(370,046)</u>	<u>(29,952)</u>
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deferred financing cost	(12,534)	(71,000)
Principal Redemption - 501(c)3 Bonds	(510,000)	(475,000)
Principal payments - HUD Section 108 loan	(79,268)	(216,667)
Principal payments - WFB Loan	(24,956)	(26,330)
	<u>(626,758)</u>	<u>(788,997)</u>
NET CASH USED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(233,366)	403,105
CASH AND CASH EQUIVALENTS, October 1, 2016	<u>714,141</u>	<u>311,036</u>
CASH AND CASH EQUIVALENTS, September 30, 2017	<u>\$ 480,775</u>	<u>\$ 714,141</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 313,878	\$ 346,028

See notes to financial statements.

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of business:

Fruitvale Development Corporation, Inc. (Corporation) is a nonprofit public benefit corporation. The Corporation was organized on February 5, 1996 to plan, develop, rehabilitate, construct and manage housing (for moderate and low income families and the elderly), commercial, transit and other facilities to combat the deterioration of the Fruitvale area in Oakland. The Corporation completed the construction of the Fruitvale Village (the Project) in 2004.

A majority of the Corporation's directors are also directors of the Spanish Speaking Unity Council of Alameda County, Inc. (The Unity Council), a nonprofit, public benefit charitable organization. The Unity Council's mission is to help families and individuals build wealth and assets through comprehensive programs of sustainable economic social and neighborhood development. The Corporation is a support corporation and related entity of the Unity Council and it is not consolidated with the Unity Council's financial statements.

The operations of the Corporation are funded primarily through rentals and at times through various contracts and grants from federal, state and local governments, foundations, and corporations.

Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting, revenues are recognized in the period in which they are earned and become measurable, and expenses are recognized in the period incurred.

Financial statement presentation:

In accordance with professional accounting standards the contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

In accordance with professional accounting standards the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted net assets – Unrestricted Net assets are assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At September 30, 2017, the Corporation has no temporarily restricted net assets.

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that may be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on any related investments for general or specific purposes. At September 30, 2017, the Corporation has no permanently restricted net assets.

Revenue recognition:

Support and revenues from donations without donor-imposed restrictions are reported as unrestricted support in the period received. Support and revenues from donations with donor-imposed restrictions are reported as temporarily restricted support in the period received. Government and local grants and contracts are recognized as revenue to the extent of qualifying expenditures being incurred, most of which have been capitalized and reported as fixed assets or construction in progress. In addition, government and local grants and contracts with donor-imposed restrictions whose restrictions are met in the same year are reported as unrestricted revenues.

Contributions of long-lived assets without stipulations that limit the use of the donated asset are reported as unrestricted support. Contributions of long-lived assets with stipulations that limit the use of the donated assets are reported as temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and cash equivalents:

The Corporation considers all cash and cash equivalent accounts with an initial maturity of three months or less to be cash and cash equivalents for purposes of the statement of cash flows.

Accounts and notes receivable:

Management elects to record bad debts using the direct write off method. Accounting principles generally accepted in the United States of America require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write off method is not materially different from the result that would have been obtained had the allowance method been followed.

Interdepartmental asset and liability:

The Unity Council manages the Project under contract with the Corporation. Financial activity from the Project is consolidated with general and other real property financial activity to form these financial statements. Cash transfer activity between the property management agent and the corporate entity is eliminated upon consolidation.

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fixed assets:

Land and buildings are recorded at cost or, if donated, at the estimated fair market value at the time of donation. In addition, the Corporation capitalized predevelopment and construction costs related to the Project.

With the exception of land and construction in progress, depreciation is recorded on the straight-line method over the estimated useful life of the asset. The estimated useful life for buildings is 30-40 years. Building improvements have an estimated useful life of 15 years.

Professional accounting standards require recording of an asset and related liability for costs associated with the retirement of long-lived tangible assets when an unconditional legal obligation to perform a retirement activity exists. The Corporation is not aware of any specific unconditional legal obligations which, individually or in the aggregate, are material to the Corporation's financial position.

The Corporation evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered.

Income taxes:

The Corporation is a tax-exempt corporation under section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code.

Note 2. NATURE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 3. CONCENTRATIONS:

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

Note 4. ACCOUNTS RECEIVABLE:

Accounts and notes receivable as of September 30, 2017 and 2016 consisted of the following:

	September 30,	
	2017	2016
Fruitvale Village tenant receivables	\$ 17,408	\$ 89,237
Claim for property tax overpayment	171,733	134,166
Total accounts receivable	<u>\$ 189,141</u>	<u>\$ 223,403</u>

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 5. FIXED ASSETS:

Fixed assets as of September 30, 2017 and 2016 were comprised of the following:

	Balance 09/30/16	Additions	Reclassifications/ Disposals	Balance 09/30/17
Land	\$ 3,478,344	\$ -	\$ -	\$ 3,478,344
Building and Improvements	50,971,343	327,299	-	51,298,642
Furniture and equipment	67,330	-	-	67,330
Construction in progress	-	42,747	-	42,747
	54,517,017	370,046	-	54,887,063
Less accumulated depreciation	(21,298,394)	(1,752,263)	-	(23,050,657)
Total net book value	\$ 33,218,623	\$ (1,382,217)	\$ -	\$ 31,836,406
	Balance 10/01/15	Additions	Reclassifications/ Disposals	Balance 09/30/16
Land	\$ 3,478,344	\$ -	\$ -	\$ 3,478,344
Building and Improvements	50,941,390	29,953	-	50,971,343
Furniture and equipment	67,330	-	-	67,330
	54,487,064	29,953	-	54,517,017
Less accumulated depreciation	(19,553,760)	(1,744,634)	-	(21,298,394)
Total net book value	\$ 34,933,304	\$ (1,714,681)	\$ -	\$ 33,218,623

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 6. NOTES PAYABLE:

	September 30,	
	2017	2016
<p>A \$3,300,000 loan through the City of Oakland Enhanced Enterprise Community (EEC) HUD Section 108 funds for development and construction of the Project. The Section 108 loan is subject to the terms and conditions of the promissory note. Pursuant to the terms of the promissory note, interest payments commenced on August 1, 1999 at a rate ranging from 2.0% to 6.9%. Principal payments commenced in July 2004, with principal payments starting at \$25,000 per year and increasing to \$158,220 on August 1, 2015 with full payment due on August 1, 2016. In August 2016, the City accepted a partial payment of \$250,000 and agreed to postpone the due date until December 31, 2016. FDC reached an agreement with the City of Oakland on April 10, 2017 to make a one-time payment of \$100,000 from available cash flows in April 2017 and a second payment of \$200,000 upon reimbursement from the Alameda County Tax Assessor's office. Annual payment of \$120,000 will be paid in monthly installments of \$10,000 to commence on May 1, 2017 and to continue at the original terms of the loan until the loan balance is fully paid.</p>	\$	1,501,982
<p>A note payable in the amount of \$970,000 from Wells Fargo Bank (WFB), secured by the Masonic Temple and corporate guarantee of Spanish Speaking Unity Council. Interest on principal amounts outstanding accrues at a floating rate (LIBOR), paid monthly, currently at 2.1%. The term of the loan is 10 years, due in June 2017, with a 30-year amortization. Note payable was refinanced on 10/13/2017. See note 9 for further details.</p>		837,280
<p>A note payable in the amount of \$500,000 from Wells Fargo Bank, secured by the Masonic Temple and corporate guarantee of the Unity Council. The proceeds of this loan were used to finance improvements in the Project. Interest on principal amounts outstanding accrues at a fixed annual rate of 6.95%, paid monthly. The term of the loan is 10 years, due in September 2018, with a 30-year amortization.</p>		440,385
<p>A residual receipts note payable in the amount of \$200,000 to the City of Oakland. The loan was secured to provide a landlord contribution to the Unity Council for the Community Cultural Center in the Masonic Temple. The note accrues interest at 3%, and principal payments are based on annual excess cash flows.</p>		103,611
<p>The Oakland Joint Powers Authority issued tax-exempt 501(c)(3) revenue bonds series 2001A (\$19.8 million) dated December 1, 2001, which were issued and sold on December 20, 2001. The proceeds of the bond issuance resulted in a loan to the Corporation which was used to finance the construction of the Project. The bonds mature on July 1, 2033. During construction, the bonds paid interest semi-annually at a fixed rate of 3.125%. Effective July 1, 2004, the bonds converted to a floating rate and are remarketed weekly. The interest rate paid weekly is approximated by the SIFMA Index, formerly the BMA Index. The interest rate paid on the bonds ranged from 0.33% to 1% between October 1, 2016 and September 30, 2017, and from 0.01% to 0.83% between October 1, 2015 and September 30, 2016. Interest on the bonds is due and payable on the first Wednesday of each calendar month. On November 9, 2012, the Corporation purchased a 6% interest rate cap hedging instrument for the 72 month period from January 1, 2013 through December 31, 2018 for \$69,500.</p>		13,025,000
<p style="text-align: right;">Subtotals</p>		15,908,258
		13,535,000
		16,522,482

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 6. NOTES PAYABLE (Continued):

	September 30,	
	2017	2016
Subtotals from page 11	\$ 15,908,258	\$ 16,522,482
A \$750,000 loan was approved by the City of Oakland, Housing Department, in August 2001. However, the loan was not funded to the Corporation until FY 2002-2003. The loan accrues interest at an annual rate of 3%. Principal and interest payments are paid with excess operating revenue over operating expenses from the Project and are due within 90 days after each calendar year. Final principal and interest payment, if not earlier paid in full from excess operating revenues over operating expenses, is due August 31, 2031.	750,000	750,000
Totals	\$ 16,658,258	\$ 17,272,482

Principal maturities of notes payable for the next five fiscal years ending September 30 and thereafter are as follows:

September 30,	City of Oakland (EEC/Section 108)	WFB	Oakland Joint Powers Authority	City of Oakland Loans	Total
2018	\$ 61,032	\$ 476,779	\$ 535,000	\$ -	\$ 1,072,811
2019	63,518	41,414	565,000	-	669,932
2020	66,106	43,274	580,000	-	689,380
2021	68,799	45,217	595,000	-	709,016
2022	71,602	47,248	630,000	-	748,850
Thereafter	1,170,925	623,733	10,120,000	853,611	12,768,269
Total notes payable	\$ 1,501,982	\$ 1,277,665	\$ 13,025,000	\$ 853,611	\$ 16,658,258

The Wells Fargo Bank and the City of Oakland residual receipt notes are secured by the Masonic Temple property, which had net book values of \$723,457 and \$757,500 as of September 30, 2017 and 2016, respectively. The City of Oakland EEC note, the Citibank letter of credit securing the 510(c)(3) bonds series 2001A expires December 1, 2018 and requires quarterly principal payments. The City of Oakland Housing note are all secured by the Fruitvale Village Project, which had net book values of \$31,112,969 and \$32,461,128 as of September 30, 2017 and 2016, respectively.

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 7. GROUND LEASE WITH THE BAY AREA RAPID TRANSIT DISTRICT:

On October 1, 2001, the Corporation entered into a 95-year ground lease, including options, with the San Francisco Bay Area Rapid Transit District (BART) for the purpose of constructing commercial, community service and residential improvements for the Project. During the fiscal year ended September 30, 2002, the Corporation received a rent credit from BART at a value of \$7,247,134, which was recorded as a deferred charge on the statement of financial position. Based on the BART ground lease agreement, the Corporation earned simple interest (at Prime) on this asset between December 1, 2003 and October 29, 2010. On December 1, 2003, rent commenced on the ground lease. The balance of the prepayment credit, net of rent expense, as of September 30, 2017 and 2016, is \$2,813,287 and \$2,971,481, respectively. On October 29, 2010, the Corporation executed an amendment to the ground lease which resulted in significant changes to the structure of the rent credit. As a result of this restructure, the Corporation exchanged a portion of the credit for cash, dollar for dollar, in relation to a real estate transaction. The Corporation then used the cash proceeds from this exchange to pay down short-term and long-term debt obligations. The Corporation anticipates incurring ground lease rent costs as a cash expense beginning in 2032, when the remaining ground lease rent credit has been fully exhausted.

Note 8. RELATED PARTY TRANSACTIONS:

The Unity Council provides general management, property management, accounting and construction management services for the Corporation. During the fiscal years ended September 30, 2017 and 2016, the Corporation was billed \$779,105 and \$361,092, respectively for these services. The Unity Council is a major tenant in buildings owned by the Corporation. Rental income from the Unity Council of \$660,142 and \$645,640 was recorded by the Corporation for the fiscal years ended September 30, 2017 and 2016, respectively.

The Board of Directors for The Unity Council and FDC approved the terms of an October 17, 2016 agreement with the City of Oakland whereas in lieu of providing a payment of \$5,100,000 due October 1, 2023, the City paid FDC \$3,050,000 and FDC will subsequently grant The Unity Council \$3,050,000. The \$3,050,000 payment to The Unity Council is considered a grant from FDC to be used for general operating purposes. Further, under terms of the agreement with the City, \$1,500,000 is to be advanced by The Unity Council to Fruitvale Transit Village II-A L.P., a 94-unit low income housing apartment complex, to be used for predevelopment costs. Such advance bears no interest and is to be repaid when a construction loan is made to the project.

Peralta Services Corporation (PSC), a wholly owned subsidiary of The Unity Council, provides janitorial and maintenance services to Fruitvale Village. During the fiscal years ended September 30, 2017 and 2016, the Corporation was billed \$213,992 and \$193,423, respectively, for those services. PSC began providing security services to the Corporation in March of 2015. The Corporation was billed \$315,000 and \$306,000, respectively, for such services in fiscal years ended September 30, 2017 and 2016.

FRUITVALE DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS – SEPTEMBER 30, 2017

Note 9. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 28, 2018, the date which the financial statements were available for issue. The following disclosures are being made with respect to events occurring subsequent to September 30, 2017.

Wells Fargo Bank (WFB) notes payable, described in Note 6, was refinanced on October 13, 2017. The Corporation will make 59 monthly payments of \$6,314 and a final payment estimated at \$620,486. The revised maturity date is October 10, 2022. An interest rate of 4.250% per annum will be assessed.