

**L.A. FAMILY HOUSING CORPORATION
AND AFFILIATED ORGANIZATIONS**
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS
DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015



L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

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Independent Auditor's Report

To the Board of Directors of
L.A. Family Housing Corporation and Affiliated Organizations:

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of L.A. Family Housing Corporation (a nonprofit California Corporation) and Affiliated Organizations (collectively, LA Family Housing), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 did not audit the 2016 financial statements of certain incorporated affiliated nonprofit organizations, which statements reflect total combined assets of \$25,433,092 as of December 31, 2016 and total revenues of \$459,496 for the year then ended. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. 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. 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, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LA Family Housing as of December 31, 2016, and the change in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules II and III is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. The accompanying supplementary information in Schedules IV through VI consists of information required by HCD for one of LA Family Housing's wholly owned entities and is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. In addition, the accompanying schedule of expenditures of federal awards (Schedule VII) is required by the Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is presented for purposes of additional analysis, although 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 supplemental information (included in schedules II – VII), which insofar as it relates to the incorporated affiliated nonprofit organizations, is based on the report of other auditors and is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The supplementary information included in Schedule I (page 38) is presented for purposes of additional analysis and is not presented on a U.S. GAAP basis, but has been modified to reflect the effects of certain non-cash expenditures of LA Family Housing. Such information is not a required part of the consolidated financial statements and is the responsibility of management; the information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2017 on our consideration of LA Family Housing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LA Family Housing's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited LA Family Housing's 2015 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated June 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Los Angeles, California
October 27, 2017

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR DECEMBER 31, 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 571,259	\$ 1,147,773
Contributions receivable due within one year	867,012	900,822
Contracts receivable due within one year	2,576,378	2,547,658
Receivables - rental	75,522	71,083
Organizational reserve, available for current use	748,358	503,076
Prepaid expenses and other assets	335,821	167,958
Total current assets	<u>5,174,350</u>	<u>5,338,370</u>
Security deposits and client trust accounts	<u>433,898</u>	<u>449,629</u>
Restricted property reserves		
Operating reserves	2,583,298	1,968,021
Replacement reserves	1,484,591	1,362,300
Transition reserves	712,475	711,541
Development reserves	11,202,776	4,180,790
Total restricted property reserves	<u>15,983,140</u>	<u>8,222,652</u>
Other restricted cash accounts	<u>37,991</u>	<u>24,947</u>
Contributions receivable, net of current portion	<u>483,940</u>	<u>899,535</u>
Notes receivable (Note 4)	<u>20,479,749</u>	<u>7,998,600</u>
Real estate held for lease, at cost		
Land	13,165,831	11,755,397
Buildings and building improvements	50,698,756	49,912,511
Total real estate held for lease, at cost	63,864,587	61,667,908
Less: accumulated depreciation	<u>(15,395,109)</u>	<u>(13,995,553)</u>
Real estate held for lease, net	<u>48,469,478</u>	<u>47,672,355</u>
Property and equipment, at cost		
Land	452,675	900,735
Buildings and building improvements	2,160,622	7,684,715
Furniture and equipment	1,639,009	1,934,996
Automobiles	235,098	218,198
Total property and equipment, at cost	4,487,404	10,738,644
Less: accumulated depreciation	<u>(2,728,971)</u>	<u>(6,632,321)</u>
Property and equipment, net	<u>1,758,433</u>	<u>4,106,323</u>
Real estate under development (Note 9)	12,769,864	1,860,034
Deferred costs, net	<u>120,872</u>	<u>47,374</u>
Total assets	<u>\$ 105,711,715</u>	<u>\$ 76,619,819</u>

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR DECEMBER 31, 2015

(CONTINUED)

	<u>2016</u>	<u>2015</u>
Liabilities and Net Assets (Deficit)		
Current liabilities		
Accounts payable and accrued expenses	\$ 625,463	\$ 494,507
Current portion of notes payable	696,731	729,042
Current portion of accrued interest payable	33,998	29,346
Construction costs payable	2,089,321	289,537
Accrued payroll	498,585	419,148
Deferred revenues	<u>953,413</u>	<u>387,781</u>
Total current liabilities	4,897,511	2,349,361
 Tenant deposit liabilities	 417,795	 422,792
Notes payable secured by real estate, net of current portion and deferred financing costs	80,528,798	55,530,055
Accrued interest payable, net of current portion	<u>10,406,712</u>	<u>9,428,020</u>
 Total liabilities	 <u>96,250,816</u>	 <u>67,730,228</u>
 Commitments and contingencies (see Notes)		
Net assets (deficit)		
Unrestricted		
Controlling interest	(390,717)	(3,187,499)
Noncontrolling interest	<u>7,870,717</u>	<u>7,576,846</u>
Total unrestricted	7,480,000	4,389,347
Temporarily restricted	<u>1,980,899</u>	<u>4,500,244</u>
 Total net assets (deficit)	 <u>9,460,899</u>	 <u>8,889,591</u>
 Total liabilities and net assets (deficit)	 <u>\$ 105,711,715</u>	 <u>\$ 76,619,819</u>

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Public support and revenues				
Government contracts and grants	\$ 11,553,334	\$ -	\$ 11,553,334	\$ 8,882,228
Private contributions (corporate, foundation and individuals)	3,057,316	1,403,889	4,461,205	4,099,697
Contributed goods and services (Note 2)	2,285,978	-	2,285,978	585,410
Special events revenues	1,133,888	-	1,133,888	1,054,415
Total public support and revenues	18,030,516	1,403,889	19,434,405	14,621,750
Other revenues				
Rental revenues, net	3,733,252	-	3,733,252	3,615,027
Other revenues	299,556	-	299,556	73,066
Total other revenues	4,032,808	-	4,032,808	3,688,093
Net assets released from restrictions	3,923,234	(3,923,234)	-	-
Total public support and revenues, other revenues and net assets released from restrictions	25,986,558	(2,519,345)	23,467,213	18,309,843
Expenses				
Program services				
Homeless services	15,666,749	-	15,666,749	11,388,190
Real estate development	843,537	-	843,537	300,530
Permanent housing operation	5,420,011	-	5,420,011	5,930,006
Total program services	21,930,297	-	21,930,297	17,618,726
Supporting services				
Management and general	811,414	-	811,414	563,350
Fundraising and development	1,335,563	-	1,335,563	995,685
Total supporting services	2,146,977	-	2,146,977	1,559,035
Total expenses	24,077,274	-	24,077,274	19,177,761
Change in net assets	1,909,284	(2,519,345)	(610,061)	(867,918)
Net assets, beginning of the year	4,389,347	4,500,244	8,889,591	9,721,735
Limited partner contributions (Note 11)	1,236,369	-	1,236,369	35,774
Syndication costs	(55,000)	-	(55,000)	-
Net assets, end of the year	\$ 7,480,000	\$ 1,980,899	\$ 9,460,899	\$ 8,889,591

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016 WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services				Supporting Services			Total	Total
	Homeless Services	Real Estate Development	Permanent Housing Operation	Subtotal Program Services	Management and General	Fundraising and Development	Subtotal Supporting Services	2016 Expenses	2015 Expenses
Bad debt expense	\$ 318	\$ -	\$ 25,248	\$ 25,566	\$ 2,318	\$ 31,500	\$ 33,818	\$ 59,384	\$ 14,844
Client food and meals	233,920	-	-	233,920	-	-	-	233,920	364,833
Client supplies/program expense	3,713,925	-	-	3,713,925	30	382	412	3,714,337	2,496,572
In-kind expenses	2,276,306	-	-	2,276,306	-	9,672	9,672	2,285,978	585,410
Office equipment and supplies	156,873	13,239	36,157	206,269	145,938	24,127	170,065	376,334	187,578
Other operating expenses	625,480	41,052	64,620	731,152	234,936	125,955	360,891	1,092,043	564,040
Personnel expenses	111,157	3,236	15,382	129,775	53,118	6,338	59,456	189,231	154,667
Professional and legal fees	125,010	-	209,313	334,323	57,130	48,837	105,967	440,290	390,914
Property insurance	133,896	6,743	175,544	316,183	-	5,131	5,131	321,314	361,543
Property management and development	-	-	327,974	327,974	-	-	-	327,974	189,969
Property taxes and other fees	10,066	-	112,312	122,378	5,459	-	5,459	127,837	100,394
Rent expense	101,183	37,201	-	138,384	-	-	-	138,384	88,884
Repairs and maintenance	235,780	134,052	723,191	1,093,023	293	12	305	1,093,328	1,025,980
Salaries, taxes, and benefits	7,436,940	277,718	332,239	8,046,897	262,302	741,714	1,004,016	9,050,913	8,109,387
Special events/fundraising	-	-	-	-	-	336,560	336,560	336,560	235,500
Utilities	289,523	9,096	570,421	869,040	13,470	5,335	18,805	887,845	900,210
Vehicle expenses	37,040	-	-	37,040	681	-	681	37,721	37,045
Total before financial expenses	15,487,417	522,337	2,592,401	18,602,155	775,675	1,335,563	2,111,238	20,713,393	15,807,770
Interest expense	49,610	321,200	1,308,697	1,679,507	19,957	-	19,957	1,699,464	1,526,529
Total before depreciation and amortization	15,537,027	843,537	3,901,098	20,281,662	795,632	1,335,563	2,131,195	22,412,857	17,334,299
Depreciation and amortization	129,722	-	1,518,913	1,648,635	15,782	-	15,782	1,664,417	1,843,462
Total expenses	<u>\$15,666,749</u>	<u>\$ 843,537</u>	<u>\$ 5,420,011</u>	<u>\$ 21,930,297</u>	<u>\$ 811,414</u>	<u>\$ 1,335,563</u>	<u>\$2,146,977</u>	<u>\$24,077,274</u>	<u>\$ 19,177,761</u>

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (610,061)	\$ (867,918)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,664,417	1,843,462
Amortization of deferred financing costs	33,339	3,429
Bad debt expense	59,384	14,844
Change in operating assets and liabilities:		
Contributions receivable	417,905	(259,488)
Contract receivables	(31,026)	(1,062,352)
Receivables - rental	(30,017)	(18,496)
Prepaid expenses and other assets	(167,863)	(26,524)
Security deposits and client trust accounts	2,687	85,720
Accounts payable and accrued expenses	130,956	55,508
Accrued interest payable	1,005,541	1,302,043
Accrued payroll	79,437	96,075
Deferred revenues	565,632	88,177
Tenant deposit liabilities	(4,997)	(74,473)
Net cash provided by operating activities	<u>3,115,334</u>	<u>1,180,007</u>
Cash flows from investing activities		
Net change in organizational reserve	(245,282)	643,271
Net change in restricted property reserves	(7,760,488)	(4,988,090)
Net change in notes receivable	(12,481,149)	(7,998,600)
Expenditures for real estate under development and property	(9,216,742)	(1,742,195)
Expenditures for deferred costs	(80,452)	-
Net cash used in investing activities	<u>(29,784,113)</u>	<u>(14,085,614)</u>
Cash flows from financing activities		
Contributions - noncontrolling interest	1,181,369	8,079,439
Proceeds from notes payable	29,849,245	20,469,795
Payment of notes payable	(4,173,988)	(15,165,571)
Expenditures for deferred financing costs	(764,361)	(666,833)
Net cash provided by financing activities	<u>26,092,265</u>	<u>12,716,830</u>
Net change in cash and cash equivalents	(576,514)	(188,777)
Cash and cash equivalents, beginning of year	<u>1,147,773</u>	<u>1,336,550</u>
Cash and cash equivalents, end of year	<u>\$ 571,259</u>	<u>\$ 1,147,773</u>

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

(CONTINUED)

	<u>2016</u>	<u>2015</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 397,306</u>	<u>\$ 281,325</u>
Cash paid for taxes	<u>\$ 11,330</u>	<u>\$ 14,862</u>
Non-cash transactions:		
Unpaid capitalized construction costs	<u>\$ 2,089,321</u>	<u>\$ 289,537</u>
Accrued interest converted to principal	<u>\$ 22,197</u>	<u>\$ 151,308</u>
Unpaid capitalized interest	<u>\$ 53,553</u>	<u>\$ 35,200</u>
Contribution of goods and services	<u>\$ 2,285,978</u>	<u>\$ 585,410</u>
Syndication costs	<u>\$ 55,000</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1. ORGANIZATION

L.A. Family Housing Corporation and Affiliated Organizations (collectively, LA Family Housing, or Organization) are corporations organized under the General Nonprofit Corporation Law of the State of California. These corporations help homeless and low-income families and individuals of the Greater Los Angeles area transition out of poverty and create lasting stability. LA Family Housing provides a comprehensive range of supportive services and offers a continuum of housing, including emergency and bridge, scattered site community based placement, permanent supportive and permanently affordable housing.

L.A. Family Housing Corporation (LAFH) wholly owns and operates the following:

- LAFH provides administration and management services for the various programs of LA Family Housing.
- Sydney M. Irmas Transitional Living Center (TLC) provided shelter and services to 65 families experiencing homelessness in North Hollywood, California, and was sold in November 2015 to LAFH Phase I QALICB, Inc., an affiliated nonprofit entity. The project is now operated as part of the South Campus at LA Family Housing (South Campus). No gain was recognized on the sale, and all intercompany balances and transactions were eliminated in consolidation.
- Comunidad Cesar Chavez (previously known as Chernow House and Triangle Apartments) is a 146-bed, 27-unit complex located in the Boyle Heights area of Los Angeles, California, which provides emergency shelter for up to four months for homeless families.
- Gentry Village is a 3-unit complex located in North Hollywood, California, which provides permanent housing for families with low income.
- Martin Luther King, Jr. (MLK) is a 7-unit complex located in Los Angeles, California, which provides permanent housing for families with low income.
- Strong House is a 6-unit historical mansion located in Los Angeles, California, which provides permanent housing for families with low income.
- Gentry North is a 5-unit apartment building located in North Hollywood, California, which provides permanent housing for families and single adults with low income.
- Casa Figueroa is a 4-unit complex located in Los Angeles, California, which provides permanent housing for families with low income.
- Hyde Park is a 25-unit complex in Inglewood, California, which provides permanent housing for families with low income.
- Klump is a 15-unit complex of permanent supportive housing (formerly a 26 units single room occupancy units which was converted in 2015), located in North Hollywood, California, which provides permanent supportive housing for single adults with very low income.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1. ORGANIZATION (Continued)

- Delano I is a 9-unit complex located in Van Nuys, California, which provides permanent housing for families with low income.
- Delano II is a 9-unit complex located in Van Nuys, California, which provides permanent housing for families with low income.

Incorporated affiliated nonprofit organizations represent nonprofit organizations that are individually incorporated under the laws of the state of California, have independent boards of directors, but are directly governed by LA Family Housing's board of directors and are centrally managed in conjunction with LA Family Housing's housing programs. Accordingly, the assets, liabilities, support, revenues and expenses of the following affiliated nonprofit organizations are consolidated in the financial statements of LA Family Housing:

- L.A.F.H. Temporary Housing Corp. I (Valley Shelter) is a nonprofit California corporation originally established to manage the Valley Shelter project in North Hollywood, California, for up to 250 homeless adults. While the Valley Shelter project no longer exists, the corporation remains to receive HUD funding for the operation of Bridge Housing at the South Campus under the Transitional Living Program contracts, which ended September 30, 2016.
- L.A.F.H. Permanent Housing Corp. I (Casa Central) is a nonprofit California corporation established to own a 6-unit complex located in Los Angeles, California, which provides permanent housing for families with low income.
- Cochran Villa Inc. (Cochran Villa) is a nonprofit California corporation established to own a 10-unit complex located in Los Angeles, California, which provides permanent housing for families with low income.
- Harmony Villa, Inc. (Harmony Place) is a nonprofit California corporation established to own an 18-unit complex located in North Hollywood, California, which provides permanent housing for families with low income and owns a 1% interest in Glenoaks Gardens Limited Partnership.
- LAFH Phase I QALICB, Inc. (QALICB I) is a California nonprofit corporation established to acquire and rehabilitate the property formerly known as TLC and to develop the South Campus at LA Family Housing using federal New Market Tax Credits (NMTC). South Campus includes Bridge Housing for single adults (up to 250 beds), Crisis Housing for families (12 units), and the Family Solution Center for all families. The rehabilitation was completed in 2017 (Note 9).
- LAFH Phase II QALICB, Inc. (QALICB II) is a California nonprofit corporation established to acquire the property formerly known as Valley Shelter and to develop commercial property at North Campus at LA Family Housing using federal NMTC. The commercial improvements consist of certain office, community and medical space. North Campus will also include residential property to be constructed by PSH Campus, L.P. (PSH Campus). The development of the commercial property commenced in 2016 and is expected to be completed in 2018 (Note 9).

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1. ORGANIZATION (Continued)

LA Family Housing also includes three limited liability companies (LLCs) and six limited partnerships (Partnerships) in its consolidated financial statements as it has a 100% ownership interest in these entities. Accordingly, the assets, liabilities, support, revenues and expenses of the following entities are consolidated in the financial statements of LA Family Housing:

- LA Family Housing, LLC (LAFH, LLC) is a single member California LLC established to be the limited partner for various TCAC properties that are not wholly owned by LAFH.
- Apartments at Day Street, LLC (Day Street LLC) is a single member California LLC established to be the general partner for Day St., L.P. and owns a .01% interest.
- PSH Campus, LLC (PSH Campus LLC) is a single member California LLC established to be the general partner for PSH Campus and owns a .01% interest.
- LA Family Housing, combined with affiliate interests, owns a 100% interest in the following limited partnerships:

Partnership	Affiliate Interest	LAFH Interest	Number of Units
Glenoaks Gardens, L.P. (Glenoaks Gardens)	1%	99%	61
Vineland Place Limited Partnership (Vineland Place)	10%	90%	18
Alabama Court Limited Partnership (Alabama Court)	99%	1%	42
Harmony Gardens Limited Partnership (Harmony Gardens)	99%	1%	14
11754 Vanowen Gardens, L.P. (Vanowen Gardens)	99%	1%	15
13436 Victory Partners, L.P. (Victory)	99.99%	.01%	15
Total units			165

LA Family Housing Corporation directly, or through an affiliate, is the general partner in three limited partnerships (Controlled Limited Partnerships) that are invested in residential apartment complexes that qualify for low-income housing tax credits under Section 42 of the Internal Revenue Code and rent to qualified low-income tenants. LA Family Housing Corporation holds up to a 1% controlling ownership interest in each of these consolidated limited partnerships. Accordingly, the assets, liabilities, support, revenues and expenses of the following partnerships are consolidated in the financial statements of LA Family Housing, and the noncontrolling interest is separately disclosed in the consolidated statement of financial position:

General Partner	Partnership	Number of Units
LAFH	14649 Saticoy Partners, L.P. (Saticoy)	30
Day Street LLC	Day Street, L.P. (Day Street)	46
PSH Campus LLC	PSH Campus (Note 9)	50*
Total units		126

* Units to be placed in service by December 2017

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NOTE 1. ORGANIZATION (Continued)

Description of Programs

LAFH assists families and individuals who are homeless or in danger of homelessness become connected to housing and supportive services through their outreach and assessment process. Homeless Services consists of interim housing (bridge and crisis); housing navigation intake and assessment; placement services; and housing stabilization. Supportive Services ensures the individuals and families served have all the resources they need to achieve stability and stay housed. Services are provided by LAFH staff in collaboration with partner agencies and include:

- Case management and life skills training
- Housing location, placement and retention services
- Employment placement and job development
- Licensed pre-school, after-school and child enrichment programs
- Medical, mental health, and behavioral health care
- Linkages to benefits, substance counseling, continuing education, and more

Real Estate Development builds new affordable housing units through new construction, acquisition and rehabilitation, or through partnerships with third party developers. The program develops affordable housing for individuals and families with annual median incomes ranging from very-low to moderate income. Permanent Supportive Housing (PSH) is a model of affordable housing which targets chronically homeless people who live with one or more disabling conditions and offers supportive services on-site.

Permanent Housing Operation refers to the operation of all LAFH owned/developed apartment buildings. The apartment properties all serve very low and low income households, including some properties dedicated to formerly homeless households with special needs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of LAFH and all of its wholly owned and controlled affiliates. These entities are included in the consolidation in accordance with U.S. GAAP, which require that the partnership or company accounts be consolidated for all limited partnerships and limited liability companies which are deemed to be controlled by LAFH. All significant intercompany balances and transactions have been eliminated in consolidation. The noncontrolling interests in the consolidated limited partnerships are shown separately in the components of net assets.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Revenues, expenses, gains, losses and net assets are classified in the consolidated financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of LA Family Housing and changes therein are classified and reported as follows:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of LA Family Housing.
- Noncontrolling interests in limited partnerships – The noncontrolling interest represents the limited partners' equity interest in the controlled limited partnerships, generally up to 99.99%, that are included in the consolidated financial statements (Note 10).
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of LA Family Housing and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions (Note 10).
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of LA Family Housing's programs and operations unless otherwise stipulated by the donor. As of December 31, 2016 and 2015, LA Family Housing had no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, LA Family Housing considers all highly liquid unrestricted investments with an original maturity of three months or less to be cash equivalents.

Restricted Property Reserves

LA Family Housing has set up certain operating, replacement and transition reserve accounts and continues to make annual deposits as required by the various loan and regulatory agreements. In addition, reserves were established for QALICB I and QALICB II in accordance with NMTC agreements restricted for the purpose of development and to cover annual transaction and management fees.

Organizational Reserve

LA Family Housing voluntarily established an organizational reserve for the purposes of funding unanticipated operating deficits with advance approval from the board of directors. The reserve is funded from the available cash flow and is available for current use.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

LA Family Housing receives contract and grant funding from federal, state and local agencies for providing crisis and bridge housing, transitional housing and permanent supportive services. Revenues from such contracts and grants are recognized as they are earned through expenditure in accordance with the agreements. Any funds received in advance of the expenditure being incurred are recorded as a liability.

Contributions are recognized at the earlier of the date of receipt of funds or the date of a formal, unconditional pledge from known donors. Contributions or unconditional promises to give with payments due in future periods are discounted to present value and reported as temporarily restricted revenue. Any funds received in advance of a condition being met are recorded as a liability.

Revenues from program service fees are recognized as services are performed and collection is reasonably assured.

Revenues from rental properties, primarily from short-term leases, are reflected as gross potential rents, net of vacancies, as the rents become due.

Developer fees are recognized during the construction period based on the percentage of construction complete. Amounts not received by the completion date are recorded as a receivable. The gross profit on developer fees earned from affiliated entities is eliminated in consolidation.

Special Events

LA Family Housing conducts several special events during the year to raise money in support of its operations. Special events revenues include corporate contributions and are recognized when the event is held, unless otherwise restricted by donors. The contributions received for special events scheduled to occur after year-end are recorded as deferred revenues and recognized as revenues on the date of the event. Revenue from these events are included in contributions and the related direct expenses are included in special events expense in the consolidated statement of activities and change in net assets (deficit).

Accounts Receivable and Bad Debt Expense

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. U.S. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Rental / Operating Subsidy

A portion of rental and operating revenue at a number of the apartment buildings is received from the Housing Authority for the City of Los Angeles (Section 8 rental subsidy), the Department of Mental Health Services (MHSA operating subsidy), and/or the Department of Health Services (DHS vouchers). Tenant rents are subsidized based on their income and special needs qualifications. Subsidy income of \$991,664 and \$897,736 for the years ended December 31, 2016 and 2015, respectively, is included in the accompanying consolidated statement of activities and change in net assets within rental revenues.

Real Estate Held for Lease, and Property and Equipment

Real estate held for lease, property and equipment and leasehold improvements, including real estate under development, is stated at cost. Depreciation and amortization of assets placed in service is calculated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Life</u>
Buildings and building improvements	40 years
Land improvements	20 years
Furniture and equipment	5-7 years
Leasehold improvements	Lesser of life or lease

LA Family Housing capitalizes expenditures or betterments that materially increase asset lives and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations. Abandoned projects are expensed when management determines the project is not feasible. Interest costs directly related to, and incurred during, a project's construction period are capitalized (Note 5).

LA Family Housing reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. When evaluating recoverability, management considers future undiscounted cash flows estimated to be generated by the property and any estimated proceeds from the eventual disposition. In the event these accumulated cash flows are less than the carrying amount of the property, LA Family Housing recognizes an impairment loss equal to the excess of the carrying amount over the estimated fair value of the property. No impairment losses were recognized in 2016 or 2015.

Predevelopment Project Costs

LA Family Housing incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial state of development. LA Family Housing capitalizes these costs until the project is transferred to a separate entity or charges the costs to operations at the time it is determined the project is not feasible. As of December 31, 2016 and 2015, LA Family Housing capitalized predevelopment costs of \$46,683 and \$648,323, respectively, which are included in real estate under development in the consolidated statement of financial position.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Costs

Deferred costs consist of California Tax Credit Allocation Committee (TCAC) monitoring fees which are amortized over 10-15 years. Deferred costs are as follows:

	2016	2015
TCAC fees	\$ 149,997	\$ 69,545
Less: accumulated amortization	(29,125)	(22,171)
Deferred costs, net	<u>\$ 120,872</u>	<u>\$ 47,374</u>

Deferred Financing Costs

Deferred financing costs of \$1,775,013 and \$997,780, net of accumulated amortization of \$168,932 and \$122,721 as of December 31, 2016 and 2015, respectively, are reported as a direct reduction of the obligation to which such costs relate. Amortization of deferred financing costs is reported as a component of interest expense and is calculated using a method that approximates the effective interest method.

Contributed Goods and Services

Contributed goods and services are recorded as contributions at their estimated fair values at the date of donation. Contributed goods consist primarily of household supplies, beds, hygiene products, equipment, and food. Contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills, and would typically need to be purchased if not provided by donation. In-kind contributions of \$2,285,978 and \$585,410 for the years ended December 31, 2016 and 2015, respectively are included in the accompanying consolidated financial statements as contributed goods and services revenue and in-kind expenses.

Functional Allocation of Expenses

The costs of providing LA Family Housing's programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, expenses identified with a specific program or supporting service are allocated directly to the related program or supporting service. Expenses associated with more than one program or supporting service are allocated by management based on an evaluation of LA Family Housing's activities.

The functional classifications are defined as follows:

- Program service expenses consist of costs incurred in connection with providing services and conducting programs.
- Management and general expenses consist of costs incurred in connection with the overall activities of LA Family Housing which are not allocable to another functional expense category.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

- Fundraising, community engagement and development expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate philanthropic revenue.

Income Taxes

The nonprofit entities consolidated in these consolidated financial statements have been granted an exemption 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. In addition, these nonprofits do not have any income which they believe would subject it to unrelated business income taxes. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure. With few exceptions, the nonprofit entities are no longer subject to income tax examinations by tax authorities for years before 2012. There are no current tax examinations pending.

No provision for income taxes has been made for the consolidated partnerships or the consolidated LLCs as any income or loss is included in the tax returns of the partners or members. The federal tax status as a pass-through entity is based on its legal status as a partnership or LLC. The partnerships and LLCs are required to file tax returns with the IRS and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and the Partnerships and LLCs have no other tax positions which must be considered for disclosure. The Partnerships and LLCs are required to pay an \$800 fee to the California Franchise Tax Board. With few exceptions, the Partnerships and LLCs are no longer subject to income tax examinations by tax authorities for years before 2012. There are no current tax examinations pending.

Concentrations of Business and Credit Risk

LA Family Housing's cash and cash equivalents are maintained in various bank accounts. LA Family Housing has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance. LA Family Housing believes that its credit risk is not significant.

LA Family Housing receives a significant amount of revenue from government contracts, as well as from affordable housing projects in which it is the general partner. These sources of funds are dependent upon the availability of funds from federal programs, as well as the continued success of the rental properties.

For the years ended December 31, 2016 and 2015, LA Family Housing had 2 government contracts and grants which accounted for 70% and 44%, respectively, of its total public support and revenues.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Exemption

LA Family Housing's property is generally exempt from real property taxes. In the event such exemption is not renewed annually or no longer available, LA Family Housing's cash flow would be negatively impacted.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include in-kind contributions of goods and services, the treatment of loans and related contingent interest owed on loans to be forgiven if the properties comply with loan requirements. Actual results may differ from those estimates.

Change in Accounting Principle

Effective January 1, 2016, the Organization adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). Under this new accounting policy, the Organization has retrospectively presented all debt issuance costs as a direct deduction from the carrying amount of the related obligation in the consolidated statement of financial position. Amortization of the debt issuance costs is calculated using a method that approximates the effective interest method, and is included as a component of interest expense. The effects of the retrospective application of the accounting change on the year ended December 31, 2015 is to decrease total assets and liabilities by \$875,059 in the accompanying consolidated statement of financial position and reclassify \$3,429 of amortization to interest expense in the accompanying consolidated statement of activities and change in net assets.

New Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The amendments in this update make improvements to the net asset classification requirements and the information presented in the not-for-profit entity's financial statements including specific disclosure requirements about its liquidity and availability of resources, expenses and investment returns and cash flows. ASU 2016-04 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. LA Family Housing is currently evaluating the impact that the adoption of ASU 2016-14 will have on its consolidated financial statements.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to provide classification guidance for certain transactions. FASB ASU 2016-15 is effective for private entities for fiscal years beginning after December 15, 2018, with early adoption permitted. LA Family Housing is currently in the process of evaluating the potential impact of the adoption of FASB ASU 2016-15 on January 1, 2019 will have on its consolidated financial statements.

In November 2016, the FASB issued ASU-2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which changes how restricted cash is presented on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. For private entities, the guidance in ASU 2016-18 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. LA Family Housing has not yet determined the impact the adoption of ASU 2016-18 on January 1, 2019 will have on its consolidated financial statements.

Comparative Financial Information

The consolidated financial statements are presented with certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Reclassifications

Certain reclassifications of balances have been made in the 2015 comparative information to conform to the presentation in the accompanying 2016 consolidated financial statements.

Reclassifications were made to disaggregate the assets, liabilities, net assets, revenue, and expenses of the Controlled Limited Partnerships as of December 31, 2015, and to consolidate the balances and operations by natural financial statement classification. The effect of these reclassifications had no impact on LA Family Housing's net assets or change in net assets in 2015.

A reclassification was made to a note receivable and note payable as of December 31, 2015 of \$7,998,600, respectively, under the NMTC program to conform to the presentation of the upper tier in 2016. The effect of this reclassification had no impact on LA Family Housing's net assets or change in net assets in 2015.

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NOTE 3. CONTRIBUTIONS AND CONTRACTS RECEIVABLE

At December 31, 2016 and 2015, LA Family Housing had multi-year contributions receivable of \$1,350,952 and \$1,800,357, respectively and contracts receivable from federal and county awards of \$2,576,378 and \$2,547,658, respectively.

As of December 31, 2016, multi-year contributions receivable are scheduled to be collected as follows:

<u>Year Ending December 31,</u>	
2017	\$ 867,012
2018	385,773
2019	98,167
	<u>\$ 1,350,952</u>

During 2016, LA Family Housing received a conditional grant of \$600,000, of which \$200,000 was recognized when received in 2016, with the remainder to be due and recognized in 2017 and 2018, upon satisfying the conditions outlined in the agreement.

NOTE 4. NOTES RECEIVABLE – NEW MARKET TAX CREDITS PROGRAM

Development of the South Campus property was funded utilizing financing from the NMTC program. During 2015, LA Family Housing issued a secured note receivable of \$7,998,600 maturing in 2043, due from Chase NMTC LAFH Phase I Investment Fund, LLC (Chase NMTC I), an unrelated entity. As a result, LCD New Markets Fund XIX, LLC (LCD XIX), an unrelated entity in which Chase NMTC I holds a 99.99% interest, loaned funds to QALICB I, a consolidated entity. The note receivable requires interest only payments due annually for the first 7 years at 1.437%.

Development and construction of the North Campus property was funded utilizing financing from the NMTC program. During 2016, LA Family Housing issued two secured notes receivable of \$2,100,000 maturing in 2023 and \$10,381,149 maturing in 2043, due from Chase NMTC LAFH Phase II Investment Fund, LLC (Chase NMTC II), an unrelated entity. As a result, LCD New Markets Fund XXI, LLC (LCD XXI), an unrelated entity in which Chase NMTC II holds a 99.99% interest, loaned funds to QALICB II, a consolidated entity. The notes receivable require interest only payments due quarterly for the first 7 years at 1.215%.

NOTE 5. NOTES PAYABLE

	<u>2016</u>	<u>2015</u>
LAFH:		
Note payable to CSH for North and South Campus (Campus) predevelopment expenses, unsecured, due the earlier of closing of construction financing or December 2016, accrues at a simple interest rate of 6%. The outstanding balance was paid off on January 9, 2017.	\$ 166,542	\$ 266,500

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
LAFH (Continued):		
Note payable to California Community Foundation for Campus predevelopment expenses, unsecured, due the earlier of closing of construction financing or May 2, 2017, accrues at a simple interest rate of 5%. The outstanding balance was paid off on February 28, 2017.	250,000	1,000,000
Notes payable to Nonprofit Finance Fund (NFF), original borrowings up to \$2,100,000 (Note A) and \$6,250,000 (Note B) secured by Hyde Park, annual interest at 6.25%. Principal and interest payments of \$37,646, payable quarterly for Note A with interest only payments payable quarterly for Note B. The outstanding balance is due April 15, 2023.	6,468,179	-
Note payable to Audrey and Sydney Irmas Charitable Foundation, unsecured, bearing no interest, due on demand.	26,000	26,000
Line-of-credit with Citibank, original borrowings up to \$250,000, interest payable monthly on outstanding balance annually at 5%. The outstanding balance was paid in 2016, and the line-of-credit was terminated.	-	212,691
Line-of-credit with Century Housing, original borrowings up to \$500,000, interest payable monthly on outstanding balance annually at 6%. Available borrowings of \$482,000 at December 31, 2016. The outstanding balance is due May 18, 2018.	18,000	-
Comunidad Cesar Chavez:		
Triangle House:		
Note payable to U.S. Bank, N.A., original borrowings up to \$250,000, interest at 6%. Principal and interest payments of \$1,625 are due monthly. Loan is secured by deed of trust. All unpaid principal and interest are due March 2018.	156,241	165,852
Chernow House:		
Note payable to the Los Angeles Housing Community Investment Department (HCIDLA, CRA/LA), secured by deed of trust on property, payable from residual receipts, as defined, simple interest rate of 3%, and all unpaid principal and interest are due November 2018. Unpaid interest converts to principal annually.	764,115	741,918

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Gentry Village:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, payable from residual receipts, as defined, simple interest rate of 3%, all unpaid principal and interest due June 2039.	457,113	457,113
Martin Luther King, Jr. (MLK):		
Note payable to HCIDLA (CRA/LA) secured by deed of trust on property; payable from residual receipts, as defined, accrues at a simple interest rate of 3%, all unpaid principal and interest due June 2039 or upon sale, transfer, assignment, or refinancing of property.	772,060	772,060
Strong House:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, due July 2022; payable from residual receipts, as defined, accrues at a simple interest rate of 3%.	999,711	999,711
Casa Figueroa:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, due June 2039; payable from residual receipts, as defined, accrues at a simple interest rate of 3%.	289,044	289,044
Klump:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, due February 2058; payable from residual receipts, as defined, accrues at a simple interest rate of 3%.	875,000	875,000
Note payable Corporation for Supportive Housing (CSH), unsecured, due the July 1, 2020, accrues at a simple interest rate of 2.7%.	79,749	101,141
Note payable to HCIDLA, secured by a second deed of trust on the land and building; payable from available residual receipts, as defined, accrues at a simple interest of 5%; unpaid principal and interest due in March 2064.	159,425	159,425
Hyde Park:		
Note payable to Clearinghouse CDFI, secured by deed of trust on property, maturing January 2018, payable in monthly installments of \$2,196; principal and interest accrues at 7%.	254,425	261,911

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Delano I:		
Note payable to the HCIDLA, secured by deed of trust on property, due February 2025, bearing no interest, monthly principal payments of \$972.	94,180	105,847
Note payable to the HCIDLA, secured by deed of trust on property, due August 2017, bearing no interest, monthly payments of \$2,500.	38,417	77,625
Delano II:		
Note payable to the HCIDLA, secured by deed of trust on property, due January 2025, bearing no interest, monthly principal payments of \$972.	93,334	105,001
Note payable to the HCIDLA, secured by deed of trust on property, due August 2017, bearing no interest, monthly payments of \$2,500.	20,278	50,417
Sydney M. Irmes Transitional Living Center:		
Note payable to the HCIDLA, secured by deed of trust on property, principal due July 2026, bearing no interest. The note was assumed by PSH Campus in 2016 (Note 11).	-	1,078,059
Total notes payable – LAFH	11,981,813	9,707,041
Valley Shelter:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, interest payable from residual receipts, principal and unpaid interest due March 2016, accrues at a simple interest rate of 3%. The note was assumed by PSH Campus in 2016 (Note 11).	-	850,421
Casa Central:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, due July 2039; payable from residual receipts, as defined, accrues at a simple interest rate of 3%.	843,746	843,746
Harmony Place:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, due November 2022; payable from residual receipts, as defined, accrues at a simple interest rate of 3%.	1,591,000	1,591,000

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Harmony Place (Continued):		
Note payable to Manufacturers Bank, secured by deed of trust on property, maturing in September 2023, payable in monthly installments of principal and interest of \$4,866, interest rate of 6.63%.	281,027	318,413
Total notes payable – Harmony Place	1,872,027	1,909,413
Cochran Villa:		
Note payable to HCIDLA (CRA/LA), secured by deed of trust on property, interest payable from residual receipts, as defined, principal and unpaid interest due February 2020, accrues at a simple interest rate of 3%.	85,601	85,601
Note payable to the Century Housing Corporation, secured by deed of trust on property, interest payable from surplus cash, as defined, principal and unpaid interest due February 2022, accrues at a simple interest rate of 3%.	500,000	500,000
Note payable to the California Department of Housing and Community Development (HCD), secured by deed of trust on property, interest payable from surplus cash, as defined, principal and unpaid interest due February 2048, accrues at a simple interest rate of 3%.	538,538	538,538
Total notes payable – Cochran Villa	1,124,139	1,124,139
QALICB I:		
Two notes payable to LCD XIX in the amounts of \$7,998,600 (Note A) and \$3,521,400 (Note B), secured by deed of trust on real property, bearing interest of 1% per annum, annual interest only payments for 7 years on Notes A and B of \$79,998 and \$35,214, respectively, followed by principal and interest payments of \$339,505 and \$149,468, respectively, maturing in December 2049.	11,520,000	11,520,000
QALICB II:		
Three notes payable to LCD XXI in the amounts of \$2,100,000 (Note A), \$10,381,149 (Note B) and \$5,494,851 (Note C), secured by deeds of trust on real property, bearing interest of .845% per annum, quarterly interest only payments for 7 years on Notes A, B and C of \$17,745, \$87,721, and \$46,431, respectively. Note A balloons in April 2023, with Notes B and C requiring quarterly principal and interest payments of \$416,733 and \$220,581, respectively, maturing in December 2051.	17,976,000	-

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Vineland Place:		
Note payable to Berkadia Commercial Mortgage, secured by a first deed of trust on the land and building; original principal of \$250,000; interest at 5.71% through March 1, 2021; monthly payments of principal and interest of \$1,786 based on a 15 year amortization of the original note balance, adjusted thereafter on March 1, 2021; unpaid principal and interest due in March 2026.	135,369	146,174
Note payable to HCIDLA, secured by a second deed of trust on the land and building; accrues at a simple interest of 6% per annum; payable from available residual receipts, as defined; unpaid principal and interest due in February 2036.	900,000	900,000
Note payable to HCIDLA, secured by a third deed of trust on the land and building; accrues at a simple interest of 5% per annum; payable from available residual receipts, as defined; unpaid principal and interest due in April 2056.	330,440	330,440
Total notes payable – Vineland Place	1,365,809	1,376,614
Glenoaks Gardens:		
Note payable to California HCD Multifamily Housing Program (HCD-MHP Loan), secured by a deed of trust on real property and assignment of rents, in the original amount of \$5,582,916, with simple interest of 3% payable from residual receipts, as defined, unpaid principal and interest due in 55 years (November 2067); annual payments totaling \$23,448 (.42% of unpaid principal balance) are required for 30 years.	5,582,916	5,582,916
Note payable to California Housing Finance Agency (CalHFA) under the Mental Health Services Act (CalHFA-MHSA) Housing Program, secured by a deed of trust on Glenoaks Gardens, with maximum borrowings of \$4,500,000, with simple interest of 3% payable from residual receipts, as defined, all unpaid principal and interest and are due in 55 years (July 2065); annual MHSA Asset Management Fee totaling \$18,900 (.42% of unpaid principal balance).	4,308,523	4,308,523
Note payable to HCIDLA, secured by a deed of trust, with maximum borrowings of \$2,223,673, with simple interest of 3% payable from residual receipts, as defined, all unpaid principal and interest are due July 2065.	2,111,903	2,111,903

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Glenoaks Gardens (Continued):		
Note payable to TCAC under the American and Reinvestment Act of 2009 through the Tax Credit Assistance Program (TCAC-TCAP), secured by a deed of trust, Assignment of Rents and Security Agreement and Fixture Filing on Glenoaks Gardens, with maximum borrowings of \$5,137,130, bearing no interest, non-amortizing with principal due August 2065.	5,137,130	5,137,130
Total notes payable – Glenoaks Gardens	17,140,472	17,140,472
Alabama Court:		
Note payable to the Bank of America Community Development Bank (BACDB 1), secured by first deed of trust; interest at the bank's reference rate plus 1% (6.58% at December 31, 2016), maximum borrowing up to \$370,000, interest and principal payable in monthly installments of \$2,405, and unpaid principal and interest due March 2027.	215,927	230,064
Note payable to HCIDLA, available borrowings up to \$834,500, secured by a second trust deed, non-interest bearing, principal payable annually starting April 1998 from available residual receipts, as defined in the loan agreement, and due July 2025.	747,876	747,876
Note payable to HCIDLA, available borrowings up to \$635,500, secured by a third trust deed, non-interest bearing, principal payable annually starting April 1998 from available residual receipts, as defined in the loan agreement, and due July 2025.	568,987	568,987
Note payable to Bank of America Community Development Bank (BACDB 2), secured by a deed of trust, non-interest bearing, principal due September 2050.	102,500	102,500
Total notes payable – Alabama Court	1,635,290	1,649,427
Vanowen Gardens:		
Note payable to HCIDLA, maximum borrowings up to \$880,000, secured by a first deed of trust, accrues at a simple interest of 5% per annum, principal and interest payable annually from available residual receipts, as defined in the note payable agreement, unpaid principal and interest due on August 21, 2036.	876,369	876,369

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Harmony Gardens:		
Note payable to HCIDLA, maximum borrowings up to \$837,944, secured by a first deed of trust, accrues at a simple interest of 5%, principal and interest payable annually from available residual receipts, as defined in the note payable agreement, unpaid principal and interest due on August 26, 2036.	837,018	837,018
Victory Partners:		
Note payable to First Republic Bank (AHP loan), secured by a second deed of trust, non-interest bearing, principal due December 2040.	65,483	65,483
Note payable to the HCIDLA (HOME loan), secured by a third deed of trust, simple interest at 6% per annum, interest payable from residual receipts, as defined, unpaid principal and interest due November 2040.	293,362	293,362
Note payable to the HCIDLA (Lieu Fees loan), secured by a fourth deed of trust, simple interest of 6% per annum, interest payable from residual receipts, as defined, unpaid principal and interest due November 2040.	471,000	471,000
Note payable to Century Housing Corporation, secured by a first deed of trust, fully amortizing loan paid off during 2016	-	5,370
Total notes payable – Victory Partners	829,845	835,215
Controlled Limited Partnerships:		
Day Street:		
Five non-amortizing notes payable to various lenders, secured by deeds of trust on real property, interest ranging from zero to 5% per annum, payable based on residual receipts, as defined, until all amounts have been paid in full, maturity dates ranging from September 2067 to May 2070.	5,976,440	5,976,440
PSH:		
Construction loan payable to US Bank N.A., secured by deed of trust, maximum borrowings of \$11,734,176 interest based on LIBOR plus 250 basis points, matures earlier of (i) closing of permanent financing, or ii) October 12, 2018 with an option to extend.	-	-

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NOTE 5. NOTES PAYABLE (Continued)

	2016	2015
Controlled Limited Partnerships:		
PSH (Continued):		
Four non-amortizing notes payable to various lenders, secured by deeds of trust on real property, interest ranging from zero to 5% per annum, payable based on residual receipts, as defined, until all amounts have been paid in full, maturity dates ranging from December 2071 to April 2073 (Note 11).	4,427,227	-
Saticoy:		
Amortizing note payable to JP Morgan, secured by deed of trust on real property, bearing interest of 5.6% per annum, principal and interest due January 2037.	912,564	936,716
Three non-amortizing notes payable to various lenders, secured by deeds of trust on real property, interest ranging from zero to 3% per annum, payable based on residual receipts, as defined, until all amounts have been paid in full, maturity dates ranging from February 2022 to December 2061.	3,512,851	3,512,851
Total notes payable – Controlled Limited Partnerships	14,829,082	10,426,007
Total notes payable	82,831,610	57,134,156
Less: current portion	(696,731)	(729,042)
Less: unamortized deferred financing costs	(1,606,081)	(875,059)
	<u>\$ 80,528,798</u>	<u>\$ 55,530,055</u>

The aggregate amounts of principal maturities for outstanding borrowings as of December 31, 2016 are:

Year Ending December 31,	Amortizing	Non-Amortizing	Total
2017	\$ 241,773	\$ 454,958	\$ 696,731
2018	233,001	-	233,001
2019	263,223	-	263,223
2020	288,536	-	288,536
2021	313,998	-	313,998
Thereafter	36,869,473	44,166,648	81,036,121
	<u>\$ 38,210,004</u>	<u>\$ 44,621,606</u>	<u>\$ 82,831,610</u>

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NOTE 5. NOTES PAYABLE (Continued)

Accrued Interest

An analysis of accrued interest for 2016 on the notes payable by project is as follows:

	Accrued Interest 1/1/16	Interest Expense	Interest Capitalized	Interest Paid/ Adjustment transfers	Accrued Interest 12/31/16
<u>Amortizing Principal Loans</u>					
Gentry North	\$ -	\$ -	\$ -	\$ -	\$ -
Harmony Place	131	20,011	-	(19,978)	164
Hyde Park	-	16,674	-	(16,674)	-
LAFH	-	6,956	-	(6,956)	-
Klump	-	2,505	-	(2,505)	-
Comunidad Cesar Chavez	839	9,883	-	(9,883)	839
Vineland Place	1,488	8,711	-	(8,067)	2,132
Alabama Court	2,248	15,901	-	(14,717)	3,432
QALICB I	-	115,200	-	(115,200)	-
QALICB II	-	-	108,016	(108,016)	-
Campus	24,640	37,275	-	(60,839)	1,076
LAFH NFF	-	319,009	-	(296,982)	22,027
Controlled Limited Partnerships	-	55,726	-	(51,626)	4,100
	<u>29,346</u>	<u>607,851</u>	<u>108,016</u>	<u>(711,443)</u>	<u>33,770</u>
<u>Residual Receipts Loans</u>					
Casa Central	159,224	25,312	-	-	184,536
Casa Figueroa	143,807	8,671	-	-	152,478
Comunidad Cesar Chavez	14,020	31,037	-	(22,197)	22,860
Cochran Villa	804,347	34,432	-	(125)	838,654
Gentry Village	195,255	12,800	-	-	208,055
Glenoaks Gardens	1,058,274	360,109	-	(57,663)	1,360,720
Harmony Gardens	737,902	41,856	-	(15,332)	764,426
Harmony Place	1,161,957	44,666	-	-	1,206,623
Klump	355,700	34,222	-	-	389,922
MLK	142,666	23,162	-	-	165,828
Strong House	703,652	29,991	-	(1,146)	732,497
Valley Shelter	623,220	8,690	-	(631,910) *	-
Vanowen Gardens	824,428	43,824	-	(2,093)	866,159
Vineland Place	1,169,811	70,522	-	(1,951)	1,238,382
Victory	-	46,129	-	653,228 **	699,357
Controlled Limited Partnerships	1,333,757	242,851	53,553	(53,718)	1,576,443
	<u>9,428,020</u>	<u>1,058,274</u>	<u>53,553</u>	<u>(132,907)</u>	<u>10,408,639</u>
	<u>\$ 9,457,366</u>	<u>1,666,125</u>	<u>\$ 161,569</u>	<u>\$ (844,350)</u>	<u>\$10,440,710</u>
Amortization of deferred financing costs		33,339	12,872		
Total		<u>\$1,699,464</u>	<u>\$ 174,441</u>		

* Assumed by controlled limited partnership

** Transferred from Controlled Limited Partnerships to a wholly owned entity

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NOTE 5. NOTES PAYABLE (Continued)

An analysis of accrued interest for 2015 on the notes payable by project is as follows:

	Accrued Interest 1/1/15	Interest Expense	Interest Capitalized	Interest Paid/ Adjustment transfers	Accrued Interest 12/31/15
<u>Amortizing Principal Loans</u>					
Gentry North	\$ 1,193	\$ 3,364	\$ -	\$ (4,557)	\$ -
Harmony Place	3,770	22,376	-	(26,015)	131
Hyde Park	-	18,741	-	(18,741)	-
LAFH	-	13,775	-	(13,775)	-
Klump	-	1,439	-	(1,439)	-
TLC	-	-	-	-	-
Comunidad Cesar Chavez	-	10,408	-	(9,569)	839
Valley Shelter	-	-	-	-	-
Vineland Place	1,488	8,665	-	(8,665)	1,488
Alabama Court	2,248	15,615	-	(15,615)	2,248
South Campus	-	3,520	10,560	(14,080)	-
Campus	-	-	24,640	-	24,640
Controlled Limited Partnerships	-	53,192	-	(53,192)	-
	<u>8,699</u>	<u>151,095</u>	<u>35,200</u>	<u>(165,648)</u>	<u>29,346</u>
<u>Residual Receipts Loans</u>					
Casa Central	133,912	25,312	-	-	159,224
Casa Figueroa	135,136	8,671	-	-	143,807
Comunidad Cesar Chavez	9,556	155,772	-	(151,308)	14,020
Cochran Villa	766,629	37,718	-	-	804,347
Gentry Village	61,093	123,983	-	10,179	195,255
Glenoaks Gardens	703,793	360,100	-	(5,619)	1,058,274
Harmony Gardens	696,096	41,856	-	(50)	737,902
Harmony Place	1,114,227	47,730	-	-	1,161,957
Klump	323,941	31,759	-	-	355,700
MLK	119,504	23,162	-	-	142,666
Strong House	673,661	29,991	-	-	703,652
Valley Shelter	597,708	25,512	-	-	623,220
Vanowen Gardens	782,209	43,824	-	(1,605)	824,428
Vineland Place	1,105,215	70,523	-	(5,927)	1,169,811
Controlled Limited Partnerships	1,177,404	346,092	-	(189,739)	1,333,757
	<u>8,400,084</u>	<u>1,372,005</u>	<u>-</u>	<u>(344,069)</u>	<u>9,428,020</u>
	<u>\$ 8,408,783</u>	<u>1,523,100</u>	<u>\$ 35,200</u>	<u>\$ (509,717)</u>	<u>\$ 9,457,366</u>
Amortization of deferred financing costs		3,429			
Total		<u>\$1,526,529</u>			

NOTE 6. RELATED PARTY TRANSACTIONS

Note Payable

One member of the board of directors of LA Family Housing also serves as a trustee of the Sydney and Audrey Irmas Charitable Foundation, which holds a promissory note totaling \$26,000 (Note 5) as of December 31, 2016 and 2015.

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NOTE 6. RELATED PARTY TRANSACTIONS (Continued)

Contributions

In 2014 LAFH launched the capital campaign for the South and North Campus and secured multi-year pledges from members of the board of directors. Each pledge is memorialized in a Gift Agreement signed by the donor and outlines payment plans during the 4-5 year terms of the pledge (all pledges will be paid in full by December 31, 2018). Payments by board members against total Campus campaign pledges in 2016 and 2015 were \$576,799 and \$620,845, respectively, leaving a balance of \$537,029 and \$994,155, in Campus campaign pledges by board members by December 31, 2016 and 2015, respectively.

Management and Development Fees

LA Family Housing charges management and development fees to its affiliated organizations and controlled limited partnerships, which are eliminated in consolidation.

Master Leases

LAFH subleases space from related parties under master lease agreements. The rental revenue and expense associated with the master office leases have been eliminated in consolidation.

Reciprocal Easement Agreement

PSH Campus and QALICB II entered into a Reciprocal Easement Agreement (REA) in connection with a shared subterranean garage located at North Campus. The REA establishes certain covenants, conditions and use restrictions with respect to the parking, residential and commercial parcels.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Operating Leases

LA Family Housing is obligated under ground leases for the following properties to HCIDLA (CRA/LA):

- Martin Luther King, Jr. – initial term of 50 years expiring in 2040 with a 49-year option to renew.
- Strong House – initial term of 55 years expiring in 2045 with a 44-year option to renew.
- Gentry Village – term of 30 years expiring in 2017.
- Harmony Gardens – initial term of 55 years expiring in 2051 with a 44-year option to renew

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NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases (Continued)

Lease payments for the Martin Luther King, Jr., Strong House and Gentry Village facilities are to equal 50% of net cash flows from operations of the facilities, as defined. Lease payment for the Harmony Gardens facility is to equal 10% of net cash flows from operations of the facility, as defined. For the years ended December 31, 2016 and 2015, the properties did not generate net cash flow and accordingly, there was no ground lease expense.

As of December 31, 2016, LA Family Housing did not have any future long-term minimum non-cancellable lease commitments related to these leased properties.

Rent expense for all short-term office and storage operating leases for the years ended December 31, 2016 and 2015 totaled \$138,384 and \$88,884, respectively.

Commitments under long-term non-cancellable leases at December 31, 2016 for 2017 are \$32,550.

Property Management Agreements

LA Family Housing entered into property management fee agreements for its various properties, including those held in controlled limited partnerships, with an unrelated party to pay monthly fees as defined in the agreements.

Guarantees

LA Family Housing has entered into various agreements with certain limited partnerships or their affiliated general partners whereby LA Family Housing guarantees to loan funds to the partnerships in the event that the partnerships incur operating deficits, as defined in the respective partnership agreements, or fail to meet their current financial obligations. These agreements expire at various times from 2016 through the terms of the underlying partnership or debt agreements. Loans made pursuant to these guarantees are generally interest-free and unsecured. The maximum potential amount of future payments under these guarantees is equal to the amount guaranteed to the partnerships under the tax indemnification agreements discussed below.

LA Family Housing entered into various agreements with certain limited partnerships and LLCs or their affiliated general partners or members whereby LA Family Housing offers tax indemnification in the event of low-income housing tax credit recapture. LA Family Housing's potential liability under these agreements is dependent upon IRS audits and final letters of determination of the limited partnership's qualified basis in tax credit properties. Similarly, LA Family Housing has entered into agreements with state and local governments who have provided loans to certain limited partnerships for the development of affordable housing whereby LA Family Housing has guaranteed any recapture of the loans resulting from non-compliance with affordable housing requirements. Management is not aware of any known liability for tax credit or loan recapture.

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NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

Guarantees (Continued)

As part of the financing arrangements with the LCD Investment Funds and the investor member, LAFH and QALICB I and QALICB II have provided certain guarantees regarding loan repayment, construction completion, and environmental indemnification as defined in the respective financing agreements including tax credit guarantees against the loss or recapture of the new market tax credits arising from failure to comply with the IRC and Treasury regulations related to the NMTC program. The tax credit recapture guarantee is up to the full amount of any recapture and/or lost credits, including penalties.

Limited Partnerships

As the general partner in Saticoy Partners (Note 1), LA Family Housing made certain guarantees as defined in the partnership agreement. Based on actual costs incurred through December 31, 2016 and historical experience with similar projects, management does not anticipate that any material liabilities will be incurred in connection with these guarantees.

LA Family Housing is a party in note agreements between the City of Los Angeles and Saticoy Partners in which LA Family Housing is a conduit for proceeds directly loaned to Saticoy Partners in the amount of \$2,003,000 (City Loan), to support the acquisition, predevelopment, construction and permanent costs of Saticoy Partners. The City Loan is secured by the Saticoy Partners' assets; however, LA Family Housing remains obligated to repay the debt in the event Saticoy Partners is unable to meet its obligation. As of December 31, 2016, there was no default related to this loan. The City Loan is due December 2043.

Litigation

LA Family Housing is subject to lawsuits and claims which arise out of the normal course of its activities. Based upon the opinion of legal counsel, management believes the disposition of any and all such actions of which it is aware will not have a material effect on LA Family Housing's financial position or changes in the net assets of the Organization.

NOTE 8. RETIREMENT PLAN

LA Family Housing participates in a 403(b) plan (the Plan) which covers employees meeting certain qualifications. Under the terms of the Plan, employees are allowed to contribute up to the maximum allowed. LA Family Housing may make discretionary contributions to the Plan based on a percentage of the eligible employees' salaries. LA Family Housing made no contributions to the Plan for the years ended December 31, 2016 and 2015.

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NOTE 9. REAL ESTATE UNDER DEVELOPMENT

During 2015, LA Family Housing began Phase I of its campus development with the rehabilitation of the South Campus at 7817 Lankershim Blvd. in North Hollywood, California. This property (formerly known as TLC, which was used as a family shelter) was converted to three primary uses: Bridge Housing for up to 250 single adults, Bridge/Crisis Housing for 12 homeless families, and the Family Solution Center for intake and assessment, housing placement, and housing stability services for homeless families throughout the region. Construction and rehabilitation of the South Campus property was completed in 2017.

During 2016, LA Family Housing began Phase II of its campus development with the acquisition, demolition, and new construction of the North Campus at 7843 Lankershim Blvd. This property (formerly known as Valley Shelter) will be developed into four primary uses: new permanent supportive housing, a new health care clinic, a comprehensive regional service center, and LAFH's corporate and administrative offices. Construction of the residential property which will provide the permanent supportive housing will be completed in 2017, and construction of the commercial property will continue into 2018.

NOTE 10. NET ASSETS

Consolidated Net Assets

The following is a summary of consolidated net asset balances of LA Family Housing as of December 31, 2016 and 2015:

	Unrestricted		Temporarily	
	Controlling	Noncontrolling	Restricted	Total
Net assets (deficit), January 1, 2016	\$ (3,187,499)	\$ 7,576,846	\$ 4,500,244	\$ 8,889,591
Change in net assets (deficit)	(1,221,437)	(792,513)	1,403,889	(610,061)
Transfer of net assets	94,985	(94,985)	-	-
Release from temporarily restricted	3,923,234	-	(3,923,234)	-
Contributions	-	1,236,369	-	1,236,369
Syndication costs	-	(55,000)	-	(55,000)
Net assets (deficit), December 31, 2016	<u>\$ (390,717)</u>	<u>\$ 7,870,717</u>	<u>\$ 1,980,899</u>	<u>\$ 9,460,899</u>

	Unrestricted		Temporarily	
	Controlling	Noncontrolling	Restricted	Total
Net assets (deficit), January 1, 2015	\$ (4,051,678)	\$ 8,530,190	\$ 5,243,223	\$ 9,721,735
Change in net assets (deficit)	(3,392,342)	(989,118)	3,513,542	(867,918)
Release from temporarily restricted	4,256,521	-	(4,256,521)	-
Contributions	-	35,774	-	35,774
Net assets (deficit), December 31, 2015	<u>\$ (3,187,499)</u>	<u>\$ 7,576,846</u>	<u>\$ 4,500,244</u>	<u>\$ 8,889,591</u>

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NOTE 10. NET ASSETS (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of December 31, 2016 and 2015:

	2016	2015
North Campus	\$ 1,350,952	\$ 2,610,869
Homeless Services	629,947	1,889,375
	<u>\$ 1,980,899</u>	<u>\$ 4,500,244</u>

NOTE 11. CONTROLLED LIMITED PARTNERSHIPS

PSH Campus was established in May 2015 to acquire a portion of the project formerly known as Valley Shelter and to develop permanent supportive housing at North Campus. The partnership has been allocated federal low-income housing tax credits of \$980,662 annually for ten years and state low-income housing tax credits totaling \$2,972,595 from TCAC. The unrelated limited partner anticipates making capital contributions of \$13,357,093, net of syndication costs of \$55,000, pursuant to the partnership agreement. The partnership received \$1,236,639 in limited partner contributions to date and a balance of \$12,120,454 is due in 2018. In accordance with the partnership agreement, an affiliate of LA Family Housing made capital contributions of \$100 which was eliminated in consolidation. PSH Campus assumed \$2,560,842 of HCIDLA notes payable and accrued interest as consideration for the purchase of the Valley Shelter property (Notes 1 and 5), and the purchase was recorded at carrying value resulting in a net asset transfer of \$3,982,755. The acquisition and development of the project commenced in 2016 and is expected to be completed by December 2017 (Note 9).

LA Family Housing held a .01% general partner controlling interest in Victory which was consolidated as of December 31, 2015. During 2016, LAFH, LLC, a wholly owned subsidiary of LA Family Housing, acquired the 99.99% limited partnership interest in Victory. As a result, net assets of \$94,808 were transferred from the controlled limited partnerships to wholly-owned entities.

NOTE 12. SUBSEQUENT EVENTS

LA Family Housing has evaluated subsequent events that have occurred through the independent auditor's report date, which is the date that the consolidated financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the consolidated financial statements, except as disclosed in Note 5 and below.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 12. SUBSEQUENT EVENTS (Continued)

The Organization entered into the following transactions during 2017:

- Residences on Main GP LLC and Residences on Main, L.P., a joint venture with Coalition for Responsible Community Development, a California nonprofit public benefit corporation, were formed to acquire, construct, and operate an affordable rental housing development for low-income persons in Los Angeles, California.
- 11681 Foothill GP LLC and 11681 Foothill, L.P., a joint venture with Many Mansions, a California nonprofit public benefit corporation, were formed to acquire, construct, and operate affordable rental housing for low-income persons in Sylmar, California.
- Oxnard Beach LP, a joint venture with Many Mansions, a California nonprofit public benefit corporation, was formed to acquire, construct, and operate affordable rental housing for low-income persons in Oxnard, California.

SUPPLEMENTARY INFORMATION

Additional Information to the
L.A. Family Housing Corporation Consolidated Financial Statements
(Unaudited)

L.A. Family Housing Corporation currently owns 24 properties throughout the Southern California area. In accordance with accounting principles generally accepted in the United States of America, depreciation expense relating to these properties has been recorded in L.A. Family Housing's consolidated financial statements during the past 29 years. This depreciation expense is a non-cash item for financial reporting purposes and is a significant factor affecting the reporting of net assets for L.A. Family Housing.

Additionally, L.A. Family Housing acquires properties through residual receipt loans. These loans are granted under the mandate that the properties are operated as affordable housing residences. The loans are payable only when the properties produce surplus cash or when the properties have residual receipts, as defined. The properties are budgeted to operate at a break-even basis, or even at a small loss. As such, rents are below market and are only sufficient to cover expected operating costs. These loans will most likely be renewed or forgiven when they mature. No debt service payments were made during 2016 and 2015.

These properties are run on an operationally cashflow break-even basis, on top of which depreciation and interest expenses are added. The depreciation and unpaid residual receipts interest creates a net loss for financial reporting purposes (even though no cash was expended), and the accumulated net losses create negative net assets. The following pro-forma analysis shows selected financial information for 2016, as well as cumulatively since inception, modified for the effects of the non-cash depreciation and residual receipt interest expenses:

For the Year Ended December 31, 2016:

Total revenues	\$ 23,467,213
Total expenses	<u>24,077,274</u>
Increase (decrease) in net assets	(610,061)
Depreciation and amortization expense	1,664,417
Residual receipt interest expense	<u>1,058,274</u>
Increase in pro-forma net assets	<u><u>\$ 2,112,630</u></u>

Cumulative Net Assets as of December 31, 2016:

Net assets, December 31, 2016	\$ 9,460,899
Net assets – noncontrolling interest	(7,870,717)
Cumulative accumulated depreciation	18,124,080
Cumulative accrued residual receipt interest	<u>10,408,639</u>
Pro-forma net assets, December 31, 2016	<u><u>\$ 30,122,901</u></u>

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

	L.A. Family Housing Corporation											
	LAFH	Comunidad Cesar Chavez	TLC	Gentry Village	Martin Luther King, Jr.	Strong House	Gentry North	Casa Figueroa	Hyde Park	Klump	Delano I	Delano II
Assets												
Cash and cash equivalents	\$ 248,827	\$ -	\$ 200	\$ -	\$ 100	\$ 100	\$ -	\$ 100	\$ 200	\$ -	\$ 100	\$ 100
Contributions receivable	1,350,952	-	-	-	-	-	-	-	-	-	-	-
Contracts receivable	2,168,277	-	-	-	-	-	-	-	-	-	-	-
Receivables - rental	6,323	-	405	614	1,865	109	3,564	2,006	14,654	11,028	-	2,511
Organizational reserve	748,358	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other assets	307,041	45	2,210	-	-	358	-	-	-	11	22	-
Security deposits and client trust accounts	14,358	-	7,425	2,814	12,474	18,460	17,491	9,504	-	39,556	24,501	20,320
Due from limited partnerships	4,432,935	-	-	-	-	-	-	-	-	-	-	-
Restricted property reserves	156,760	-	-	19,021	30,018	86,966	-	101,951	-	49,925	-	-
Other restricted cash accounts	29,348	-	-	-	-	-	-	-	-	-	-	-
Deferred rent receivable	-	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	22,441,475	-	-	-	-	-	-	-	-	-	-	-
Real estate held for lease, at cost												
Land	-	-	-	-	-	-	150,394	59,663	49,500	115,250	65,000	65,000
Buildings and building improvements	-	-	-	282,398	720,514	1,099,933	344,702	317,030	387,422	1,963,424	397,550	368,597
Total real estate held for lease, at cost	-	-	-	282,398	720,514	1,099,933	495,096	376,693	436,922	2,078,674	462,550	433,597
Less: accumulated depreciation	-	-	-	(216,612)	(509,489)	(729,939)	(245,694)	(237,947)	(151,400)	(367,134)	(214,383)	(186,864)
Real estate held for lease, net	-	-	-	65,786	211,025	369,994	249,402	138,746	285,522	1,711,540	248,167	246,733
Property and equipment, at cost												
Land	-	452,675	-	-	-	-	-	-	-	-	-	-
Buildings and building improvements	15,200	2,145,422	-	-	-	-	-	-	-	-	-	-
Furniture and equipment	457,301	220,200	-	7,196	10,191	4,835	9,344	4,134	56,353	7,526	3,760	3,706
Automobiles	140,762	-	-	-	-	-	-	-	-	-	-	-
Total property and equipment, at cost	613,263	2,818,297	-	7,196	10,191	4,835	9,344	4,134	56,353	7,526	3,760	3,706
Less: accumulated depreciation	(509,198)	(1,483,167)	-	(7,196)	(10,191)	(4,835)	(9,344)	(4,134)	(8,581)	(7,526)	(3,760)	(3,706)
Property and equipment, net	104,065	1,335,130	-	-	-	-	-	-	47,772	-	-	-
Real estate under development (Note 9)	46,683	-	-	-	-	-	-	-	-	-	-	-
Deferred costs, net	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 32,055,402	\$ 1,335,175	\$ 10,240	\$ 88,235	\$ 255,482	\$ 475,987	\$ 270,457	\$ 252,307	\$ 348,148	\$ 1,812,060	\$ 272,790	\$ 269,664

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(CONTINUED)

	L.A. Family Housing Corporation											
	L.A. Family Housing	Comunidad Cesar Chavez	TLC	Gentry Village	Martin Luther King, Jr.	Strong House	Gentry North	Casa Figueroa	Hyde Park	Klump	Delano I	Delano II
Liabilities and Net Assets (Deficit)												
Accounts payable and accrued expenses	\$ 321,011	\$ -	\$ 4,422	\$ 1,508	\$ 1,420	\$ 2,207	\$ 1,254	\$ 3,473	\$ 14,178	\$ 6,383	\$ 3,441	\$ 3,844
Accrued payroll	352,278	21,530	46,330	-	-	71	-	26	71	-	942	387
Tenant deposit liabilities	-	-	12,991	1,084	3,944	7,563	7,698	5,257	27,053	17,522	11,614	10,597
Construction costs payable	-	-	-	-	-	-	-	-	-	-	-	-
Deferred rent liability	311,645	-	-	-	-	-	-	-	-	-	-	-
Deferred revenues	943,432	-	-	-	-	280	-	-	-	-	140	117
Due to/from affiliates	(1,069,765)	1,544,985	(551,836)	37,994	169,260	71,957	266,085	74,308	(491,114)	1,042,827	34,131	(36,784)
Deficiency in partnership investments	894,090	-	-	-	-	-	-	-	-	-	-	-
Notes payable secured by real estate, net of deferred financing costs	8,843,370	920,356	-	457,113	772,060	999,711	-	289,044	254,425	1,114,174	132,597	113,612
Accrued interest payable	23,103	23,699	-	208,055	165,828	732,497	-	152,478	-	389,922	-	-
Total liabilities	10,619,164	2,510,570	(488,093)	705,754	1,112,512	1,814,286	275,037	524,586	(195,387)	2,570,828	182,865	91,773
Total net assets (deficit)	21,436,238	(1,175,395)	498,333	(617,519)	(857,030)	(1,338,299)	(4,580)	(272,279)	543,535	(758,768)	89,925	177,891
Total liabilities and net assets (deficit)	\$ 32,055,402	\$ 1,335,175	\$ 10,240	\$ 88,235	\$ 255,482	\$ 475,987	\$ 270,457	\$ 252,307	\$ 348,148	\$ 1,812,060	\$ 272,790	\$ 269,664

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(CONTINUED)

	Incorporated Affiliated Organizations						LAFH, LLC							Consolidated			
	Valley Shelter	Casa Central	Cochran Villa	Harmony Place	QALICB I	QALICB II	Glenoaks Gardens	Vineland Place	Alabama Court	Harmony Gardens	Vanowen Gardens	Victory Partners	Controlled Limited Partnerships	Total Before Eliminations	Eliminations	Adjusted Consolidated Total	
Assets																	
Cash and cash equivalents	\$ 600	\$ 4,510	\$ 1,238	\$ 14,372	\$ 7,887	\$ 119,000	\$ 1,794	\$ 2,952	\$ 139,997	\$ 3,210	\$ 1,894	\$ 1,429	\$ 22,649	\$ 571,259	\$ -	\$ 571,259	
Contributions receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	1,350,952	-	1,350,952	
Contracts receivable	408,101	-	-	-	-	-	-	-	-	-	-	-	-	2,576,378	-	2,576,378	
Receivables - rental	-	-	1,722	6,600	-	-	3,103	7,932	2,736	-	4,136	5,505	709	75,522	-	75,522	
Organizational reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	748,358	-	748,358	
Prepaid expenses and other assets	-	79	4,242	78	-	32,420	875	-	948	30	100	-	40,462	388,921	(53,100)	335,821	
Security deposits and client trust accounts	-	-	12,809	-	-	-	58,316	18,193	51,630	12,599	18,011	17,837	77,600	433,898	-	433,898	
Due from limited partnerships	4,506,057	-	-	-	-	-	-	-	-	-	-	-	-	8,938,992	(8,938,992)	-	
Restricted property reserves	-	26,341	195,118	234,773	1,230,700	10,933,112	903,440	201,874	486,658	163,590	210,538	81,149	871,206	15,983,140	-	15,983,140	
Other restricted cash accounts	-	-	-	-	-	-	-	-	8,643	-	-	-	-	37,991	-	37,991	
Deferred rent receivable	-	-	-	-	311,645	-	-	-	-	-	-	-	-	311,645	(311,645)	-	
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	22,441,475	(1,961,726)	20,479,749	
Real estate held for lease, at cost																	
Land	-	101,202	208,573	600,000	510,000	1,282,606	3,345,398	280,291	349,323	-	236,775	263,040	5,483,816	13,165,831	-	13,165,831	
Buildings and building improvements	-	421,402	907,452	1,752,821	2,422,603	-	12,642,195	2,430,753	3,652,232	2,024,085	2,026,090	2,461,544	16,091,555	52,714,302	(2,015,546)	50,698,756	
Total real estate held for lease, at cost	-	522,604	1,116,025	2,352,821	2,932,603	1,282,606	15,987,593	2,711,044	4,001,555	2,024,085	2,262,865	2,724,584	21,575,371	65,880,133	(2,015,546)	63,864,587	
Less: accumulated depreciation	-	(338,689)	(613,622)	(1,141,642)	(60,565)	-	(1,695,498)	(1,281,605)	(2,030,717)	(1,035,915)	(1,042,534)	(979,896)	(2,673,369)	(15,753,514)	358,405	(15,395,109)	
Real estate held for lease, net	-	183,915	502,403	1,211,179	2,872,038	1,282,606	14,292,095	1,429,439	1,970,838	988,170	1,220,331	1,744,688	18,902,002	50,126,619	(1,657,141)	48,469,478	
Property and equipment, at cost																	
Land	-	-	-	-	-	-	-	-	-	-	-	-	-	452,675	-	452,675	
Buildings and building improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	2,160,622	-	2,160,622	
Furniture and equipment	-	38,112	3,185	37,221	-	-	289,379	18,728	54,211	57,046	78,269	51,926	226,386	1,639,009	-	1,639,009	
Automobiles	-	-	7,836	-	-	-	-	17,400	17,400	17,400	17,400	16,900	-	235,098	-	235,098	
Total property and equipment, at cost	-	38,112	11,021	37,221	-	-	289,379	36,128	71,611	74,446	95,669	68,826	226,386	4,487,404	-	4,487,404	
Less: accumulated depreciation	-	(29,401)	(10,282)	(35,880)	-	-	(165,360)	(37,745)	(40,029)	(65,464)	(86,586)	(86,586)	(120,000)	(2,728,971)	-	(2,728,971)	
Property and equipment, net	-	8,711	739	1,341	-	-	124,019	(1,617)	31,582	8,982	9,083	(17,760)	106,386	1,758,433	-	1,758,433	
Real estate under development (Note 9)	-	-	-	-	5,051,257	3,592,427	-	-	-	-	-	-	4,490,563	13,180,930	(411,066)	12,769,864	
Deferred costs, net	-	-	-	-	-	-	-	-	-	-	-	-	120,872	120,872	-	120,872	
Total assets	\$ 4,914,758	\$ 223,556	\$ 718,271	\$ 1,468,343	\$ 9,473,527	\$ 15,959,565	\$ 15,383,642	\$ 1,658,773	\$ 2,693,032	\$ 1,176,581	\$ 1,464,093	\$ 1,832,848	\$ 24,632,449	\$ 119,045,385	\$ (13,333,670)	\$ 105,711,715	

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(CONTINUED)

Liabilities and Net Assets (Deficit)	Incorporated Affiliated Organizations						LAFH, LLC						Controlled Limited Partnerships	Consolidated Total Before Eliminations	Eliminations	Adjusted Consolidated Total
	Valley Shelter	Casa Central	Cochran Villa	Harmony Place	QALICB I	QALICB II	Glenoaks Gardens	Vineland Place	Alabama Court	Harmony Gardens	Vanowen Gardens	Victory Partners				
Accounts payable and accrued expenses	\$ 94,241	\$ 3,428	\$ 10,191	\$ 12,376	\$ -	\$ -	\$ 22,126	\$ 8,774	\$ 18,990	\$ 18,184	\$ 22,582	\$ 7,806	\$ 43,624	\$ 625,463	\$ -	\$ 625,463
Accrued payroll	72,392	19	319	161	-	-	1,452	-	426	-	1,223	958	-	498,585	-	498,585
Tenant deposit liabilities	29,818	5,838	13,321	19,051	-	26,500	57,018	17,685	44,621	18,361	16,727	16,636	73,396	444,295	(26,500)	417,795
Construction costs payable	-	-	-	-	535,418	665,615	-	-	-	-	-	-	888,288	2,089,321	-	2,089,321
Deferred rent liability	-	-	-	-	-	-	-	-	-	-	-	-	-	311,645	(311,645)	-
Deferred revenues	-	80	-	-	-	-	-	-	-	300	420	-	8,644	953,413	-	953,413
Due to/from affiliates	5,826,909	(134,834)	53,377	(69,442)	343,249	10,708	158,119	99,486	21,960	19,880	126,903	294,224	1,122,905	8,965,492	(8,965,492)	-
Deficiency in partnership investments	-	-	-	-	-	-	-	-	-	-	-	-	-	894,090	(894,090)	-
Notes payable secured by real estate net of deferred financing costs	-	843,746	1,124,139	1,872,027	10,946,491	17,393,700	17,042,972	1,364,125	1,635,290	830,131	873,560	829,845	14,534,767	83,187,255	(1,961,726)	81,225,529
Accrued interest payable	-	184,536	838,654	1,206,787	-	-	1,360,720	1,240,514	3,432	764,426	866,159	699,357	1,580,543	10,440,710	-	10,440,710
Total liabilities	6,023,360	902,813	2,040,001	3,040,960	11,825,158	18,096,523	18,642,407	2,730,584	1,724,719	1,651,282	1,907,574	1,848,826	18,252,167	108,410,269	(12,159,453)	96,250,816
Total net assets (deficit)	(1,108,602)	(679,257)	(1,321,730)	(1,572,617)	(2,351,631)	(2,136,958)	(3,258,765)	(1,071,811)	968,313	(474,701)	(443,481)	(15,978)	6,380,282	10,635,116	(1,174,217)	9,460,899
Total liabilities and net assets (deficit)	\$ 4,914,758	\$ 223,556	\$ 718,271	\$ 1,468,343	\$ 9,473,527	\$ 15,959,565	\$ 15,383,642	\$ 1,658,773	\$ 2,693,032	\$ 1,176,581	\$ 1,464,093	\$ 1,832,848	\$ 24,632,449	\$ 119,045,385	\$ (13,333,670)	\$ 105,711,715

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2016

	L.A. Family Housing Corporation											
	LAFH	Comunidad Cesar Chavez	TLC	Gentry Village	Martin Luther King, Jr.	Strong House	Gentry North	Casa Figueroa	Hyde Park	Klump	Delano I	Delano II
Public support and revenues												
Government contracts and grants	\$ 8,358,160	\$ 601,523	\$ 478,739	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Private contributions (corporate, foundation and individuals)	4,403,975	57,230	-	-	-	-	-	-	-	-	-	-
Contributed goods and services	2,210,243	24,134	47,611	-	-	-	-	-	-	-	-	-
Special events revenue	1,133,888	-	-	-	-	-	-	-	-	-	-	-
Total public support and revenues	16,106,266	682,887	526,350	-	-	-	-	-	-	-	-	-
Other revenues												
Management and development fees	1,296,379	-	-	-	-	-	-	-	-	-	-	-
Rental revenues, net	-	2,076	7,575	24,136	59,902	54,836	54,414	35,538	271,751	106,375	99,738	91,104
Other revenues	260,379	-	-	10	15	77	-	102	-	42	56	57
Total other revenues	1,556,758	2,076	7,575	24,146	59,917	54,913	54,414	35,640	271,751	106,417	99,794	91,161
Total public support and other revenues	17,663,024	684,963	533,925	24,146	59,917	54,913	54,414	35,640	271,751	106,417	99,794	91,161
Expenses												
Bad debt expense	33,818	-	-	-	-	-	-	-	3,469	-	-	-
Client food and meals	846	-	-	-	-	-	-	-	-	-	-	-
Client supplies/program expense	3,515,577	89,505	19,848	-	-	-	-	-	-	-	-	-
In-kind expenses	2,210,243	24,134	47,611	-	-	-	-	-	-	-	-	-
Office equipment and supplies	289,949	4,405	14,982	101	152	130	227	652	1,335	253	364	360
Other operating expenses	501,631	120,647	143,105	148	200	194	167	173	1,313	2,214	361	294
Personnel expenses	155,159	740	10,463	305	408	810	76	372	3,284	728	235	138
Professional and legal fees	171,543	9,491	21,955	2,838	9,147	5,675	4,730	3,784	16,821	19,359	5,675	5,675
Property insurance	58,007	19,509	24,164	2,935	4,526	3,464	2,261	2,832	12,527	6,629	3,920	3,919
Property management and development	-	-	-	4,651	5,040	4,260	6,375	2,880	14,676	15,679	10,208	9,627
Property taxes and other fees	12,970	1,488	4,302	390	303	1,119	2,371	975	5,107	814	1,412	1,466
Rent expense	568,154	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	72,648	33,411	50,128	11,966	25,804	13,428	10,960	31,221	51,396	18,369	18,034	9,495
Salaries, taxes, and benefits	6,072,544	443,944	752,082	7,612	11,721	11,661	9,191	9,885	74,401	67,612	15,366	13,071
Special events/fundraising	336,560	-	-	-	-	-	-	-	-	-	-	-
Utilities	99,110	64,278	36,228	5,676	11,904	5,367	5,026	12,228	26,578	11,269	13,320	11,041
Vehicle expenses	27,161	1,510	8,980	-	-	-	-	-	-	-	-	-
Loss on equity in partnership interests	98,478	-	-	-	-	-	-	-	-	-	-	-
Contribution expense	661,277	-	-	-	-	-	-	-	-	-	-	-
Total before financial expenses	14,885,675	813,062	1,133,848	36,622	69,205	46,108	41,384	65,002	210,907	142,926	68,895	55,086
Interest expense	363,240	40,920	-	12,800	23,162	29,991	-	8,671	16,674	36,727	-	-
Total before depreciation and amortization	15,248,915	853,982	1,133,848	49,422	92,367	76,099	41,384	73,673	227,581	179,653	68,895	55,086
Depreciation and amortization	26,385	80,139	-	6,919	18,093	28,513	8,758	7,878	16,450	79,877	9,971	4,661
Total expenses	15,275,300	934,121	1,133,848	56,341	110,460	104,612	50,142	81,551	244,031	259,530	78,866	59,747
Change in net assets (deficit)	2,387,724	(249,158)	(599,923)	(32,195)	(50,543)	(49,699)	4,272	(45,911)	27,720	(153,113)	20,928	31,414
Net assets (deficit) at December 31, 2015	19,048,514	(926,237)	1,098,256	(585,324)	(806,487)	(1,288,600)	(8,852)	(226,368)	515,815	(605,655)	68,997	146,477
Transfer of noncontrolling interest and net assets	-	-	-	-	-	-	-	-	-	-	-	-
Limited partner contribution, net syndication	-	-	-	-	-	-	-	-	-	-	-	-
Net assets (deficit) at December 31, 2016	\$ 21,436,238	\$ (1,175,395)	\$ 498,333	\$ (617,519)	\$ (857,030)	\$ (1,338,299)	\$ (4,580)	\$ (272,279)	\$ 543,535	\$ (758,768)	\$ 89,925	\$ 177,891

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

	Incorporated affiliated organizations						LAFH, LLC						Controlled Limited Partnerships	Consolidated Total Before Eliminations	Eliminations	Adjusted Consolidated Total
	Valley Shelter	Casa Central	Cochran Villa	Harmony Place	QALICB I	QALICB II	Glenoaks Gardens	Vineland Place	Alabama Court	Harmony Gardens	Vanowen Gardens	Victory Partners				
Public support and revenues																
Government contracts and grants	\$ 2,114,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,553,334	\$ -	\$ 11,553,334
Private contributions (corporate, foundation and individuals)	-	-	-	-	-	-	-	-	-	-	-	-	-	4,461,205	-	4,461,205
Contributed goods and services	3,990	-	-	-	-	-	-	-	-	-	-	-	-	2,285,978	-	2,285,978
Special events revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	1,133,888	-	1,133,888
Total public support and revenues	<u>2,118,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,434,405</u>	<u>-</u>	<u>19,434,405</u>
Other revenues																
Management and development fees	-	-	-	-	-	-	-	-	-	-	-	-	-	1,296,379	(1,296,379)	-
Rental revenues, net	5,702	47,210	75,056	178,261	429,770	-	657,693	223,348	462,094	150,338	185,240	156,106	784,759	4,163,022	(429,770)	3,733,252
Other revenues	-	13	376	80	3,891	25,835	2,402	427	940	342	441	1,708	2,363	299,556	-	299,556
Total other revenues	<u>5,702</u>	<u>47,223</u>	<u>75,432</u>	<u>178,341</u>	<u>433,661</u>	<u>25,835</u>	<u>660,095</u>	<u>223,775</u>	<u>463,034</u>	<u>150,680</u>	<u>185,681</u>	<u>157,814</u>	<u>787,122</u>	<u>5,758,957</u>	<u>(1,726,149)</u>	<u>4,032,808</u>
Total public support and other revenues	<u>2,124,604</u>	<u>47,223</u>	<u>75,432</u>	<u>178,341</u>	<u>433,661</u>	<u>25,835</u>	<u>660,095</u>	<u>223,775</u>	<u>463,034</u>	<u>150,680</u>	<u>185,681</u>	<u>157,814</u>	<u>787,122</u>	<u>25,193,362</u>	<u>(1,726,149)</u>	<u>23,467,213</u>
Expenses																
Bad debt expense	318	1,790	-	-	-	-	13,056	-	4,099	-	1,056	1,778	-	59,384	-	59,384
Client food and meals	233,074	-	-	-	-	-	-	-	-	-	-	-	-	233,920	-	233,920
Client supplies/program expense	89,407	-	-	-	-	-	-	-	-	-	-	-	-	3,714,337	-	3,714,337
In-kind expenses	3,990	-	-	-	-	-	-	-	-	-	-	-	-	2,285,978	-	2,285,978
Office equipment and supplies	33,029	132	183	403	-	-	14,123	1,168	4,689	691	286	421	9,525	377,560	(1,226)	376,334
Other operating expenses	242,091	202	210	599	10,996	606	22,882	941	2,181	626	2,898	1,229	36,135	1,092,043	-	1,092,043
Personnel expenses	7,486	619	1,051	755	-	-	1,821	763	1,969	897	724	428	-	189,231	-	189,231
Professional and legal fees	27,988	6,451	9,985	8,830	-	-	28,471	6,171	17,139	6,185	6,275	11,152	34,950	440,290	-	440,290
Property insurance	33,982	4,727	4,879	8,855	-	-	27,762	10,016	20,841	7,606	8,300	7,195	42,458	321,314	-	321,314
Property management and development	-	4,094	11,593	19,554	54,000	54,000	39,490	38,237	63,554	29,002	37,646	35,340	80,691	540,597	(212,623)	327,974
Property taxes and other fees	3,889	1,342	2,334	2,660	37,243	879	11,505	4,692	7,723	3,113	5,447	3,554	10,739	127,837	-	127,837
Rent expense	-	-	-	-	-	-	-	-	-	-	-	-	-	568,154	(429,770)	138,384
Repairs and maintenance	139,749	39,512	22,198	38,413	-	-	88,159	53,873	151,596	39,613	66,636	36,524	70,195	1,093,328	-	1,093,328
Salaries, taxes, and benefits	1,450,104	11,990	13,075	30,032	-	-	221,581	42,825	60,706	28,390	33,428	25,961	315,195	9,722,377	(671,464)	9,050,913
Special events/fundraising	-	-	-	-	-	-	-	-	-	-	-	-	-	336,560	-	336,560
Utilities	117,805	8,480	14,741	35,410	-	-	101,516	34,218	54,221	34,231	33,576	27,532	124,090	887,845	-	887,845
Vehicle expenses	70	-	-	-	-	-	-	-	-	-	-	-	-	37,721	-	37,721
Loss on equity in partnership interests	-	-	-	-	-	-	-	-	-	-	-	-	-	98,478	(98,478)	-
Contribution expense	-	-	-	-	-	-	-	-	-	-	-	-	-	661,277	(661,277)	-
Total before financial expenses	<u>2,382,982</u>	<u>79,339</u>	<u>80,249</u>	<u>145,511</u>	<u>102,239</u>	<u>55,485</u>	<u>570,366</u>	<u>192,904</u>	<u>388,718</u>	<u>150,354</u>	<u>196,272</u>	<u>151,114</u>	<u>723,978</u>	<u>22,788,231</u>	<u>(2,074,838)</u>	<u>20,713,393</u>
Interest expense	<u>8,690</u>	<u>25,312</u>	<u>34,432</u>	<u>64,677</u>	<u>138,140</u>	<u>-</u>	<u>362,157</u>	<u>79,558</u>	<u>16,033</u>	<u>42,202</u>	<u>44,099</u>	<u>46,129</u>	<u>305,850</u>	<u>1,699,464</u>	<u>-</u>	<u>1,699,464</u>
Total before depreciation and amortization	<u>2,391,672</u>	<u>104,651</u>	<u>114,681</u>	<u>210,188</u>	<u>240,379</u>	<u>55,485</u>	<u>932,523</u>	<u>272,462</u>	<u>404,751</u>	<u>192,556</u>	<u>240,371</u>	<u>197,243</u>	<u>1,029,828</u>	<u>24,487,695</u>	<u>(2,074,838)</u>	<u>22,412,857</u>
Depreciation and amortization	<u>49,583</u>	<u>12,603</u>	<u>26,334</u>	<u>46,558</u>	<u>60,565</u>	<u>-</u>	<u>371,092</u>	<u>50,882</u>	<u>92,490</u>	<u>50,774</u>	<u>52,495</u>	<u>71,357</u>	<u>549,886</u>	<u>1,722,263</u>	<u>(57,846)</u>	<u>1,664,417</u>
Total expenses	<u>2,441,255</u>	<u>117,254</u>	<u>141,015</u>	<u>256,746</u>	<u>300,944</u>	<u>55,485</u>	<u>1,303,615</u>	<u>323,344</u>	<u>497,241</u>	<u>243,330</u>	<u>292,866</u>	<u>268,600</u>	<u>1,579,714</u>	<u>26,209,958</u>	<u>(2,132,684)</u>	<u>24,077,274</u>
Change in net assets (deficit)	(316,651)	(70,031)	(65,583)	(78,405)	132,717	(29,650)	(643,520)	(99,569)	(34,207)	(92,650)	(107,185)	(110,786)	(792,592)	(1,016,596)	406,535	(610,061)
Net assets (deficit) at December 31, 2015	<u>(4,774,706)</u>	<u>(609,226)</u>	<u>(1,256,147)</u>	<u>(1,494,212)</u>	<u>(2,973,213)</u>	<u>-</u>	<u>(2,615,245)</u>	<u>(972,242)</u>	<u>1,002,520</u>	<u>(382,051)</u>	<u>(336,296)</u>	<u>-</u>	<u>7,789,248</u>	<u>9,808,966</u>	<u>(919,375)</u>	<u>8,889,591</u>
Transfer of noncontrolling interest and net assets	3,982,755	-	-	-	488,865	(2,107,308)	-	-	-	-	-	94,808	(1,797,843)	661,277	(661,277)	-
Limited partner contribution, net syndication	-	-	-	-	-	-	-	-	-	-	-	-	1,181,469	1,181,469	(100)	1,181,369
Net assets (deficit) at December 31, 2016	<u>\$ (1,108,602)</u>	<u>\$ (679,257)</u>	<u>\$ (1,321,730)</u>	<u>\$ (1,572,617)</u>	<u>\$ (2,351,631)</u>	<u>\$ (2,136,958)</u>	<u>\$ (3,258,765)</u>	<u>\$ (1,071,811)</u>	<u>\$ 968,313</u>	<u>\$ (474,701)</u>	<u>\$ (443,481)</u>	<u>\$ (15,978)</u>	<u>\$ 6,380,282</u>	<u>\$ 10,635,116</u>	<u>\$ (1,174,217)</u>	<u>\$ 9,460,899</u>

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - HCD LOAN NO. 90-RHCP-041

SCHEDULE OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

Rent Revenue		
5120	Rent revenue - gross potential	\$ 69,804
5121	Tenant assistance payments	<u>1,416</u>
5100T	Total rent revenue	<u>71,220</u>
Vacancies		
5220	Apartments	<u>-</u>
5200T	Total vacancies	<u>-</u>
5152N	Net rental revenue	<u>71,220</u>
Financial Revenue		
5440	Revenue from investments - reserves	<u>376</u>
5400T	Total financial revenue	<u>376</u>
Other Revenue		
5910	Laundry and vending revenue	2,191
5920	Tenant charges	<u>1,645</u>
5900T	Total other revenue	<u>3,836</u>
5000T	Total revenues	<u><u>\$ 75,432</u></u>

(Continued)

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - HCD LOAN NO. 90-RHCP-041

SCHEDULE OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Administrative Expenses			
6203	Conventions and meetings	\$	107
6210	Advertising and marketing		8
6310	Office salaries		4,113
6311	Office expenses		495
6320	Management fee		6,600
6330	Manager or superintendent salaries		3,636
6350	Audit / tax preparation expenses		9,985
6351	Bookkeeping fees/accounting services		128
6390	Miscellaneous administrative expenses		
	Systematic code fees	\$	747
	Management administrative fees		4,993
			<u>5,740</u>
6263T	Total administrative expenses		<u>30,812</u>
Utilities Expenses			
6450	Electricity		2,642
6451	Water		11,332
6452	Gas		533
6400T	Total utilities expenses		<u>14,507</u>
Operating and Maintenance Expenses			
6510	Payroll		2,351
6515	Supplies		1,062
6520	Contracts		18,274
6525	Garbage & trash removal		2,866
6500T	Total operating and maintenance expenses		<u>24,553</u>
Taxes and Insurance			
6710	Real estate taxes		1,587
6711	Payroll taxes (Project's share)		991
6720	Property and liability insurance (hazard)		4,762
6722	Workers compensation		469
6723	Health insurance and other benefits		2,568
6700T	Total taxes and insurance		<u>10,377</u>
	Total operating expenses	\$	<u>80,249</u>

(Continued)

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - HCD LOAN NO. 90-RHCP-041

SCHEDULE OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Financial Expenses		
6820	Interest on mortgage (or bonds) payable	\$ 34,432
6800T	Total financial expenses	<u>34,432</u>
Depreciation and Amortization Expenses		
6600	Depreciation expense	<u>26,334</u>
6600T	Total depreciation and amortization expenses	<u>26,334</u>
Net Entity Expenses		
7190	Other expenses	
	Franchise state tax	<u>-</u>
7100T	Total net entity expenses	<u>-</u>
	Total expenses	<u>\$ 141,015</u>
3250	Change in total net assets from operations	<u>\$ (65,583)</u>

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)
 COCHRAN VILLA, INC. - LOAN NO. 90-RHCP-041
 SUPPLEMENTARY INFORMATION REQUIRED BY HCD
 FOR THE YEAR ENDED DECEMBER 31, 2016

A. CASH ON HAND AND IN BANKS

Unrestricted accounts:

Operating cash account	\$ 1,238
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Restricted accounts:

Operating reserves	\$ 67,768
Replacement reserves	127,350
Tenant security deposits	12,809
Total	<u>\$ 207,927</u>

B. TENANT ACCOUNTS RECEIVABLE

As of December 31, 2016, Cochran Villa has \$1,722 and \$0 in tenant receivables and subsidy receivables, respectively.

C. REPLACEMENT RESERVE ACCOUNT

In accordance with Cochran Villa's loan and regulatory agreements, the entity is required to maintain a replacement reserve account in a restricted cash account, which is held by Citibank and City National Bank, FDIC insured banks, to be used for replacement of property with the prior approval of HCD as follows:

Balance, January 1, 2016	\$ 122,937
Deposits	4,179
Interest	234
Withdrawals	-
Balance, December 31, 2016	<u>\$ 127,350</u>

D. OPERATING RESERVE ACCOUNT

In accordance with Cochran Villa's loan and regulatory agreements, the entity is required to maintain an operating reserve account in a restricted cash account, which is held by Citibank and City National Bank, FDIC insured banks, to be used for unforeseen circumstances and operating cash flow deficits with the prior approval of HCD as follows:

Balance, January 1, 2016	\$ 65,753
Deposits	1,899
Interest	116
Withdrawals	-
Balance, December 31, 2016	<u>\$ 67,768</u>

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)
 COCHRAN VILLA, INC. - LOAN NO. 90-RHCP-041
 SUPPLEMENTARY INFORMATION REQUIRED BY HCD
 FOR THE YEAR ENDED DECEMBER 31, 2016
 (CONTINUED)

E. TENANT SECURITY DEPOSITS

Tenant security deposits are held in a single federally insured interest bearing bank account with Citibank. At December 31, 2016, the balance of the security deposit account is adequate to cover the liability for security deposits.

F. PROPERTY, EQUIPMENT AND IMPROVEMENTS

Following are the details of property, equipment and improvements:

Property, Equipment and Improvements, at Cost	Balance 1/1/16	Additions (Deletions)	Balance 12/31/16
Land	\$ 208,573	\$ -	\$ 208,573
Buildings and Improvements	907,452	-	907,452
Personal property	11,021	-	11,021
	<u>\$ 1,127,046</u>	<u>\$ -</u>	<u>\$ 1,127,046</u>

G. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses amounts are payable to vendors and suppliers, and are being paid on a current basis. Detail is as follows:

Accounts payable	\$ 5,607
Accrued expenses	4,584
Total	<u>\$ 10,191</u>

H. GROSS POTENTIAL RENT

Gross potential rent includes:

Tenant rents – residential	\$ 69,804
Rental subsidies	1,416
Vacancies	-
Total gross potential rent	<u>\$ 71,220</u>

I. PROPERTY TAXES

The Partnership anticipates receiving an exemption of indirect real property taxes issued by the county assessor. The Partnership has paid the other 2016 assessments billed by the county on a current basis. The tax statements are paid when due, and are not impounded by a lender.

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)
COCHRAN VILLA, INC. - LOAN NO. 90-RHCP-041
SUPPLEMENTARY INFORMATION REQUIRED BY HCD
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

J. PROPERTY INSURANCE

Property insurance premiums are paid current as of December 31, 2016. The Partnership pays the premiums when due.

K. MANAGEMENT FEE

A property management fee of \$6,600 was incurred during 2016 for property management services provided by an unrelated party.

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - HCD LOAN NO. 90-RHCP-041

COMPUTATION OF OPERATING CASH FLOW/SURPLUS CASH

FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Cash Flow/Surplus Cash Computation - per HCD Regulatory Agreements

Operating cash flow/surplus cash will be distributed according to the HCD method.

Operating revenue	
Total revenue	\$ 75,432
Interest on restricted reserve accounts	<u>(376)</u>
Adjusted operating revenue	75,056
Operating expenses	<u>(80,249)</u>
Adjusted net income (loss)	<u>(5,193)</u>
Other activity	
Deposits into replacement reserve account	(4,179)
Deposits into other restricted accounts per Regulatory Agreement	<u>(1,899)</u>
Total other activity	<u>(6,078)</u>
Operating cash flow/surplus cash	<u>(11,271)</u>
Total cash available for distributions (net cash flow)	<u>\$ -</u>
Distributions and loan payments	
50% split and paid as follows per Regulatory Agreement	
40% to HCD	\$ -
37% to Century Housing Corporation	-
23% to CRA HCIDLA	<u>-</u>
Total distributions	<u>\$ -</u>

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>Federal Grantor/Pass-through Agent Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Grantor Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
Department of Homeland Security/Federal Emergency Management Agency:				
Emergency Food and Shelter National Board Program				
Phase 33 - TLC	97.024	LRO069500-085	\$ 66,448	\$ -
Phase 33 - Valley Shelter	97.024	LRO069500-128	191,156	-
Total Department of Homeland Security/Federal Emergency Management Agency			257,604	-
Department of Veterans Affairs:				
VA Homeless Providers Per Diem Only	64.024	02-157-CA	247,587	-
VA Homeless Providers Grant and Per Diem Only	64.024	97-056-CA	226,805	-
Passed through PATH:				
VA Supportive Services for Veteran Families	64.033	C2015-CA-600C	256,212	-
Total Department of Veteran Affairs			730,604	-
Department of Housing and Urban Development:				
Direct Support Received:				
Continuum of Care Program	14.267	CA0505L9D001407	282,623	-
Passed through Los Angeles Homeless Services Authority:				
Continuum of Care Program	14.267	CA1336L9D001400	358,638	-
Continuum of Care Program	14.267	CA0422L9D001407	140,768	-
Continuum of Care Program	14.267	CA0422L9D001508	238,154	-
Continuum of Care Program	14.267	CA0441L9D001407	326,042	-
Passed through Department of Health Services:				
Continuum of Care Program	14.267	H-705982	300,789	-
			1,647,014	-
Passed through Los Angeles Homeless Services Authority:				
Emergency Shelter Grants Program	14.231	2015HFSS05	48,969	-
Emergency Shelter Grants Program	14.231	2016HFSS05	62,086	-
			111,055	-
Passed through Los Angeles Homeless Services Authority:				
Community Development Block Grants:				
Family Program	14.218	2015HFSS05	43,055	-
Family Program	14.218	2015HFSS07	132,765	-
Family Program	14.218	2016HFSS05	60,635	-
Family Program	14.218	2016HFSS07	89,735	-
			326,190	-
Total Department of Housing and Urban Development			2,084,259	-
Department of Health and Human Services:				
Passed through Los Angeles County DPSS/Los Angeles Homeless Services Authority:				
Temporary Aid for Needy Families:				
Homeless Family Solutions System	93.558	2015HFSS05	640,358	96,755
Homeless Family Solutions System	93.558	2015HFSS07	17,139	-
Homeless Family Solutions System	93.558	2016FDPSS05	546,162	-
Homeless Family Solutions System	93.558	2016FDPSS07	32,994	-
Passed through The Whole Child:				
Homeless Family Solutions System	93.558	2015HFSS04	105,120	-
Total Department of Health and Human Services			1,341,773	96,755
		Total	\$ 4,414,240	\$ 96,755

See independent auditor's report and notes to schedule of expenditures of federal awards

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of L.A. Family Housing Corporation and Affiliated Organizations (LA Family Housing) under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, change in net assets, or cash flows of LA Family Housing.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the presentation of, the basic consolidated financial statements.

Indirect Cost Rate

LA Family Housing did not elect the de minimis indirect cost allocation rate of 10% for the year ended December 31, 2016; and instead allocates indirect costs in accordance with its cost allocation plan as allowed by the federal grant programs under Uniform Guidance.

NOTE 2. AMOUNTS PROVIDED TO SUBRECIPIENTS

LA Family Housing provided grant funds to the following entities as subrecipients of the Homeless Family Solutions System program during the year ended December 31, 2016.

<u>Subrecipient</u>	<u>Amount</u>
Ascencia	\$ 32,950
Bridge to Home	2,186
Hope of the Valley	61,619
	<u>\$ 96,755</u>

See independent auditor's report.



Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Consolidated Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
L.A. Family Housing Corporation and Affiliated Organizations:

We have audited, 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, the consolidated financial statements of L.A. Family Housing Corporation and Affiliated Organizations (collectively, LA Family Housing), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and changes in net assets, 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 October 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered LA Family Housing'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LA Family Housing's internal control. Accordingly, we do not express an opinion on the effectiveness of the LA Family Housing'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LA Family Housing'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 instances of noncompliance or other matters that are required



Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Consolidated Financial Statements
Performed in Accordance with *Government Auditing Standards*
(Continued)

to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2016-001.

LA Family Housing's Response to Findings

LA Family Housing's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. LA Family Housing's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Los Angeles, California
October 27, 2017



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
L.A. Family Housing Corporation and Affiliated Organizations:

Report on Compliance for Each Major Federal Program

We have audited L.A. Family Housing Corporation and Affiliated Organizations' (collectively, LA Family Housing) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of LA Family Housing's major federal programs for the year ended December 31, 2016. LA Family Housing's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LA Family Housing's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes LA Family Housing's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LA Family Housing's compliance.

Opinion on Each Major Federal Program

In our opinion, LA Family Housing complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-002. Our opinion on each major federal program is not modified with respect to these matters.



Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by the Uniform Guidance
(Continued)

LA Family Housing's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. LA Family Housing's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of LA Family Housing is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered LA Family Housing's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LA Family Housing's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2016-002 to be significant deficiencies.

LA Family Housing's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. LA Family Housing's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Los Angeles, California
October 27, 2017

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION) SCHEDULE OF FINDINGS AND QUESTIONED COSTS DECEMBER 31, 2016

Consolidated Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified no considered to be material weaknesses?	<u> X </u> Yes	_____ None reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified no considered to be material weaknesses?	<u> X </u> Yes	_____ None reported	
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	<u> X </u> Yes	_____ No	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
64.024	VA Homeless Providers Grant and Per Diem Program
64.033	VA Supportive Services for Veteran Families
97.024	Emergency Food and Shelter National Board Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION) SCHEDULE OF FINDINGS AND QUESTIONED COSTS DECEMBER 31, 2016

Section II—Financial Statement Findings

Finding #2016-001

Significant Deficiency – Year End Account Reconciliation

Condition:

During our audit, it was noted that the Organization did not adequately and timely reconcile various accounts or properly implement a management review of accounts, which resulted in numerous post-closing adjustments affecting cash, receivables, intercompany accounts, property, payables, revenues, expenses and net assets at year end. In addition, there were delays in obtaining schedules and supporting documents for various general ledger accounts.

Criteria:

Management and those charged with governance are responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Cause:

The Organization experienced significant turnover in its finance and contract management departments, which did not allow for consistent and effective implementation of existing internal controls over financial reporting during the period of transition. As a result, reconciliations of various accounts were not completed prior to the start of audit fieldwork.

Effect:

Certain internal controls were not consistently or effectively implemented resulting in numerous post-closing adjustments proposed by the auditor and provided by the Organization to correct the misstatements identified during our audit.

Recommendation:

Management should evaluate the Organization's financial reporting processes and controls to ensure adequate reconciliations of accounts are prepared and maintained in a timely manner to support all transactions affecting the various general ledger accounts. We recommend, the Organization update its existing finance operations manual to include yearend close procedures in preparation for the audit and also address the accounting for projects in development to ensure financial records are reconciled with development records. In addition, we recommend a detailed monthly review of accounts be performed at the appropriate level in a timely manner.

Views of Responsible Officials and Planned Corrective Actions:

During 2016, management hired external consultants to assess the needs of the finance and contract management departments. Based on the recommendations of those consultants, and in conjunction with the hiring of a new CFO, during 2017 Management is continuing to evaluate and reorganize these departments with a focus on internal controls over financial reporting. Management does not anticipate the issues and misstatements noted during the 2016 audit will be repeated during 2017.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION) SCHEDULE OF FINDINGS AND QUESTIONED COSTS DECEMBER 31, 2016

Section III—Federal Award Findings and Questioned Costs

Finding #2016-002

CFDA 64.024 VA Homeless Providers Grant and Per Diem Program (VA GPD)

Significant Deficiency – related to finding #2016-001 above

Condition:

The Organization did not maintain an effective control environment to ensure costs incurred for allowable activities are charged to the VA GPD program in accordance with contract requirements and applicable cost principles.

Criteria:

The VA GPD contract requires per diem amounts awarded are supported by costs incurred for allowable activities in accordance with 2 CFR Part 230 (OMB Circular A-122). Further, OMB Circular A-122 Appendix B section 8.m.(1) states that salaries and related costs charged to federal awards must be supported by personnel activity reports and documentation must be maintained noting actual hours spent on each contract.

Cause:

As discussed in finding #2016-001, significant turnover in the finance and contract management departments during 2016 did not allow for evaluation of the design of, or consistent and effective implementation of, existing internal controls over compliance with federal awards programs.

Effect:

Although no finding or questioned costs were identified during our testing, costs may not have been charged to VA GPD program in accordance with contract provisions and applicable cost principles.

Recommendation:

Management should continuously evaluate the Organization's control environment to ensure internal controls are designed and operating effectively to prevent, or detect and correct, noncompliance with a federal awards program on a timely basis. Further, Management should design and implement internal control to ensure that costs charged to the VA GPD contracts are sufficient to support the per diem funding requested monthly.

Views of Responsible Officials and Planned Corrective Actions:

During 2016, management hired external consultants to assess the needs of the finance and contract management departments. Based on the recommendations of those consultants, and in conjunction with the hiring of a new CFO, during 2017 Management is continuing to evaluate and reorganize these departments with a focus on internal controls over compliance with federal program requirements. Further, Management will update the process for reviewing monthly VA GPD and other per diem contracts to include monthly expenditure activity to ensure costs charged to the VA GPD contracts are sufficient to support the per diem funding requested monthly. Management does not anticipate the issues noted during the 2016 audit will be repeated during 2017.

Section IV—Status of Corrective Action on Prior Year Findings

No findings noted during prior year audit.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - 90-RHCP-041

MANAGING AGENT CERTIFICATION

DECEMBER 31, 2016

We hereby certify that we have examined the supplementary information of Cochran Villa, Inc. included in the accompanying Schedules IV – VI, as of and for the year ended December 31, 2016, and to the best of our knowledge and belief, the same is complete and accurate.

Signature:

LORIL HOEN

Printed Name:

LORIL HOEN

Title:

VICE PRESIDENT

Date:

10/27/17

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - 90-RHCP-041

MORTGAGOR'S CERTIFICATION

DECEMBER 31, 2016

I hereby certify that I have examined the supplementary information of Cochran Villa, Inc. included in the accompanying Schedules IV – VI, as of and for the year ended December 31, 2016 and, to the best of my knowledge and belief; the same is complete and accurate.

Signature:



Printed Name:

AARON LEON

Title:

CFO

Date:

10/27/2017

EMPLOYER IDENTIFICATION NUMBER: 95-3920560

November 29, 2017

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Diagnostic Products Corp.

LIFETIME DIRECTORS

Audrey Irmas
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Sydney M. Irmas (1925-1996)
Trudy Louis (1914-2004)
Rev. John Simmons (1917-2013)

LA Family Housing Corporation Corrective Action Plan

Contact Person(s):

Aaron Leon – CFO
Happi Noel – Controller

Finding #2016-001

LA Family Housing Corporation concurs with audit finding. However, LA Family Housing Corporation feels that these delays did not detract from the reliability of the financial data supporting the financial statements and notes that are prepared with the assistance of the CPA firm. The finance department's turnover issues have been resolved and we do not anticipate this issue in this year.

LA Family Housing Corporation will implement controls to ensure adequate reconciliations of accounts are prepared and maintained to support all transactions affecting the various general ledger accounts. The Organization is updating the accounting manual to include monthly and year-end close procedures.

LA Family Housing Corporation has implemented the above controls for the fiscal year end December 31, 2017.

Finding #2016-002

LA Family Housing Corporation concurs with audit finding. As discussed in finding #2016-001, the finance department's turnover issues have been resolved and we do not anticipate this issue in this year.

LA Family Housing Corporation will implement controls to ensure that compliance with a federal awards program (VA GPD and other per diem contracts) is in accordance with 2 CFR Part 230. The Organization will continuously evaluate the control environment to ensure that internal controls operate to prevent, or detect and correct any noncompliance issues.

LA Family Housing Corporation has implemented the above controls for the fiscal year end December 31, 2017.