

**L.A. FAMILY HOUSING CORPORATION
AND AFFILIATED ORGANIZATIONS**
(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS
DECEMBER 31, 2017 AND 2016



L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

TABLE OF CONTENTS

DECEMBER 31, 2017 AND 2016

	<u>Page No.</u>
Independent Auditor's Report	1 – 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3 – 4
Consolidated Statements of Activities and Change in Net Assets	5
Consolidated Statements of Functional Expenses	6 – 7
Consolidated Statements of Cash Flows	8 – 9
Notes to Consolidated Financial Statements	10 – 34
Supplementary Information	35
Schedule I: Consolidating Statement of Financial Position	36 – 39
Schedule II: Consolidating Statement of Activities and Change in Net Assets	40 – 41
Supplementary Information Required by HCD for Cochran Villa, Inc.	
Schedule III: Schedule of Operations	42 – 44
Schedule IV: Supplementary Information Required by HCD	45 – 47
Schedule V: Computation of Operating Cash Flow/Surplus Cash	48
Schedule VI: Schedule of Expenditures of Federal Awards	49 – 50
Notes to Schedule of Expenditures of Federal Awards	51
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 <i>Government Auditing Standards</i>	52 – 53
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance	54 – 55
Schedule of Findings and Questioned Costs	56 – 60
HCD Managing Agent Certification	61
HCD Mortgagor's Certification	62



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, the Organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years 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 audits. 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2017 and 2016, and the change in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I and II 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 III through V 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 VI) 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Organization's internal control over financial reporting and compliance.

Holthouse Carlin & Van Trigt LLP

Los Angeles, California
November 19, 2018

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31,	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,029,307	\$ 725,770
Contributions receivable due within one year	1,071,269	867,012
Contracts receivable due within one year	5,296,837	2,576,378
Unbilled contract receivable due within one year	447,001	-
Receivables - rental	70,508	75,522
Organizational cash reserve, available for current use	212,820	748,358
Prepaid expenses and other assets	540,018	335,821
Restricted cash	9,339,935	11,240,767
Security deposits and client trust accounts	393,778	433,898
Total current assets	18,401,473	17,003,526
Restricted property reserves		
Operating reserves	2,376,100	2,583,298
Replacement reserves	1,380,303	1,330,080
Transition reserves	713,786	712,475
Total restricted property reserves	4,470,189	4,625,853
Property and equipment, at cost		
Land	16,109,978	13,618,506
Buildings and building improvements	70,344,115	52,859,378
Furniture and equipment	1,881,082	1,639,009
Automobiles	235,098	235,098
Construction in progress and development costs (Note 10)	10,646,805	12,769,864
Total property and equipment, at cost	99,217,078	81,121,855
Less: accumulated depreciation	(19,758,159)	(18,124,080)
Property and equipment, net	79,458,919	62,997,775
Notes receivable (Note 4)	20,479,749	20,479,749
Contributions receivable, net of current portion	251,342	483,940
Deferred costs, net	114,918	120,872
Total assets	\$ 123,176,590	\$ 105,711,715

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31,	2017	2016
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,288,279	\$ 625,463
Accrued payroll	419,286	498,585
Current portion of notes payable	9,282,859	696,731
Current portion of accrued interest payable	33,326	33,998
Construction costs payable	4,763,756	2,089,321
Deferred revenues	2,937,321	953,413
Tenant deposit liabilities	407,421	417,795
Total current liabilities	20,132,248	5,315,306
Notes payable secured by real estate, net of current portion and deferred financing costs	80,849,327	80,528,798
Accrued interest payable, net of current portion	11,552,830	10,406,712
Total liabilities	112,534,405	96,250,816
Commitments and contingencies (see Notes)		
Net assets		
Unrestricted		
Controlling interest	1,513,673	(390,717)
Noncontrolling interest	6,990,198	7,870,717
Total unrestricted	8,503,871	7,480,000
Temporarily restricted	2,138,314	1,980,899
Total net assets	10,642,185	9,460,899
Total liabilities and net assets	\$ 123,176,590	\$ 105,711,715

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenues						
Government contracts and grants	\$ 15,544,662	\$ -	\$ 15,544,662	\$ 11,553,334	\$ -	\$ 11,553,334
Private contributions (corporate, foundation and individuals)	4,562,032	2,061,820	6,623,852	3,057,316	1,403,889	4,461,205
Contributed goods and services (Note 2)	752,358	-	752,358	2,285,978	-	2,285,978
Special events revenues	1,307,208	-	1,307,208	1,133,888	-	1,133,888
Total public support and revenues	22,166,260	2,061,820	24,228,080	18,030,516	1,403,889	19,434,405
Other revenues						
Rental revenues, net	3,747,986	-	3,747,986	3,733,252	-	3,733,252
Other revenues	434,377	-	434,377	299,556	-	299,556
Total other revenues	4,182,363	-	4,182,363	4,032,808	-	4,032,808
Net assets released from restrictions	1,904,405	(1,904,405)	-	3,923,234	(3,923,234)	-
Total public support and revenues, other revenues and net assets released from restrictions	28,253,028	157,415	28,410,443	25,986,558	(2,519,345)	23,467,213
Expenses						
Program services						
Homeless services	17,308,789	-	17,308,789	15,666,749	-	15,666,749
Real estate development	929,524	-	929,524	843,537	-	843,537
Permanent housing operation	5,775,524	-	5,775,524	5,420,011	-	5,420,011
Total program services	24,013,837	-	24,013,837	21,930,297	-	21,930,297
Supporting services						
Management and general	2,088,948	-	2,088,948	811,414	-	811,414
Fundraising and development	1,091,372	-	1,091,372	1,335,563	-	1,335,563
Total supporting services	3,180,320	-	3,180,320	2,146,977	-	2,146,977
Total expenses	27,194,157	-	27,194,157	24,077,274	-	24,077,274
Change in net assets	1,058,871	157,415	1,216,286	1,909,284	(2,519,345)	(610,061)
Net assets, beginning of the year	7,480,000	1,980,899	9,460,899	4,389,347	4,500,244	8,889,591
Contributions (Note 11)	-	-	-	1,236,369	-	1,236,369
Syndication costs	(35,000)	-	(35,000)	(55,000)	-	(55,000)
Net assets, end of the year	\$ 8,503,871	\$ 2,138,314	\$ 10,642,185	\$ 7,480,000	\$ 1,980,899	\$ 9,460,899

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, 2017

	Program Services				Supporting Services			Total
	Homeless Services	Real Estate Development	Permanent Housing Operation	Subtotal Program Services	Management and General	Fundraising and Development	Subtotal Supporting Services	2017 Expenses
Bad debt expense	\$ 129,888	\$ -	\$ 7,996	\$ 137,884	\$ 3,900	\$ -	\$ 3,900	\$ 141,784
Client food and meals	332,069	-	55	332,124	-	-	-	332,124
Client supplies/program expense	5,360,626	-	-	5,360,626	-	429	429	5,361,055
In-kind expenses	750,156	-	-	750,156	-	2,202	2,202	752,358
Office equipment and supplies	262,592	5,103	41,773	309,468	67,996	34,591	102,587	412,055
Other operating expenses	837,922	8,550	83,880	930,352	250,987	119,149	370,136	1,300,488
Personnel expenses	133,464	6,850	36,033	176,347	80,699	8,164	88,863	265,210
Professional and legal fees	114,270	4,695	148,016	266,981	262,555	2,687	265,242	532,223
Property insurance	58,528	552	243,157	302,237	5,847	1,227	7,074	309,311
Property management and development	258	245,590	184,700	430,548	-	-	-	430,548
Property taxes and other fees	38,337	-	120,267	158,604	5,649	-	5,649	164,253
Rent expense	144,673	-	1,098	145,771	677	21	698	146,469
Repairs and maintenance	383,979	87,559	1,123,360	1,594,898	4,743	539	5,282	1,600,180
Salaries, taxes, and benefits	8,301,378	327,974	266,238	8,895,590	1,362,922	467,858	1,830,780	10,726,370
Special events/fundraising	8,741	479	-	9,220	2,968	450,601	453,569	462,789
Utilities	337,982	1,679	626,731	966,392	13,360	3,819	17,179	983,571
Vehicle expenses	22,829	-	9,663	32,492	1,107	-	1,107	33,599
Total before financial expenses	17,217,692	689,031	2,892,967	20,799,690	2,063,410	1,091,287	3,154,697	23,954,387
Interest expense	9,282	240,493	1,298,917	1,548,692	4,958	85	5,043	1,553,735
Total before depreciation and amortization	17,226,974	929,524	4,191,884	22,348,382	2,068,368	1,091,372	3,159,740	25,508,122
Depreciation and amortization	81,815	-	1,583,640	1,665,455	20,580	-	20,580	1,686,035
Total expenses	\$17,308,789	\$ 929,524	\$ 5,775,524	\$ 24,013,837	\$ 2,088,948	\$ 1,091,372	\$ 3,180,320	\$ 27,194,157

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

	Program Services				Supporting Services			Total 2016 Expenses
	Homeless Services	Real Estate Development	Permanent Housing Operation	Subtotal Program Services	Management and General	Fundraising and Development	Subtotal Supporting Services	
Bad debt expense	\$ 318	\$ -	\$ 25,248	\$ 25,566	\$ 2,318	\$ 31,500	\$ 33,818	\$ 59,384
Client food and meals	233,920	-	-	233,920	-	-	-	233,920
Client supplies/program expense	3,713,925	-	-	3,713,925	30	382	412	3,714,337
In-kind expenses	2,276,306	-	-	2,276,306	-	9,672	9,672	2,285,978
Office equipment and supplies	156,873	13,239	36,157	206,269	145,938	24,127	170,065	376,334
Other operating expenses	625,480	41,052	64,620	731,152	234,936	125,955	360,891	1,092,043
Personnel expenses	111,157	3,236	15,382	129,775	53,118	6,338	59,456	189,231
Professional and legal fees	125,010	-	209,313	334,323	57,130	48,837	105,967	440,290
Property insurance	133,896	6,743	175,544	316,183	-	5,131	5,131	321,314
Property management and development	-	-	327,974	327,974	-	-	-	327,974
Property taxes and other fees	10,066	-	112,312	122,378	5,459	-	5,459	127,837
Rent expense	101,183	37,201	-	138,384	-	-	-	138,384
Repairs and maintenance	235,780	134,052	723,191	1,093,023	293	12	305	1,093,328
Salaries, taxes, and benefits	7,436,940	277,718	332,239	8,046,897	262,302	741,714	1,004,016	9,050,913
Special events/fundraising	-	-	-	-	-	336,560	336,560	336,560
Utilities	289,523	9,096	570,421	869,040	13,470	5,335	18,805	887,845
Vehicle expenses	37,040	-	-	37,040	681	-	681	37,721
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
Interest expense	49,610	321,200	1,308,697	1,679,507	19,957	-	19,957	1,699,464
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
Depreciation and amortization	129,722	-	1,518,913	1,648,635	15,782	-	15,782	1,664,417
Total expenses	\$ 15,666,749	\$ 843,537	\$ 5,420,011	\$ 21,930,297	\$ 811,414	\$ 1,335,563	\$ 2,146,977	\$ 24,077,274

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 1,216,286	\$ (610,061)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,686,035	1,664,417
Amortization of deferred financing costs	33,000	33,339
Contribution of land	(1,800,000)	-
Bad debt expense	141,784	59,384
Change in operating assets and liabilities:		
Contributions receivable	28,341	417,905
Contract receivables	(2,850,247)	(31,026)
Unbilled contract receivable due within one year	(447,001)	-
Receivables - rental	(6,982)	(30,017)
Prepaid expenses and other assets	(204,197)	(167,863)
Security deposits and client trust accounts	40,120	2,687
Accounts payable and accrued expenses	1,662,816	130,956
Accrued interest payable	1,168,306	1,005,541
Accrued payroll	(79,299)	79,437
Deferred revenues	1,983,908	565,632
Tenant deposit liabilities	(10,374)	(4,997)
Net cash provided by operating activities	2,562,496	3,115,334
Cash flows from investing activities		
Net change in organizational cash reserve	535,538	(245,282)
Net change in restricted cash	2,056,496	(7,760,488)
Net change in notes receivable	-	(12,481,149)
Expenditures for property, including development and construction costs	(13,571,370)	(9,216,742)
Expenditures for deferred costs	-	(80,452)
Net cash used in investing activities	(10,979,336)	(29,784,113)
Cash flows from financing activities		
Contributions	-	1,181,369
Proceeds from notes payable	10,338,407	29,849,245
Payment of notes payable	(1,602,105)	(4,173,988)
Expenditures for deferred financing costs	(15,925)	(764,361)
Net cash provided by financing activities	8,720,377	26,092,265
Net change in cash and cash equivalents	303,537	(576,514)
Cash and cash equivalents, beginning of year	725,770	1,302,284
Cash and cash equivalents, end of year	\$ 1,029,307	\$ 725,770

See accompanying notes to consolidated financial statements.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS**FOR THE YEARS ENDED DECEMBER 31,** **2017** **2016****Supplemental disclosure of cash flow information:**

Cash paid for interest, net of capitalized interest (Note 6)	\$ 542,493	\$ 397,306
Cash paid for taxes	\$ 11,340	\$ 11,330

Non-cash transactions:

Unpaid capitalized construction costs	\$ 4,763,756	\$ 2,089,321
Accrued interest converted to principal	\$ 22,860	\$ 22,197
Unpaid capitalized interest	\$ 190,064	\$ 53,553
Contribution of goods and services	\$ 752,358	\$ 2,285,978
Syndication costs	\$ 35,000	\$ 55,000

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, 2017 AND 2016

1. ORGANIZATION

L.A. Family Housing Corporation and Affiliated Organizations (collectively, the 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. The Organization 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 permanent 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 the Organization.
- 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 complex 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 located in North Hollywood, California, which provides permanent supportive housing for single adults with very low income.
- 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.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

- 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 FEMA and United Way funding for the operation of Bridge Housing at the South Campus under the Emergency Food and Shelter Program contracts.
- 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. (Phase I) is a California nonprofit corporation established to acquire and rehabilitate the property formerly known as Sydney M. Irmas Transitional Living Center (TLC) and to develop the South Campus at LA Family Housing (South Campus) 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.
- LAFH Phase II QALICB, Inc. (Phase 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 (North Campus) 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 10).

The Organization also includes four 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 the Organization:

- LA Family Housing, LLC (LAFH, LLC) is a single member California LLC established to be the limited partner for various tax credit properties that are wholly owned by LAFH.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

- 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.
- Ormond Beach Housing, LLC is a single member California LLC established to be the administrative general partner for Ormond Beach LP (Note 5) and owns a .002% interest.
- LAFH, combined with affiliate interests, owns a 100% interest in the following limited partnerships:

Wholly Owned Partnerships	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

The Organization directly, or through an affiliate, is the general partner in three limited partnerships that are invested in or developing 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. LAFH holds up to a 1% controlling ownership interest in each of these Limited Partnerships (Controlled Limited Partnerships). In addition, LAFH has a 60% member interest in Residence on Main GP LLC, General Partner in Residence on Main, L.P., which will develop, construct and operate affordable housing. Accordingly, the assets, liabilities, support, revenues and expenses of the following partnerships are consolidated in the financial statements of the Organization, and the noncontrolling interest is separately disclosed in the consolidated statement of financial position:

Controlled Limited Partnerships	General Partner	Number of Units
14649 Saticoy Partners, L.P. (Saticoy)	LAFH	30
Day Street, L.P. (Day Street)	Day Street LLC	46
PSH Campus (Note 10)	PSH Campus LLC	50
Residences on Main, L.P. (ROM) (Note 10)	Residences on Main GP LLC	50
Total units		176

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.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 affordable housing. The properties all serve very low and low income households, including some properties dedicated to formerly homeless households with special needs.

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 entities which are deemed to be controlled by LAFH. All significant intercompany balances and transactions have been eliminated in consolidation.

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 the Organization 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 the Organization.
- **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 11).
- **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

assets and reported in the accompanying consolidated financial statements as net assets released from restrictions (Note 11).

- **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 the Organization's programs and operations unless otherwise stipulated by the donor. As of December 31, 2017 and 2016, the Organization has no permanently restricted net assets.

Cash and Cash Equivalents For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid unrestricted investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash In accordance with loan agreements, the Organization is required to deposit loan proceeds to be used for development purposes. In addition, restricted cash includes reserves required by lenders for purposes of funding certain current operating costs and debt service.

Restricted Property Reserves The Organization 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 Phase I and Phase II in accordance with NMTC agreements restricted for the purpose of development and to cover annual transaction and management fees.

Organizational Cash Reserve The Organization 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.

Public Support and Revenue Recognition The Organization 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. Donated assets are recorded at fair value at the date of donation. During the year ended December 31, 2017, the Organization received a donation of land with a fair value of \$1,800,000 as of the date of contribution. There were no assets donated during the year ended December 31, 2016.

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.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 The Organization 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 special events revenue and the related direct expenses are included in special events/fundraising expense in the consolidated statements of functional expense.

Tenant Receivables 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.

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 revenue is included in the accompanying consolidated statement of activities and change in net assets within rental revenues.

Property and Equipment 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:

Description	Life
Buildings and building improvements	40 years
Land improvements	20 years
Furniture, equipment, and automobiles	5-7 years
Leasehold improvements	Lesser of life or lease

The Organization capitalizes expenditures or betterments that materially increase asset lives and charges ordinary repairs and maintenance to operations as incurred. Costs of projects under development include direct and indirect costs of construction and carrying costs incurred during the construction period. 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. Interest costs directly related to, and incurred during, a project's construction period are capitalized (Note 6).

The Organization 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, including the low-income housing tax credits and any estimated proceeds from the eventual disposition. In the event these accumulated cash flows are less than the carrying amount of the property, the Organization recognizes an impairment loss equal to the excess of the carrying

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

amount over the estimated fair value of the property. No impairment losses were recognized in 2017 or 2016.

Predevelopment Project Costs The Organization incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial state of development. The Organization 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. Predevelopment project costs are included in construction in progress and development costs in the accompanying consolidated statements of financial position. There were no abandoned project costs for the years ended December 31, 2017 and 2016.

Investments in Unconsolidated Partnerships The Organization holds investments in limited partnerships that are not consolidated as they are not controlled by the Organization (Note 5). The ownership interests range from 0.002% to 50% and accounted for under the equity method, since the Organization has significant influence over the major operating and financial policies of the limited partnerships. The Organization's cost is increased for its share of profits and contributions, and reduced by distributions and its share of losses.

The Organization evaluates its investments in limited partnerships for impairment in value and records a write-down if it is determined that any impairment in value is other than temporary. No such write-downs have been recorded in the accompanying consolidated financial statements.

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:

As of December 31,	2017	2016
TCAC fees	\$ 149,997	\$ 149,997
Less: accumulated amortization	(35,079)	(29,125)
Deferred costs, net	\$ 114,918	\$ 120,872

Deferred Financing Costs Deferred financing costs of \$1,790,938 and \$1,775,013, net of accumulated amortization of \$332,352 and \$168,932 as of December 31, 2017 and 2016, 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. Amortization of deferred financing costs is capitalized to construction in progress and development costs during construction.

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 \$752,358 and \$2,285,978 for the years ended December 31, 2017 and 2016, 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 the Organization's programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, expenses identified with a specific program or supporting service are

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 the Organization'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 the Organization which are not allocable to another functional expense category.
- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and community engagement and development activities designed to generate 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 2013. 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, these Partnerships and LLCs are no longer subject to income tax examinations by tax authorities for years before 2013. There are no current tax examinations pending.

Concentrations of Business and Credit Risk The Organization's cash and cash equivalents are maintained in various bank accounts. The Organization has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance. The Organization believes that its credit risk is not significant.

The Organization 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, 2017 and 2016, the Organization had 2 government contracts and grants which accounted for 58% and 70%, respectively, of its total public support and revenues.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Property Tax Exemption The Organization's property is generally exempt from real property taxes. In the event such exemption is not renewed annually or no longer available, the Organization'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 gross profit margin on developer fees charged to controlled partnerships and the allocation of functional expenses. Actual results may differ from those estimates.

New Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective for annual reporting periods beginning after December 15, 2018, and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. In June 2018, the FASB issued ASU 2018-08 which clarified the scope and accounting guidance for contributions received and contributions made for not-for-profit entities (ASC 958). The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. 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. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 will have on its consolidated financial statements.

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. The Organization is currently evaluating the 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,

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

2018, with early adoption permitted. The Organization has not yet determined the impact the adoption of ASU 2016-18 on January 1, 2019 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability, measured on a discounted basis, on the balance sheet for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities and change in net assets (deficit). A modified retrospective transition approach is required for capital and operating leases existing at the date of adoption, with certain practical expedients available. The Organization is currently evaluating the impact the adoption of ASU 2016-02 on January 1, 2020 will have on its consolidated financial statements.

Reclassifications Certain reclassifications have been made to the prior year consolidated financial statements to conform to the presentation of the current year consolidated financial statements.

3. CONTRIBUTIONS AND CONTRACTS RECEIVABLE

At December 31, 2017 and 2016, the Organization had multi-year contributions receivable of \$1,322,611 and \$1,350,952, respectively, contracts receivable from federal and county awards of \$5,296,837 and \$2,576,378, respectively, and unbilled grants receivable from federal and county awards of \$447,001, which are expected to be received within one year. Management reviewed contributions and contracts receivables, noting no allowance was necessary as of December 31, 2017 and 2016.

As of December 31, 2017, multi-year contributions receivable are scheduled to be collected as follows:

Year Ending December 31,	Amount
2018	\$ 1,071,269
2019	166,092
2020	44,750
2021	40,500
Total	\$ 1,322,611

4. NOTES RECEIVABLE – NEW MARKET TAX CREDITS PROGRAM

Development of the South Campus property was funded utilizing financing from the NMTC program. During 2015, the Organization 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 Phase 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, the Organization 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

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 Phase II, a consolidated entity. The notes receivable require interest only payments due quarterly for the first 7 years at 1.215%.

5. INVESTMENT IN UNCONSOLIDATED PARTNERSHIPS

LAFH and its affiliates hold investments in two joint ventures that are not consolidated. The joint ventures are California limited partnerships organized for the purpose of developing and operating low-income housing. As a general partner in the partnerships, the Organization is contingently liable for the obligations of the partnerships. Pursuant to the terms of the partnership agreements, the limited partners are responsible only for initial capital contributions. As a result, the Organization may be required to arrange for additional funds related to the development or operating needs of the entities. Both partnerships have properties under development. No contributions were required to be made during 2017 and the Organization's investment in these limited partnerships is zero as of December 31, 2017. The Organization had no investments in joint ventures as of December 31, 2016.

6. NOTES PAYABLE

For the Years Ended December 31,	2017	2016
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
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
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; interest only payments, payable quarterly, for Note B. The outstanding balances are due April 15, 2023.	5,598,233	6,468,179
Note payable to Audrey and Sydney Irmas Charitable Foundation, unsecured, bearing no interest, due on demand.	26,000	26,000

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
Line-of-credit with Century Housing, original borrowings up to \$500,000, interest payable monthly on outstanding balance annually at 6%. Available borrowings of \$363,935 at December 31, 2017. The outstanding balance was due May 18, 2018, which was extended to May 18, 2019.	136,065	18,000
Note payable to Mississippi Valley Company in the amount of \$1,000,000, by the Federal Home Loan Bank Affordable Housing Program (FHLB AHP) pursuant to the Regulations governing the FHLB AHP, secured by a deed of trust bearing no interest, maturity date of March 2072, subject to acceleration and interest if the Project does not remain affordable within the AHP program regulations.	1,000,000	-
Note payable to Local Initiative Support Corporation (LISC) for ROM predevelopment expenses, unsecured, maximum borrowings of \$500,000, due the earlier of closing of construction financing or December 1, 2019, accrues at a simple interest rate of 5%.	71,152	-
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. The loan was refinanced during 2018 (Note 12).	146,029	156,241
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.	786,975	764,115
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

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
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 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
Note payable Corporation for Supportive Housing (CSH), unsecured, due the July 1, 2020, accrues at a simple interest rate of 2.7%.	57,762	79,749
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%. In May 2018, the loan amount was increased to \$330,000, interest was reduced to 6.5% and maturity date was extended to May 2038.	245,033	254,425
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.	82,513	94,180
Note payable to the HCIDLA, secured by deed of trust on property, due August 2017, bearing no interest, monthly principal payments of \$2,500.	-	38,417
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.	81,667	93,334

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
Note payable to the HCIDLA, secured by deed of trust on property, due August 2017, bearing no interest, monthly principal payments of \$2,500.	-	20,278
Total notes payable – LAFH	11,783,782	11,981,813
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
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%.	241,171	281,027
Total notes payable – Harmony Place	1,832,171	1,872,027
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

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
Phase 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
Phase 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. In April 2023, Note A balloons, and Notes B and C will require quarterly principal and interest payments of \$416,733 and \$220,581, respectively, maturing in December 2051.	17,976,000	17,976,000
Vineland Place:		
Note payable to Berkadia Commercial Mortgage, secured by deed of trust on the property; 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.	123,930	135,369
Note payable to HCIDLA, secured by deed of trust on the property; 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 deed of trust on the property; 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	1,354,370	1,365,809
Glenoaks Gardens:		
Note payable to HCD, 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

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
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
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 deed of trust; interest at the bank's reference rate plus 1% (4.42% at December 31, 2017), maximum borrowing up to \$370,000, interest and principal payable in monthly installments of \$2,405, and unpaid principal and interest due March 2027.	199,648	215,927
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.	740,436	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.	563,327	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	1,605,911	1,635,290

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
Vanowen Gardens:		
Note payable to HCIDLA, maximum borrowings up to \$880,000, secured by 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
Harmony Gardens:		
Note payable to HCIDLA, maximum borrowings up to \$837,944, secured by 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:		
Note payable to First Republic Bank, secured by deed of trust, non-interest bearing, principal due December 2040.	65,483	65,483
Note payable to the HCIDLA, secured by 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, secured by 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
Total notes payable – Victory	829,845	829,845
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
ROM:		
Note payable to CSH for ROM predevelopment expenses, unsecured, due the earlier of closing of construction financing or September 29, 2019, accrues at a simple interest rate of 6%.	597,122	-

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

For the Years Ended December 31,	2017	2016
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) April 12, 2018 with an option to extend. The loan was extended to October 12, 2018. The loan will be repaid using the development reserves and proceeds from investor capital contributions.	7,756,445	-
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).	5,141,825	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.	887,255	912,564
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.	3,507,862	3,512,851
Total notes payable – Controlled Limited Partnerships	23,866,949	14,829,082
Total notes payable	91,590,772	82,831,610
Less: current portion	(9,282,859)	(696,731)
Less: unamortized deferred financing costs	(1,458,586)	(1,606,081)
	\$ 80,849,327	\$ 80,528,798

The aggregate amounts of principal maturities for outstanding borrowings as of December 31, 2017 are:

Year Ending December 31,	Amortizing	Non-Amortizing	Total
2018	\$ 739,439	\$ 8,543,420	\$ 9,282,859
2019	312,310	597,182	909,492
2020	265,002	85,601	350,603
2021	288,897	-	288,897
2022	325,490	3,090,711	3,416,201
Thereafter	20,565,383	56,777,337	77,342,720
Total	\$ 22,496,521	\$ 69,094,251	\$ 91,590,772

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

Included in current maturities as of December 31, 2017 and 2016 is predevelopment and construction debt totaling \$7,756,445 and \$416,542 respectively, that has committed sources of repayment including proceeds from permanent long term debt and or limited partner investor equity.

Accrued Interest An analysis of accrued interest for 2017 on the notes payable by project is as follows:

	Accrued Interest 1/1/17	Interest Expense	Interest Capitalized	Interest Paid/ Adjustment Transfers	Accrued Interest 12/31/17
Amortizing Principal Loans					
Campus	\$ 1,076	\$ 2,995	\$ -	\$ (4,071)	\$ -
LAFH NFF	22,027	240,493	-	(244,436)	18,084
Comunidad Cesar Chavez	839	9,282	-	(9,283)	838
Gentry North	-	-	-	-	-
Klump	-	1,908	-	(1,908)	-
Hyde Park	-	19,932	-	(17,654)	2,278
Harmony Place	164	17,541	-	(17,277)	428
Phase I	-	115,200	-	(115,200)	-
Phase II	-	-	151,897	(151,897)	-
Vineland Place	2,132	6,789	-	(7,433)	1,488
Alabama Court	3,432	10,319	-	(10,767)	2,984
Controlled Limited Partnerships	4,100	50,511	9,307	(56,692)	7,226
	33,770	474,970	161,204	(636,618)	33,326
Residual Receipts Loans					
Comunidad Cesar Chavez	22,860	23,545	-	(22,861)	23,544
Gentry Village	208,055	13,713	-	-	221,768
MLK	165,828	23,162	-	-	188,990
Strong House	732,497	29,991	-	(4,403)	758,085
Casa Figueroa	152,478	8,671	-	-	161,149
Klump	389,922	34,221	-	-	424,143
Casa Central	184,536	25,403	-	-	209,939
Harmony Place	1,206,623	43,753	-	-	1,250,376
Cochran Villa	838,654	33,725	-	-	872,379
Century Housing	-	4,538	-	(4,538)	-
Vineland Place	1,238,382	70,522	-	(1,291)	1,307,613
Glenoaks Gardens	1,360,720	360,123	-	(30,648)	1,690,195
Vanowen Gardens	866,159	43,824	-	(2,052)	907,931
Harmony Gardens	764,426	41,856	-	(8,781)	797,501
Victory	699,357	45,864	-	(67)	745,154
Controlled Limited Partnerships	1,576,443	242,854	279,190	(104,424)	1,994,063
	10,406,940	1,045,765	279,190	(179,065)	11,552,830
	\$ 10,440,710			\$ (815,683)	\$ 11,586,156
Amortization of deferred financing costs		33,000	112,487		
Total		\$ 1,553,735	\$ 552,881		

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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
Amortizing Principal Loans					
LAFH	\$ -	\$ 6,956	\$ -	\$ (6,956)	\$ -
Campus	24,640	37,275	-	(60,839)	1,076
LAFH NFF	-	319,009	-	(296,982)	22,027
Comunidad Cesar Chavez	839	9,883	-	(9,883)	839
Klump	-	2,505	-	(2,505)	-
Hyde Park	-	16,674	-	(16,674)	-
Harmony Place	131	20,011	-	(19,978)	164
Phase I	-	115,200	-	(115,200)	-
Phase II	-	-	108,016	(108,016)	-
Vineland Place	1,488	8,711	-	(8,067)	2,132
Alabama Court	2,248	15,901	-	(14,717)	3,432
Controlled Limited Partnerships	-	55,726	-	(51,626)	4,100
	29,346	607,851	108,016	(711,443)	33,770
Residual Receipts Loans					
Comunidad Cesar Chavez	14,020	31,037	-	(22,197)	22,860
Gentry Village	195,255	12,800	-	-	208,055
MLK	142,666	23,162	-	-	165,828
Strong House	703,652	29,991	-	(1,146)	732,497
Casa Figueroa	143,807	8,671	-	-	152,478
Klump	355,700	34,222	-	-	389,922
Casa Central	159,224	25,312	-	-	184,536
Harmony Place	1,161,957	44,666	-	-	1,206,623
Cochran Villa	804,347	34,432	-	(125)	838,654
Vineland Place	1,169,811	70,522	-	(1,951)	1,238,382
Glenoaks Gardens	1,058,274	360,109	-	(57,663)	1,360,720
Vanowen Gardens	824,428	43,824	-	(2,093)	866,159
Harmony Gardens	737,902	41,856	-	(15,332)	764,426
Valley Shelter	623,220	8,690	-	(631,910) *	-
Victory	-	46,129	-	653,228	699,357
Controlled Limited Partnerships	1,333,757	242,851	53,553	(53,718)	1,576,443
	9,428,020	1,058,274	53,553	(132,907)	10,406,940
	\$ 9,457,366	1,666,125	161,569	\$ (844,350)	\$ 10,440,710
Amortization of deferred financing costs		33,339	12,872		
Total		\$1,699,464	\$ 174,441		

* Assumed by controlled limited partnership

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

7. RELATED PARTY TRANSACTIONS

Note Payable One member of the board of directors of the Organization also serves as a trustee of the Sydney and Audrey Irmas Charitable Foundation, which holds a promissory note totaling \$26,000 (Note 6) as of December 31, 2017 and 2016.

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 2017 and 2016 were \$288,250 and \$576,799, respectively, leaving a balance of \$272,082 and \$537,029 as of December 31, 2017 and 2016, respectively.

Management and Development Fees The Organization 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 Phase 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.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases The Organization is obligated under ground leases for the following properties to HCIDLA (CRA/LA):

- MLK – 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 2019.
- Harmony Gardens – initial term of 55 years expiring in 2051 with a 44-year option to renew

Lease payments for the MLK, 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, 2017 and 2016, the properties did not generate net cash flow and accordingly, there was no ground lease expense.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

As of December 31, 2017, the Organization 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, 2017 and 2016 totaled \$146,469 and \$138,384, respectively.

Property Management Agreements The Organization 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 The Organization has entered into various agreements with certain limited partnerships or their affiliated general partners whereby the Organization 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 2018 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.

The Organization entered into various agreements with certain limited partnerships and LLCs or their affiliated general partners or members whereby the Organization offers tax indemnification in the event of low-income housing tax credit recapture. The Organization'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, the Organization has entered into agreements with state and local governments who have provided loans to certain limited partnerships for the development of affordable housing whereby the Organization 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.

As part of the financing arrangements with the LCD Investment Funds and the investor member, LAFH and Phase I and Phase 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 recapture of the new market tax credits arising from failure to comply with the Internal Revenue Code (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.

The Organization is a party in note agreements between the City of Los Angeles and Saticoy Partners in which the Organization 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, the Organization remains obligated to repay the debt in the event Saticoy Partners is unable to meet its obligation. As of December 31, 2017, there was no default related to this loan. The City Loan is due December 2043.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

The Organization is a party in note agreements between the Mississippi Valley Company and PSH Campus in which the Organization is a conduit for proceeds directly loaned to PSH Campus in the amount of \$1,000,000 (AHP Loan), to support the acquisition, predevelopment, construction and permanent costs of PSH Campus. The AHP Loan is secured by the PSH Campus' assets; however, the Organization remains obligated to repay the debt in the event PSH Campus is unable to meet its obligation. As of December 31, 2017, there was no default related to this loan. The AHP Loan is due January 2072.

Litigation The Organization is subject to lawsuits and claims that arise out of the normal course of its activities. Management believes the disposition of any and all such actions of which it is aware will not have a material effect on the Organization's financial position or changes in the net assets of the Organization.

9. RETIREMENT PLAN

The Organization 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. The Organization may make discretionary contributions to the Plan based on a percentage of the eligible employees' salaries. Effective 2017, the Organization makes up to a 1% match contribution to qualified employees. The Organization made \$41,163 in contributions to the Plan for the year ended December 31, 2017. The Organization did not contribute to the Plan for the year ended December 31, 2016.

10. CONSTRUCTION IN PROGRESS AND DEVELOPMENT COSTS

During 2016, the Organization 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 providing permanent supportive housing (PSH Campus) was completed in 2017, and construction of the commercial property will continue into 2018.

Residences on Main, L.P., a joint venture with Coalition for Responsible Community Development, a California nonprofit public benefit corporation, was formed to develop and operate 50 affordable rental housing units for low-income persons in Los Angeles, California. During 2017, ROM acquired land located at 6917 South Main Street. Construction commenced in 2018 and is expected to be completed by 2020.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

11. NET ASSETS

Consolidated Net Assets The following is a summary of consolidated net asset balances of the Organization as of December 31, 2017 and 2016:

	Unrestricted		Temporarily Restricted	Total
	Controlling	Noncontrolling		
Net assets (deficit), January 1, 2017	\$ (390,717)	\$ 7,870,717	\$ 1,980,899	\$ 9,460,899
Change in net assets (deficit)	(15)	(845,519)	2,061,820	1,216,286
Release from temporarily restricted	1,904,405	-	(1,904,405)	-
Syndication costs	-	(35,000)	-	(35,000)
Net assets (deficit), December 31, 2017	\$ 1,513,673	\$ 6,990,198	\$ 2,138,314	\$ 10,642,185

	Unrestricted		Temporarily Restricted	Total
	Controlling	Noncontrolling		
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	\$ (390,717)	\$ 7,870,717	\$ 1,980,899	\$ 9,460,899

Temporarily Restricted Net Assets Temporarily restricted net assets consist of the following:

As of December 31,	2017	2016
North Campus	\$ 1,316,990	\$ 1,350,952
Homeless Services	821,324	629,947
	\$ 2,138,314	\$ 1,980,899

12. SUBSEQUENT EVENTS

The Organization 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 6 and below.

The Organization entered into the following transactions during 2018:

- On February 17, 2018, LAFH obtained an unsecured predevelopment loan for the predevelopment costs of one of the joint ventures. In connection with the financing, LAFH executed a promissory note payable to the Local Initiative Support Corporation (LISC) in the amount of \$500,000, due the earlier of closing of construction financing or February 2020. The loan bears interest at the rate of 5% per annum with interest only paid monthly.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

- In May 2018, LAFH obtained an unsecured development loan for the development costs of Residence on Main, L.P. In connection with the financing, LAFH executed a promissory note payable to the Corporation for Supportive Housing (CSH) in the amount of \$1,000,000, due the earlier of closing of construction financing or 18 months following the closing of the loan. The loan bears interest at the rate of 6% per annum with interest only paid monthly.
- On July 9, 2018, LAFH obtained a loan to pay-off the U.S. Bank, N.A note related to the Triangle House. In connection with the financing, LAFH executed a promissory note payable to the Clearinghouse Community Development Financial Institution in the amount of \$145,000, due in August 2038. The loan bears interest at the rate of 6.5% per annum. Principal and interest payments of \$1,089 are due monthly.
- On August 15, 2018, LAFH executed a promissory note payable to the CSH for the predevelopment costs of one of the joint ventures in the amount of \$500,000, due the earlier of closing of construction financing or 18 months following the closing of the loan. The loan bears interest at the rate of 6% per annum with interest only paid monthly.

SUPPLEMENTARY INFORMATION

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION**AS OF DECEMBER 31, 2017**

	L.A. Family Housing Corporation										
	LAFH	Comunidad Cesar Chavez	Gentry Village	Martin Luther King, Jr.	Strong House	Gentry North	Casa Figueroa	Hyde Park	Klump	Delano I	Delano II
Assets											
Cash and cash equivalents	\$ 560,193	\$ -	\$ -	\$ 100	\$ 100	\$ -	\$ 100	\$ 200	\$ -	\$ 100	\$ 100
Contributions receivable	1,322,611	-	-	-	-	-	-	-	-	-	-
Contracts receivable	5,140,557	-	-	-	-	-	-	-	-	-	-
Unbilled contract receivable	447,001	-	-	-	-	-	-	-	-	-	-
Receivables - rental	(37,335)	-	614	1,545	65	(402)	2,128	10,694	25,087	3,805	983
Organizational cash reserve	212,820	-	-	-	-	-	-	-	-	-	-
Prepaid expenses and other assets	309,731	45	-	-	358	-	-	(329)	-	22	-
Restricted cash	1,089,198	-	-	-	-	-	-	-	-	-	-
Security deposits and client trust accounts	57,915	-	2,814	6,032	6,873	7,272	5,257	26,815	15,426	11,461	6,473
Due from limited partnerships	3,577,748	-	-	9,863	-	-	-	68,157	-	-	-
Restricted property reserves	-	-	19,030	30,016	85,891	-	90,370	-	49,889	-	-
Property and equipment, at cost											
Land	1,800,000	452,675	-	-	-	150,394	59,663	49,500	115,250	65,000	65,000
Buildings and building improvements	87,560	2,160,622	282,398	720,514	1,099,933	344,702	317,030	387,422	1,963,424	397,550	368,597
Furniture and equipment	437,680	220,200	7,196	10,191	4,835	9,344	4,134	56,353	7,526	3,760	3,706
Automobiles	140,762	-	-	-	-	-	-	-	-	-	-
Construction in progress and development costs (Note 10)	9,865	-	-	-	-	-	-	-	-	-	-
Total property and equipment, at cost	2,475,867	2,833,497	289,594	730,705	1,104,768	504,440	380,827	493,275	2,086,200	466,310	437,303
Less: accumulated depreciation	(511,559)	(1,564,981)	(230,727)	(537,693)	(763,251)	(263,796)	(249,959)	(175,499)	(407,388)	(228,096)	(198,242)
Property and equipment, net	1,964,308	1,268,516	58,867	193,012	341,517	240,644	130,868	317,776	1,678,812	238,214	239,061
Notes receivable	23,441,475	-	-	-	-	-	-	-	-	-	-
Deferred costs, net	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 38,086,222	\$ 1,268,561	\$ 81,325	\$ 240,568	\$ 434,804	\$ 247,514	\$ 228,723	\$ 423,313	\$ 1,769,214	\$ 253,602	\$ 246,617

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION**AS OF DECEMBER 31, 2017**

	L.A. Family Housing Corporation										
	LAFH	Comunidad Cesar Chavez	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	\$ 1,615,420	\$ (861)	\$ 3,077	\$ 4,733	\$ 3,592	\$ 7,377	\$ 1,426	\$ 15,833	\$ 8,963	\$ 5,431	\$ 8,346
Accrued payroll	371,684	-	-	-	-	-	-	-	-	-	-
Construction costs payable	-	-	-	-	-	-	-	-	-	-	-
Deferred revenues	2,918,581	-	2	440	2,124	1,463	-	557	2,717	209	87
Tenant deposit liabilities	-	-	2,814	6,032	7,563	7,272	5,257	35,110	17,522	11,461	10,597
Deferred rent liability	638,276	-	-	-	-	-	-	-	-	-	-
Due to/from affiliates	(4,388,574)	1,872,189	54,557	156,974	65,066	232,322	65,435	(414,979)	1,042,656	38,911	(39,655)
Deficiency in partnership investments	994,318	-	-	-	-	-	-	-	-	-	-
Notes payable secured by real estate, net of deferred financing costs	8,746,099	933,004	457,113	772,060	999,711	-	289,044	245,032	1,092,187	82,513	81,667
Accrued interest payable	18,084	24,382	221,768	188,990	758,085	-	161,149	2,278	424,143	-	-
Total liabilities	10,913,888	2,828,714	739,331	1,129,229	1,836,141	248,434	522,311	(116,169)	2,588,188	138,525	61,042
Total net assets (deficit)	27,172,334	(1,560,153)	(658,006)	(888,661)	(1,401,337)	(920)	(293,588)	539,482	(818,974)	115,077	185,575
Total liabilities and net assets (deficit)	\$ 38,086,222	\$ 1,268,561	\$ 81,325	\$ 240,568	\$ 434,804	\$ 247,514	\$ 228,723	\$ 423,313	\$ 1,769,214	\$ 253,602	\$ 246,617

See independent auditor's report.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2017

	Incorporated Affiliated Organizations						LAFH, LLC						Consolidated			Adjusted Consolidated Total
	Valley Shelter	Casa Central	Cochran Villa	Harmony Place	Phase I	Phase II	Glenoaks Gardens	Vineland Place	Alabama Court	Harmony Gardens	Vanowen Gardens	Victory Partners	Controlled Limited Partnerships	Total Before Eliminations	Eliminations	
Assets																
Cash and cash equivalents	\$ 600	\$ 100	\$ 868	\$ 29,511	\$ 168,112	\$ 36,076	\$ 13,100	\$ 2,409	\$ 178,618	\$ 1,836	\$ 434	\$ 2,576	\$ 34,174	\$ 1,029,307	\$ -	\$ 1,029,307
Contributions receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	1,322,611	-	1,322,611
Contracts receivable	156,280	-	-	-	-	-	-	-	-	-	-	-	-	5,296,837	-	5,296,837
Unbilled contract receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	447,001	-	447,001
Receivables - rental	-	(4,081)	2,634	9,669	-	-	3,269	16,867	7,470	-	7,261	9,708	10,527	70,508	-	70,508
Organizational cash reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	212,820	-	212,820
Prepaid expenses and other assets	416	-	-	59	-	85,420	37	(23)	980	1,194	17	-	221,591	619,518	(79,500)	540,018
Restricted cash	-	-	-	-	-	7,081,994	-	-	8,661	-	-	-	1,160,082	9,339,935	-	9,339,935
Security deposits and client trust accounts	-	-	11,872	-	-	-	52,324	17,650	42,707	12,026	18,068	16,033	76,760	393,778	-	393,778
Due from limited partnerships	-	-	-	-	-	-	-	-	-	-	-	-	-	3,655,768	(3,655,768)	-
Restricted property reserves	-	15,466	157,497	234	397,326	576,523	898,874	216,458	516,750	165,639	227,518	89,925	932,783	4,470,189	-	4,470,189
Deferred rent receivable	-	-	-	-	585,910	52,366	-	-	-	-	-	-	-	638,276	(638,276)	-
Property and equipment, 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	6,175,288	16,109,978	-	16,109,978
Buildings and building improvements	-	421,402	907,452	1,752,821	7,417,083	-	12,642,196	2,430,753	3,652,232	2,024,085	2,026,090	2,461,544	28,891,137	72,756,547	(2,412,432)	70,344,115
Furniture and equipment	-	38,112	3,185	37,221	64,239	-	289,379	18,728	54,211	57,046	78,269	51,926	423,841	1,881,082	-	1,881,082
Automobiles	-	-	7,836	-	-	-	-	17,400	17,400	17,400	17,400	16,900	-	235,098	-	235,098
Construction in progress and development costs (Note 10)	-	-	-	-	-	7,716,222	-	-	-	-	-	-	3,762,694	11,488,781	(841,976)	10,646,805
Total property and equipment, at cost	-	560,716	1,127,046	2,390,042	7,991,322	8,998,828	16,276,973	2,747,172	4,073,166	2,098,531	2,358,534	2,793,410	39,252,960	102,471,486	(3,254,408)	99,217,078
Less: accumulated depreciation	-	(380,693)	(647,229)	(1,221,143)	(257,577)	-	(2,231,950)	(1,354,152)	(2,163,235)	(1,152,153)	(1,181,913)	(1,137,838)	(3,337,227)	(20,196,301)	438,142	(19,758,159)
Property and equipment, net	-	180,023	479,817	1,168,899	7,733,745	8,998,828	14,045,023	1,393,020	1,909,931	946,378	1,176,621	1,655,572	35,915,733	82,275,185	(2,816,266)	79,458,919
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	23,441,475	(2,961,726)	20,479,749
Deferred costs, net	-	-	-	-	-	-	-	-	-	-	-	-	114,918	114,918	-	114,918
Total assets	\$ 157,296	\$ 191,508	\$ 652,688	\$ 1,208,372	\$ 8,885,093	\$ 16,831,207	\$ 15,012,627	\$ 1,646,381	\$ 2,665,117	\$ 1,127,073	\$ 1,429,919	\$ 1,773,814	\$ 38,466,568	\$ 133,328,126	\$ (10,151,536)	\$ 123,176,590

See independent auditor's report.

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

AS OF DECEMBER 31, 2017

	Incorporated Affiliated Organizations						LAFH, LLC						Controlled Limited Partnerships	Consolidated Total Before Eliminations		Adjusted Consolidated Total
	Valley Shelter	Casa Central	Cochran Villa	Harmony Place	Phase I	Phase II	Glenoaks Gardens	Vineland Place	Alabama Court	Harmony Gardens	Vanowen Gardens	Victory Partners		Eliminations	Eliminations	
Liabilities and Net Assets (Deficit)																
Accounts payable and accrued expenses	\$ 191,357	\$ 8,156	\$ 31,026	\$ 8,158	\$ 207,988	\$ -	\$ 24,868	\$ 12,213	\$ 38,317	\$ 30,735	\$ 39,589	\$ 11,448	\$ 66,300	\$ 2,343,492	\$ (55,213)	\$ 2,288,279
Accrued payroll	43,514	-	329	-	-	-	1,059	-	-	-	1,567	1,133	-	419,286	-	419,286
Construction costs payable	-	-	-	-	-	1,472,481	-	-	-	-	-	-	3,291,275	4,763,756	-	4,763,756
Deferred revenues	-	-	-	-	-	-	-	-	-	-	-	-	11,141	2,937,321	-	2,937,321
Tenant deposit liabilities	17,783	6,131	13,144	17,585	-	-	54,124	27,861	43,277	14,090	18,293	14,905	76,600	407,421	-	407,421
Deferred rent liability	-	-	-	-	-	-	-	-	-	-	-	-	-	638,276	(638,276)	-
Due to/from affiliates	1,683,899	(144,448)	60,821	(205,187)	73,041	2,002	104,129	144,108	23,973	34,113	147,990	281,123	2,842,183	3,732,649	(3,732,649)	-
Deficiency in partnership investments	-	-	-	-	-	-	-	-	-	-	-	-	-	994,318	(994,318)	-
Notes payable secured by real estate, net of deferred financing costs	-	843,746	1,124,139	1,832,171	10,969,431	17,411,633	17,045,020	1,353,011	1,605,911	830,477	873,835	829,845	24,676,261	93,093,910	(2,961,724)	90,132,186
Accrued interest payable	-	209,939	872,379	1,250,804	-	-	1,690,195	1,309,101	2,984	797,501	907,931	745,154	2,001,289	11,586,156	-	11,586,156
Total liabilities	1,936,553	923,524	2,101,838	2,903,531	11,250,460	18,886,116	18,919,395	2,846,294	1,714,462	1,706,916	1,989,205	1,883,608	32,965,049	120,916,585	(8,382,180)	112,534,405
Total net assets (deficit)	(1,779,257)	(732,016)	(1,449,150)	(1,695,159)	(2,365,367)	(2,054,909)	(3,906,768)	(1,199,913)	950,655	(579,843)	(559,286)	(109,794)	5,501,519	12,411,541	(1,769,356)	10,642,185
Total liabilities and net assets (deficit)	\$ 157,296	\$ 191,508	\$ 652,688	\$ 1,208,372	\$ 8,885,093	\$ 16,831,207	\$ 15,012,627	\$ 1,646,381	\$ 2,665,117	\$ 1,127,073	\$ 1,429,919	\$ 1,773,814	\$ 38,466,568	\$ 133,328,126	\$ (10,151,536)	\$ 123,176,590

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, 2017

	L.A. Family Housing Corporation										
	LAFH	Comunidad Cesar Chavez	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	\$ 13,190,481	\$ 530,856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Private contributions (corporate, foundation and individuals)	6,596,320	27,532	-	-	-	-	-	-	-	-	-
Contributed goods and services	752,358	-	-	-	-	-	-	-	-	-	-
Special events revenue	1,307,208	-	-	-	-	-	-	-	-	-	-
Total public support and revenues	21,846,367	558,388	-	-	-	-	-	-	-	-	-
Other revenues											
Management and development fees	1,957,758	-	-	9,863	-	-	-	-	-	-	-
Rental revenues, net	14,245	1,101	24,542	56,967	50,292	52,965	35,443	268,538	121,461	101,016	89,473
Other revenues	379,494	56	10	15	77	-	100	-	42	-	-
Total other revenues	2,351,497	1,157	24,552	66,845	50,369	52,965	35,543	268,538	121,503	101,016	89,473
Total public support and other revenues	24,197,864	559,545	24,552	66,845	50,369	52,965	35,543	268,538	121,503	101,016	89,473
Expenses											
Bad debt expense	133,687	-	-	-	-	8	-	-	-	-	(859)
Client food and meals	41,093	-	-	-	-	-	-	-	55	-	-
Client supplies/program expense	5,237,079	71,941	-	-	-	-	-	-	-	-	-
In-kind expenses	741,525	10,833	-	-	-	-	-	-	-	-	-
Office equipment and supplies	224,469	113,515	199	117	100	91	240	2,361	423	833	703
Other operating expenses	841,704	-	143	144	232	252	177	2,344	684	1,105	288
Personnel expenses	231,318	1,527	72	558	1,074	54	591	2,553	845	320	81
Professional and legal fees	376,571	2,837	811	67	4,503	1	1	3,008	1,843	3,001	1,502
Property insurance	94,048	9,523	3,090	4,417	3,620	2,378	2,877	12,258	6,725	4,166	4,165
Property management and development	-	-	6,532	5,040	4,020	8,531	2,881	24,350	31,751	10,770	11,790
Property taxes and other fees	60,729	1,023	390	303	706	(748)	772	5,378	3,849	1,701	1,506
Rent expense	673,096	1,448	-	-	-	-	-	-	-	-	-
Repairs and maintenance	288,474	48,987	22,387	25,970	21,119	15,458	16,251	72,386	34,101	19,305	19,547
Salaries, taxes, and benefits	8,957,862	502,737	5,661	9,123	8,488	7,316	9,657	90,267	19,279	11,008	10,537
Special events/fundraising	462,789	-	-	-	-	-	-	-	-	-	-
Utilities	170,235	64,410	5,122	11,562	11,077	7,206	6,857	22,237	13,297	13,702	24,857
Vehicle expenses	31,920	880	-	-	-	-	-	-	-	-	-
Loss on equity in partnership interests	124,515	-	-	-	-	-	-	-	-	-	-
Total before financial expenses	18,691,114	829,661	44,407	57,301	54,939	40,547	40,304	237,142	112,852	65,911	74,117
Interest expense	248,027	32,827	13,713	23,162	29,991	-	8,671	19,932	36,129	-	-
Total before depreciation and amortization	18,939,141	862,488	58,120	80,463	84,930	40,547	48,975	257,074	148,981	65,911	74,117
Depreciation and amortization	20,960	81,815	6,919	18,013	28,477	8,758	7,877	15,517	32,728	9,953	7,672
Total expenses	18,960,101	944,303	65,039	98,476	113,407	49,305	56,852	272,591	181,709	75,864	81,789
Change in net assets (deficit)	5,237,763	(384,758)	(40,487)	(31,631)	(63,038)	3,660	(21,309)	(4,053)	(60,206)	25,152	7,684
Net assets (deficit) at December 31, 2016	21,934,571	(1,175,395)	(617,519)	(857,030)	(1,338,299)	(4,580)	(272,279)	543,535	(758,768)	89,925	177,891
Syndication	-	-	-	-	-	-	-	-	-	-	-
General partner contribution	-	-	-	-	-	-	-	-	-	-	-
Net assets (deficit) at December 31, 2017	\$ 27,172,334	\$ (1,560,153)	\$ (658,006)	\$ (888,661)	\$ (1,401,337)	\$ (920)	\$ (293,588)	\$ 539,482	\$ (818,974)	\$ 115,077	\$ 185,575

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, 2017																		
	Incorporated affiliated organizations						LAFH, LLC							Consolidated		Adjusted Consolidated Total		
	Valley Shelter	Casa Central	Cochran Villa	Harmony Place	Phase I	Phase II	Glenoaks Gardens	Vineland Place	Alabama Court	Harmony Gardens	Vanowen Gardens	Victory Partners	Controlled Limited Partnerships	Total Before Eliminations	Eliminations			
Public support and revenues																		
Government contracts and grants	\$ 1,823,325	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,544,662	\$ -	\$ 15,544,662		
Private contributions (corporate, foundation and individuals)	-	-	-	-	-	-	-	-	-	-	-	-	-	6,623,852	-	6,623,852		
Contributed goods and services	-	-	-	-	-	-	-	-	-	-	-	-	-	752,358	-	752,358		
Special events revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	1,307,208	-	1,307,208		
Total public support and revenues	1,823,325	-	-	-	-	-	-	-	-	-	-	-	-	24,228,080	-	24,228,080		
Other revenues																		
Management and development fees	-	-	-	-	-	-	-	-	-	-	-	-	-	1,967,621	(1,967,621)	-		
Rental revenues, net	2,672	44,767	72,550	155,226	400,265	131,866	651,957	220,313	474,782	152,027	189,393	157,648	810,608	4,280,117	(532,131)	3,747,986		
Other revenues	5	12	340	32	1,024	45,097	3,434	455	1,007	358	510	206	2,103	434,377	-	434,377		
Total other revenues	2,677	44,779	72,890	155,258	401,289	176,963	655,391	220,768	475,789	152,385	189,903	157,854	812,711	6,682,115	(2,499,752)	4,182,363		
Total public support and other revenues	1,826,002	44,779	72,890	155,258	401,289	176,963	655,391	220,768	475,789	152,385	189,903	157,854	812,711	30,910,195	(2,499,752)	28,410,443		
Expenses																		
Bad debt expense	100	9	-	865	-	-	7,974	-	-	-	-	-	-	141,784	-	141,784		
Client food and meals	290,976	-	-	-	-	-	-	-	-	-	-	-	-	332,124	-	332,124		
Client supplies/program expense	52,035	-	-	-	-	-	-	-	-	-	-	-	-	5,361,055	-	5,361,055		
In-kind expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	752,358	-	752,358		
Office equipment and supplies	41,325	100	166	649	-	-	7,825	1,037	4,112	1,777	450	486	11,077	412,055	-	412,055		
Other operating expenses	351,640	217	260	4,559	10,773	10,601	23,323	1,483	1,998	837	3,900	2,064	41,760	1,300,488	-	1,300,488		
Personnel expenses	6,977	776	979	681	-	-	1,687	712	1,918	659	1,131	180	10,517	265,210	-	265,210		
Professional and legal fees	21,220	1,714	7,453	376	14,990	-	13,563	6,955	13,117	6,463	7,893	11,519	32,815	532,223	-	532,223		
Property insurance	16,530	2,317	5,549	4,248	-	-	28,746	10,260	21,195	7,807	8,767	7,771	48,854	309,311	-	309,311		
Property management and development	258	4,320	11,594	26,189	54,000	84,263	38,342	37,655	60,878	29,477	38,346	33,700	100,264	624,951	(194,403)	430,548		
Property taxes and other fees	24,925	982	8,790	1,879	110	50	8,383	4,771	7,846	4,335	3,782	3,290	19,501	164,253	-	164,253		
Rent expense	4,056	-	-	-	-	-	-	-	-	-	-	-	-	678,600	(532,131)	146,469		
Repairs and maintenance	249,416	29,879	76,338	76,834	-	-	127,537	60,906	150,032	42,634	66,596	38,273	97,750	1,600,180	-	1,600,180		
Salaries, taxes, and benefits	1,311,804	10,184	11,791	18,885	-	-	208,327	56,012	69,185	32,484	39,893	28,039	315,947	11,734,486	(1,008,116)	10,726,370		
Special events/fundraising	-	-	-	-	-	-	-	-	-	-	-	-	-	462,789	-	462,789		
Utilities	124,596	9,034	20,340	37,720	-	-	104,424	39,241	60,357	38,078	38,058	31,314	129,847	983,571	-	983,571		
Vehicle expenses	799	-	-	-	-	-	-	-	-	-	-	-	-	33,599	-	33,599		
Loss on equity in partnership interests	-	-	-	-	-	-	-	-	-	-	-	-	-	124,515	(124,515)	-		
Total before financial expenses	2,496,657	59,532	143,260	172,885	79,873	94,914	570,131	219,032	390,638	164,551	208,816	156,636	808,332	25,813,552	(1,859,165)	23,954,387		
Interest expense	-	25,403	33,724	61,294	138,140	-	362,171	77,636	10,319	42,202	44,099	45,864	300,431	1,553,735	-	1,553,735		
Total before depreciation and amortization	2,496,657	84,935	176,984	234,179	218,013	94,914	932,302	296,668	400,957	206,753	252,915	202,500	1,108,763	27,367,287	(1,859,165)	25,508,122		
Depreciation and amortization	-	12,603	23,326	43,621	197,012	-	371,092	52,202	92,490	50,774	52,793	71,356	549,812	1,755,770	(69,735)	1,686,035		
Total expenses	2,496,657	97,538	200,310	277,800	415,025	94,914	1,303,394	348,870	493,447	257,527	305,708	273,856	1,658,575	29,123,057	(1,928,900)	27,194,157		
Change in net assets (deficit)	(670,655)	(52,759)	(127,420)	(122,542)	(13,736)	82,049	(648,003)	(128,102)	(17,658)	(105,142)	(115,805)	(116,002)	(845,864)	1,787,138	(570,852)	1,216,286		
Net assets (deficit) at December 31, 2016	(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		
Syndication	-	-	-	-	-	-	-	-	-	-	-	-	(35,000)	(35,000)	-	(35,000)		
General partner contribution	-	-	-	-	-	-	-	-	-	-	-	22,186	2,101	24,287	(24,287)	-		
Net assets (deficit) at December 31, 2017	\$ (1,779,257)	\$ (732,016)	\$ (1,449,150)	\$ (1,695,159)	\$ (2,365,367)	\$ (2,054,909)	\$ (3,906,768)	\$ (1,199,913)	\$ 950,655	\$ (579,843)	\$ (559,286)	\$ (109,794)	\$ 5,501,519	\$ 12,411,541	\$ (1,769,356)	\$ 10,642,185		

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,****2017**

	Rent Revenue	
5120	Rent revenue - gross potential	\$ 67,391
5121	Tenant assistance payments	649
5100T	Total rent revenue	68,040
	Vacancies	
5220	Apartments	-
5200T	Total vacancies	-
5152N	Net rental revenue	68,040
	Financial Revenue	
5440	Revenue from investments - reserves	340
5400T	Total financial revenue	340
	Other Revenue	
5910	Laundry and vending revenue	1,710
5920	Tenant charges	2,800
5900T	Total other revenue	4,510
5000T	Total revenues	\$ 72,890

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,		2017
	Administrative Expenses	
6203	Conventions and meetings	\$ 83
6310	Office salaries	5,294
6311	Office expenses	479
6320	Management fee	6,601
6330	Manager or superintendent salaries	3,744
6340	Legal expense - project	663
6350	Audit / tax preparation expenses	6,790
6351	Bookkeeping fees/accounting services	139
6390	Miscellaneous administrative expenses	
	Systematic code fees	\$ 760
	Management administrative fees	4,993
6263T	Total administrative expenses	29,546
	Utilities Expenses	
6450	Electricity	2,941
6451	Water	16,572
6452	Gas	614
6400T	Total utilities expenses	20,127
	Operating and Maintenance Expenses	
6510	Payroll	3,301
6515	Supplies	4,873
6520	Contracts	63,984
6525	Garbage & trash removal	3,014
6546	Heating/cooling repairs and maintenance	1,166
6500T	Total operating and maintenance expenses	76,338
	Taxes and Insurance	
6710	Real estate taxes	8,010
6711	Payroll taxes (Project's share)	684
6720	Property and liability insurance (hazard)	5,426
6722	Workers compensation	486
6723	Health insurance and other benefits	2,602
6790	Miscellaneous taxes, licenses, permits and insurance	41
6700T	Total taxes and insurance	17,249
	Total operating expenses	\$ 143,260

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,		2017
	Financial Expenses	
6820	Interest on mortgage (or bonds) payable	\$ 33,724
6800T	Total financial expenses	33,724
	Depreciation and Amortization Expenses	
6600	Depreciation expense	23,326
6600T	Total depreciation and amortization expenses	23,326
	Net Entity Expenses	
7190	Other expenses	
	Franchise state tax	-
7100T	Total net entity expenses	-
	Total expenses	\$ 200,310
3250	Change in total net assets from operations	\$ (127,420)

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, 2017

A. CASH ON HAND AND IN BANKS

Unrestricted accounts:

For the Year ended December 31,	2017
Operating cash account	\$ 868

Restricted accounts:

For the Year ended December 31,	2017
Operating reserves	\$ 61,762
Replacement reserves	95,735
Tenant security deposits	11,872
Total	\$ 169,369

B. TENANT ACCOUNTS RECEIVABLE

As of December 31, 2017, Cochran Villa has \$2,634 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, 2017	\$ 127,350
Deposits	4,179
Interest	211
Withdrawals	(36,005)
Balance, December 31, 2017	\$ 95,735

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, 2017

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, 2017	\$ 67,768
Deposits	1,899
Interest	104
Withdrawals	(8,009)
Balance, December 31, 2017	\$ 61,762

E. TENANT SECURITY DEPOSITS

Tenant security deposits are held in a single federally insured interest bearing bank account with Citibank. At December 31, 2017, 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 1/1/17	Additions (Deletions)	Balance 12/31/17
Land	\$ 208,573	\$ -	\$ 208,573
Buildings and Improvements	907,452	-	907,452
Personal property	11,021	-	11,021
Total	\$ 1,127,046	\$ -	\$ 1,127,046

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:

For the Year ended December 31,	2017
Accounts payable	\$ 23,136
Accrued expenses	7,890
Total	\$ 31,026

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, 2017

H. GROSS POTENTIAL RENT

Gross potential rent includes:

For the Year ended December 31,	2017
Tenant rents – residential	\$ 67,391
Rental subsidies	649
Vacancies	-
Total gross potential rent	\$ 68,040

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 2017 assessments billed by the county on a current basis. The tax statements are paid when due, and are not impounded by a lender.

J. PROPERTY INSURANCE

Property insurance premiums are paid current as of December 31, 2017. The Partnership pays the premiums when due.

K. MANAGEMENT FEE

A property management fee of \$6,601 was incurred during 2017 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 - PER HCD REGULATORY AGREEMENTS

FOR THE YEAR ENDED DECEMBER 31,**2017**

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

Operating revenue	
Total revenue	\$ 72,890
Interest on restricted reserve accounts	(340)
Adjusted operating revenue	72,550
Operating expenses	(143,260)
Adjusted net income (loss)	(70,710)
Other activity	
Deposits into replacement reserve account	(4,179)
Deposits into other restricted accounts per Regulatory Agreement	(1,899)
Withdrawals from replacement reserve account included in operating expenses	36,005
Total other activity	29,927
Operating cash flow/surplus cash	(40,783)
Total cash available for distributions (net cash flow)	\$ -
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	-
Total distributions	\$ -

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, 2017**

Federal Grantor/Pass-through Agent Program Title	Federal CFDA Number	Agency or Pass-Through Grantor Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Homeland Security/Federal Emergency Management Agency				
Emergency Food and Shelter National Board Program				
Phase 34 - TLC	97.024	LRO069500-085	\$ 161,087	\$ -
Total Department of Homeland Security/Federal Emergency Management Agency			161,087	-
Department of Veterans Affairs:				
VA Homeless Providers Per Diem Only (Jan-Sept)	64.024	02-157-CA	96,328	-
VA Homeless Providers Per Diem Only (Oct-Dec)	64.024	LFHC560-0681-691-LD-18-0	36,720	-
VA Homeless Providers Per Diem Only (Jan-Sept)	64.024	97-056-CA	229,779	-
VA Homeless Providers Per Diem Only (Oct-Dec)	64.024	LFHC560-0682-691-BD-18-0	68,220	-
Total Department Veterans Affairs:			431,047	-
Passed through PATH:				
VA Supportive Services for Veteran Families	64.033	C2015-CA-600C	187,280	-
Total Department of Veteran Affairs			618,327	-
Department of Housing and Urban Development:				
Passed through Los Angeles Homeless Services Authority:				
Continuum of Care Program	14.267	CA0422L9D001508	86,790	-
Continuum of Care Program	14.267	CA0422L9D001609	130,530	-
Continuum of Care Program	14.267	CA1336L9D001501	283,899	-
Continuum of Care Program	14.267	CA1487L9D001500	560,524	-
Total Continuum of Care Program			1,061,743	-
Passed through Los Angeles Homeless Services Authority:				
Emergency Shelter Grant Program	14.231	2016HFSS05	81,247	-
Emergency Shelter Grant Program	14.231	2017CESF02	54,117	-
Total Emergency Shelter Grants Program			135,364	-
Passed through Los Angeles Homeless Services Authority:				
Community Development Block Grants:				
Family Program	14.218	2016HFSS05	49,423	-
Family Program	14.218	2016HFSS07	74,589	-
Family Program	14.218	2017CESF02	28,534	-
Family Program	14.218	2017CESF11	42,009	-
Total Community Development Block Grants			194,555	-
Total Department of Housing and Urban Development			1,391,662	-

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)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/Pass-through Agent Program Title	Federal CFDA Number	Agency or Pass-Through Grantor Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Health and Human Services:				
Passed through Los Angeles County DPSS/ Los Angeles Homeless Services Authority:				
Homeless Family Solutions System	93.558	2016FDPSS05	948,071	180,951
Homeless Family Solutions System	93.558	2016FDPSS07	35,501	-
Homeless Family Solutions System	93.558	2017DPSSF02	325,938	187,539
Total Department of Health and Human Services			1,309,510	368,490
Total			\$ 3,480,586	\$ 368,490

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, 2017

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 (the Organization) under programs of the federal government for the year ended December 31, 2017. 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 The Organization did not elect the de minimis indirect cost allocation rate of 10% for the year ended December 31, 2017; and instead allocates indirect costs in accordance with its cost allocation plan as allowed by the federal grant programs under Uniform Guidance.

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, 2017.

Subrecipient	Amount
Ascencia	\$ 90,088
Bridge to Home	135,400
Hope of the Valley	143,002
Total	\$ 368,490

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, the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, 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, and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2017-001, 2017-002 and 2017-003, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated 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.

Holthouse Carlin & Van Trigt LLP

Los Angeles, California
November 19, 2018



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, the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization'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 the Organization'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 the 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 examining, on a test basis, evidence about the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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 the Organization'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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Holthouse Carlin & Van Trigt LLP

Los Angeles, California
November 19, 2018

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
 (A NONPROFIT CALIFORNIA CORPORATION)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2017

Consolidated Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No	
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> 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> </u> Yes	<u> X </u> No	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care Program
64.024	VA Homeless Providers Grant and Per Diem Program

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

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

Section II—Financial Statement Findings

Finding #2017-001

Material Weakness – Contract Revenue Financial Reporting

Condition:

During our audit, it was noted that the Organization did not adequately and timely reconcile the various accounts related to contract revenue, or properly implement a management review of schedules and accounts, which resulted in numerous post-closing adjustments affecting the schedule of expenditures of federal awards, account receivables, unbilled receivables, suspense, cash, deferred revenues, unearned/unapplied income, inter-entity account, revenues, expenses and net assets at year-end.

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, while receiving an influx of contract awards, 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 contract related 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. In addition, untimely closing procedures can negatively impact management's ability to make informed business decisions.

Recommendation:

Management should evaluate the Organization's financial reporting processes and controls over contract receivables and revenue to ensure adequate reconciliations of accounts are prepared and maintained in a timely manner to support all transactions affecting contract revenue. 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:

Management has done an in depth review of the monthly and annual closing procedures including bank, accounts receivable and accounts payable ledgers. As a result, Management has implemented a detailed monthly closing worksheet/checklist to be completed no later than 30 days after the end of the month. The accounting department has more than doubled in staff. Staff have been assigned closing procedures as well as reconciling the bank, accounts receivable and accounts payable ledgers. The responsible staff will sign off on the worksheet each month at which point the month end worksheet will be reviewed and signed off by the controller.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

Finding #2017-002

Material Weakness – Reconciliation of Cash Accounts

Condition:

During our audit of the reconciliation of the general operating cash account to the bank statement, it was noted that there were reconciling items that were misstated. While reconciliations are performed on a monthly basis, the reconciliation was not reviewed on a regular basis which resulted in misstatements in accounts receivable, unbilled receivables, suspense, revenues, expenses and net assets at year-end. In addition, several cash reserve accounts do not have a current LAFH employee as the signatory, thus resulting in the accounts not being reconciled by year-end.

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, while receiving an influx of contract awards, which did not allow for consistent and effective implementation of existing internal controls over cash accounts during the period of transition.

Effect:

A lack of a thorough review of the bank reconciliations on a regular basis increases the inherent risk that the cash balances may be misstated and that such misstatements will not be detected or corrected in a timely manner.

Recommendation:

Management should evaluate the Organization's cash management policies to ensure adequate reconciliations of accounts are prepared and maintained in a timely manner to support all transactions. 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:

Management has reviewed the cash management policies and instituted a monthly review of accounts. The monthly review of accounts has been added to the monthly close out procedures worksheet/checklist. Additionally, the organization has instituted a procedure during entry/posting of journal entries to ensure that transactions are posted to the proper account and eliminating the use of unbilled revenue and suspense accounts. A reconciliation will be done at the end of each month assuring a zero balance in those accounts.

Finding #2017-003

Material Weakness – 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 development accounts, receivables, intercompany accounts, prepaid

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

expenses, projects in development, payables, accrued expenses, deferred revenues, debt, revenues, expenses, in-kind donations, 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, final reconciliations of various accounts were not completed prior to the start of audit fieldwork and the Organization expended significant effort to locate documentation to support financial reporting activities performed by individuals no longer with the Organization.

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. In addition, untimely closing procedures can negatively impact management's ability to make informed business decisions.

Recommendation:

Management should evaluate the Organization's financial reporting processes and controls, including the expertise and duties of internal staff, to ensure an appropriate allocation of responsibilities and that adequate reconciliations and review of accounts are occurring at the closing of the monthly and annual reporting periods in a timely manner.

Views of Responsible Officials and Planned Corrective Actions:

Management has done an in depth review of the monthly and annual closing procedures including bank, accounts receivable and accounts payable ledgers. As a result, Management has implemented a detailed monthly closing worksheet/checklist to be completed no later than 30 days after the end of the month. The accounting department has more than doubled in staff. Staff have been assigned closing procedures as well as reconciling the bank, accounts receivable and accounts payable ledgers. The responsible staff will sign off on the worksheet each month at which point the month end worksheet will be reviewed and signed off by the controller.

Section III—Federal Award Findings and Questioned Costs

There were no findings noted.

Section IV—Prior Year Findings

Financial Statement Finding #2016-001: Organization did not adequately reconcile various account balances in a timely manner.

Condition: This finding was a significant deficiency stating that the Organization did not adequately and timely reconcile various accounts or properly implement a management review of accounts, which

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS
(A NONPROFIT CALIFORNIA CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

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.

Recommendation: We recommended that management 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. In addition, we recommended a detailed monthly review of accounts be performed at the appropriate level in a timely manner.

Current Status: The recommendation was not adopted during 2017. See 2017-003 Finding.

Federal Award Finding #2016-002: A lack of maintaining effective control environment.

Condition: This finding was a significant deficiency stating that 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.

Recommendation: The auditor recommended that 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.

Current Status: The recommendation was adopted during 2017. No similar findings were noted in the 2017 audit.

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - 90-RHCP-041

MANAGING AGENT CERTIFICATION

DECEMBER 31, 2017

We hereby certify that we have examined the supplementary information of Cochran Villa, Inc. included in the accompanying Schedules III – V, as of and for the year ended December 31, 2017, and to the best of our knowledge and belief, the same is complete and accurate.

Signature: _____

Printed Name: Antonio Covarrubia

Title: Regional Manager

Date: 11/19/2018

L.A. FAMILY HOUSING CORPORATION AND AFFILIATED ORGANIZATIONS

(A NONPROFIT CALIFORNIA CORPORATION)

COCHRAN VILLA, INC. - 90-RHCP-041

MORTGAGOR'S CERTIFICATION

DECEMBER 31, 2017

I hereby certify that I have examined the supplementary information of Cochran Villa, Inc. included in the accompanying Schedules III – V, as of and for the year ended December 31, 2017 and, to the best of my knowledge and belief, the same is complete and accurate.

Signature:



Printed Name:

Aaron Leon

Title:

CFO

Date:

11/19/2018

EMPLOYER IDENTIFICATION NUMBER: 95-3920560