VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Financial Statements
(With Supplementary Information
and Independent Auditor's Report)

December 31, 2018

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

December 31, 2018

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LEVITT & ROSENBLUM
CERTIFIED PUBLIC ACCOUNTANTS

10801 National Blvd., Suite 604
Los Ángeles, California 90064

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Venice Community Housing Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Venice Community Housing Corporation, a nonprofit California corporation, and Affiliates (collectively the Organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of VCHC Pacific Apartments, LLC and VCHC Gateway, L.P., which statements reflect total assets of $11,189,323 as of December 31, 2018 and total revenue of $802,446 for the year ended December 31, 2018. Those statements were audited by other auditors, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for such entities controlled by Venice Community Housing Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Venice Community Housing Corporation and Affiliates as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Levitt & Rosenblum

Los Angeles, California
August 21, 2019

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Financial Position

December 31, 2018

ASSETS

Cash and cash equivalents	$ 2,383,171
Low-income housing property reserves (note 3)	3,328,955
Government contracts receivable (note 2)	59,527
Grants receivable	196,366
Accounts receivable	246,490
Prepaid expenses	24,340
Property, at cost (note 2):	
Land	9,044,758
Buildings and improvements	22,017,639
Equipment and furniture	721,001
Less: accumulated depreciation	9,142,293
Net Property	22,641,105
Real estate under development (note 4)	2,438,256
Capitalized costs, net of accumulated amortization (note 7)	67,279
Deposits	19,924
Total Assets	$ 31,405,413

LIABILITIES AND NET ASSETS

Accounts payable	$ 110,575
Construction costs payable	268,977
Accrued payroll and vacation	154,962
Prepaid rent	122,485
Deferred revenue	56,557
Accrued interest payable (note 5)	1,430,948
Mortgage notes payable (notes 5 and 14)	19,948,619
Tenant security deposits	175,522
Commitments and contingencies (note 14)	
Total Liabilities	22,268,645
Net Assets:	
Without donor restrictions	
Undesignated	1,875,404
Board designated fund (note 15)	20,000
Undesignated, Controlling interest	1,171,356
Undesignated, Non-controlling interest (note 2)	5,654,174
Total net assets without donor restrictions	8,720,934
With donor restrictions (notes 9 and 10)	415,834
Total Net Assets	9,136,768
Total Liabilities and Net Assets	$ 31,405,413

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Activities

Year ended December 31, 2018

Changes in net assets without donor restrictions:	
Revenues and Support:	
Contributions and grants	$ 1,098,516
Government contracts	957,935
Program service	60,000
Rental income	2,668,490
Other income - refund	139,466
Interest income	4,671
Total revenue without donor restrictions	4,929,078
Net assets released from restrictions:	
Satisfaction of program restrictions	3,447
Expiration of time restrictions	127,500
Total net assets released from restrictions	130,947
Total revenue and other support without donor restrictions	5,060,025
Expenses:	
Program services	
Youth development program	645,910
Low income housing	3,178,723
Resident services	425,415
Supporting services	
Management and general	561,011
Fundraising	366,005
Total expenses	5,177,064
Decrease in net assets without donor restrictions	(117,039)
Changes in net assets with donor restrictions:	
Contributions and grants	296,424
Net assets released from restrictions	(130,947)
Increase in net assets with donor restrictions	165,477
Increase in net assets	$ 48,438
Change in net assets attributable to controlling interest	$ 432,898
Change in net assets attributable to non-controlling interest	(384,460)
	$ 48,438

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Functional Expenses

Year ended December 31, 2018

	Program Activities				Supporting Activities			
	Youth Development Program	Low Income Housing	Resident Services	Program Subtotal	Management and General	Fundraising	Supporting Subtotal	Total Expenses
Expenses:								
Salaries	$ 370,004	736,204	288,463	1,394,671	271,155	188,547	459,702	$ 1,854,373
Payroll taxes	33,871	53,076	25,163	112,110	25,300	19,259	44,559	156,669
Employee benefits	32,076	82,299	33,493	147,868	19,565	22,914	42,479	190,347
Total salaries and related expense	435,951	871,579	347,119	1,654,649	316,020	230,720	546,740	2,201,389
Consultants	832	3,865	1,141	5,838	10,543	1,000	11,543	17,381
Job training and supplies	71,582	-	-	71,582	-	-	-	71,582
Education and after school programs	-	8,522	32,667	41,189	4,925	498	5,423	46,612
Rent	14,643	27,721	-	42,364	6,843	-	6,843	49,207
Legal and accounting	6,251	11,708	4,271	22,230	56,589	2,384	58,973	81,203
Office and administration	14,374	79,475	9,458	103,307	48,092	23,140	71,232	174,539
Conference, training and travel	16,571	19,257	9,319	45,147	5,221	4,560	9,781	54,928
Property management fee	-	-	-	-	27,186	-	27,186	27,186
Fundraising and outreach	-	3,153	255	3,408	2,505	88,406	90,911	94,319
Maintenance and repairs	13,114	514,434	163	527,711	19,880	37	19,917	547,628
Utilities	5,610	308,223	-	313,833	9,253	-	9,253	323,086
Insurance	59,327	161,230	20,902	241,459	14,602	14,185	28,787	270,246
Property tax, license and fees	285	80,097	120	80,502	719	1,075	1,794	82,296
Interest	-	502,579	-	502,579	-	-	-	502,579
Depreciation and amortization	7,370	586,880	-	594,250	38,633	-	38,633	632,883
Total expenses	$ 645,910	3,178,723	425,415	4,250,048	561,011	366,005	927,016	$ 5,177,064

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2018

Changes in Net Assets:

Net assets, without donor restrictions at January 1, 2018	$ 8,807,604
Partner capital contributions	30,369
Changes in net assets without donor restrictions	(117,039)
Net assets, without donor restrictions at December 31, 2018	8,720,934
Net assets, with donor restrictions at January 1, 2018	250,357
Changes in net assets with donor restrictions	165,477
Net assets, with donor restrictions at December 31, 2018	415,834
Total net assets at December 31, 2018	$ 9,136,768

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Cash Flows

Year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 48,438
Adjustments to reconcile change in net assets to cash flow from operating activities:	
Depreciation and amortization expense	632,883
Amortization of debt issuance costs	19,642
Cancellation of debt	(37,500)
Decrease (Increase) in Operating Assets:	
Tenant security deposits	(51)
Government contracts receivable	136,503
Accounts receivable	(139,066)
Grants receivable	(152,110)
Prepaid expenses	7,159
Deposits	(1,000)
Increase (Decrease) in Operating Liabilities:	
Accounts payable and accrued expenses	(19,812)
Prepaid rent and deferred revenue	32,759
Accrued interest payable	233,910
Tenant security deposits	(5,619)
Net cash provided by operating activities	756,136
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net changes in low income housing property reserves	139,803
Payment for building improvements	(19,464)
Payment for equipment and furniture	(15,743)
Payment for real estate under development	(1,744,646)
Net cash used in investing activities	(1,640,050)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Partner capital contributions, net	30,369
Payment of debt issuance costs	(44,276)
Proceeds from notes payable	3,079,942
Repayment of notes payable	(1,455,280)
Net cash provided by financing activities	1,610,755
Net increase in cash, and cash equivalents	726,841
Cash, and cash equivalents at beginning of year	1,656,330
Cash, and cash equivalents at end of year	$ 2,383,171
Supplemental noncash investing and financing activities:	
Additional costs of rental property from capitalized interest accrual and construction costs payable	$ 277,978
Supplemental disclosure of cash flow information:	
cash paid for interest, net of amounts capitalized	$ 248,310

See notes to consolidated financial statements.

(1) Purpose and Activities

Venice Community Housing Corporation (VCHC) is a nonprofit California corporation organized for the purpose of providing affordable housing, economic development opportunities, and support services for low income people. This is accomplished through the acquisition, construction, rehabilitation and management of residential properties, as well as the creation of other community development initiatives including job training, childcare and after-school programs. VCHC's activities are primarily funded by grants, contributions, government contracts and rental income.

Westside Housing Corporation (WHC) is an affiliated nonprofit California corporation organized for the purpose of assisting in the development and management of affordable housing properties, primarily through the acquisition of low-income housing limited partner ownership interests, in which VCHC is the general partner.

Collectively, VCHC and its Affordable Housing Affiliates shall be referred to as the Organization.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The consolidating financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Organization and investments in limited partnerships and limited liability companies. Accordingly, income is recognized as earned and expenses incurred, regardless of timing of payments. The non-controlling interests in the consolidated limited partnerships are shown separately in the components of net assets.

Adoption of Accounting Pronouncement

Effective January 1, 2018, VCHC adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations. The changes include: (a) the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions, (b) presentation of expenses by function and nature, (c) the disclosure of liquidity and availability of resources. Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of VCHC, WHC, and seven affordable housing entities (Affordable Housing Affiliates), which are comprised of 4 limited partnerships and 3 limited liability companies which are all in operation, as described below. These Affordable Housing Affiliates are included in the consolidation in accordance with United States generally accepted accounting principles (GAAP) which require consolidation of the all such entities which are deemed to be controlled by VCHC. WHC is consolidated because VCHC has both an economic interest and control of the organization through a majority voting interest in the governing board. All significant inter-company accounts and material transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies, Continued

Principles of Consolidation, Continued

The following is a summary of Affordable Housing Affiliates and the consolidated ownership information as of December 31, 2018.

Affordable Housing Affiliates	Owner Interest
Fourth Avenue Limited Partnership	100.00%
Horizon Apartments, LLC	100.00%
Navy Blue Apartments Limited Partnership	100.00%
VCHC Pacific Apartments, LLC	100.00%
12525 Washington Place, L.P.	100.00%
VCHC Gateway, L.P.	0.01%
VCHC Gateway, LLC	51.00%

Affordable Housing Affiliates, description:

Fourth Avenue Limited Partnership (Fourth Avenue) is a California limited partnership. The Partnership was formed in June, 1993 for the purpose of developing and operating a 25 unit low-income rental housing project in Venice, California. Development of the property was completed and rental operations began in August, 1996. Regulatory agreements entered into with the State of California and the City of Los Angeles restricts the use of this property as low-income housing. The General Partner is VCHC, which owns a 1% interest, and the Limited Partner is WHC, which owns a 99% interest in the Partnership.

Horizon Apartments, LLC (Horizon) is a California limited liability company. The LLC was formed in September, 2010, for the purpose of developing and operating a 20 unit low-income rental housing project located in Venice, California. Horizon is a single member LLC, with VCHC as its sole member. Rehabilitation of the property was completed and rental operations began in July, 2011. Regulatory agreements entered into with the State of California and City of Los Angeles restricts the use of this property as low-income housing and governs the ownership, management, maintenance and operations of the residential building.

Navy Blue Apartments Limited Partnership (Navy Blue) is a California limited partnership. The Partnership was formed in March, 1990 for the purpose of developing and operating a 14 unit low-income rental housing project located in Venice, California. The Partnership has leased the land, on which it constructed rental housing, from the City of Los Angeles. Development of the property was completed and rental operations began in July, 1994. Regulatory agreements entered into with the State of California and the City of Los Angeles restrict the use of this property as low-income housing. The Partnership's General Partner is VCHC, which owns a 30% interest, and the Limited Partner is WHC, which owns a 70% interest in the Partnership.

VCHC Pacific Apartments, LLC (Pacific) is a California limited liability company. The LLC was formed and an operating agreement was executed in June, 2012, for the purpose of refinancing and operating a 32 unit low-income rental housing project located in Venice, California. Pacific is a single member LLC, with VCHC as its sole member. The VCHC owned property was transferred to the LLC and the debt refinancing was completed November, 2012. A Regulatory agreement entered into with HUD restricts the use of this property as low-income housing and governs the ownership, management, and operations of the property.

(2) Summary of Significant Accounting Policies, Continued

Affordable Housing Affiliates, description, Continued:

12525 Washington Place, L.P., (Washington Place) is a California limited partnership. The Partnership was formed in May, 1996 for the purpose of developing and operating 30 units of low-income rental housing located in Los Angeles, California. Development of the property was completed and rental operations began in November, 1997. A regulatory agreement entered into with the City of Los Angeles restricts the use of this property as low-income housing. The General Partner is VCHC, which owns a 1% interest, and the Limited Partner is WHC, which owns a 99% interest in the Partnership.

VCHC Gateway, L.P., (VCHC Gateway) is a California limited partnership. The Partnership was formed in September, 2014, for the purpose of developing and operating a 21 unit low-income rental housing project located in Los Angeles, California. Development of the property was completed and rental operations began in March, 2016. Regulatory agreements entered into with the City of Los Angeles and the California Tax Credit Allocation Committee restricts the use of this property as low-income housing. The General Partner is VCHC Gateway, LLC, which owns a .01% interest and the Limited Partner is NEF Assignment Corporation, a California nonprofit corporation, which owns a 99.99% interest in the Partnership.

VCHC Gateway, LLC, a California limited liability company comprised of VCHC and Hollywood Community Housing Corporation, a California nonprofit corporations. The LLC was organized for the purpose of assisting in the development and management of low-income housing property located in Los Angeles, California.

Non-Controlling Interest in Limited Partnerships

The non-controlling interest reflected in the consolidated statement of financial position represents the aggregate balance of investor limited partner equity interest in the non-wholly-owned affiliated affordable housing limited partnerships that are included in the accompanying consolidated financial statements.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups, as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets with Donor Restrictions – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization.

Earnings related to restricted net assets will be included in net assets without donor-restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor or by applicable state law.

The Organization does not include amounts required to be set aside in property reserves reserved for low-income housing operations as donor restricted.

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

VCHC is required to report information regarding its financial position and activities according two classes of net assets; net assets without donor restrictions, and net assets with donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts that are restricted, including certain government grants, for specific purposes are reported as contributions that increase net asset with donor restrictions. When donor restrictions expire, that is, when a time restriction ends and/or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

The Organization receives both exchange transaction rental contracts and donor restricted grants from government agencies for various purposes. Certain revenues from direct or pass through governmental contracts, such as continuum of care and other subsidy rental payments, are classified as exchange transactions and recognized as unrestricted support in accordance with the terms of the contract when the funds have been earned. Grants received for services not yet earned are reported as with donor restrictions in the consolidated financial statements.

Rental income, primarily from short-term operating leases, is recognized for apartment rentals as it becomes due. Advance receipts of rental income are deferred and classified as liabilities until earned. Partnership project management fee income is earned annually based on the partnership agreements. Other fees from project management are earned monthly based on management agreements. Fees earned from affiliated entities are eliminated in consolidation.

Accounts and Grants Receivable

VCHC does not maintain an allowance for uncollectible amounts because receivables primarily consist of grants and contracted government reimbursement requests. If any amounts become uncollectible, they will be charged to operations when that determination is made. GAAP requires that an 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. Management believes all receivables to be collectible at December 31, 2018. The Affordable Housing Affiliates report receivables net of an allowance for estimated uncollectible amounts. It is reasonably possible that the estimate of the allowance could change.

Statement of Functional Expenses

The Organization’s expenses have been reported by function and nature in the financial statements. Certain categories of expenses are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and occupancy costs, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated based on estimates of time and effort.

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is calculated using the straight-line method. GAAP requires that the effective yield method be used to amortize the costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

(2) Summary of Significant Accounting Policies, Continued

Navy Blue Ground Lease

Navy Blue leases the land underlying the project from the City of Los Angeles for a term of fifty-five years. The lease provides for rent to be paid annually in an amount equal to the lesser of the fair market rent or 50% of the residual receipts of the Partnership for the year, as defined. The difference between the actual lease payment and the fair market rent will accumulate and be payable from the next available residual receipts. At the end of the lease term all unpaid rent will be due and payable, but only to the extent that the fair market value of the property improvements exceeds the outstanding amount of any loans and related accrued interest remaining on the property. Management considers the contingency remote, and accordingly, no amounts have been accrued in the consolidated financial statements.

As of December 31, 2018, no rental payments have been made under the Ground Lease as the project has not generated any residual receipts, as defined. Also, in accordance with residual receipts calculations, Management estimates that no rent payments will be made during the term of the Ground Lease.

Depreciable Assets

Land, building and improvements are recorded at cost. Additions and improvements that materially extend the life of assets are capitalized. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Financing costs are capitalized and amortized on a straight-line basis over the length of the related loan. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives.

	Estimated Life
Land	-
Building and improvements	20 to 40 years
Furniture and equipment	5 to 7 years

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment losses recognized in 2018.

Fair Value Measurements

The carrying amount of the Organization's cash and cash equivalents, receivables, payables and accrued expenses approximate fair value due to the short-term nature of these instruments. The fair value of the Organizations notes payable is assessed by management based on analysis of underlying investments and historical trends. Impairment reserves are provided as necessary.

The Organization has certain loans with the City of Los Angeles in which the interest repayment is contingent on the fair value of the property, as defined in the loan agreement (see note 14). The fair value determines whether interest accrues on these loans. Information to develop unobservable inputs to determine fair value is not reasonably available without undue cost and effort. Since significant uncertainty exists with respect to the Organization's cash flow availability to repay the loans, management has concluded that fair value of these loans cannot be determined.

(2) Summary of Significant Accounting Policies, Continued

Advertising

Advertising costs are expensed as incurred.

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

VCHC is exempt from Federal and California income taxes under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. However, VCHC could be subject to Federal and California tax on unrelated business income, if any, as stipulated in IRC Section 511. VCHC does not have any net income that management believes would be subject to unrelated business income tax, as defined. Accordingly, no provision has been made for taxes in the accompanying consolidated financial statements. Management believes that VCHC has adequately addressed all relevant tax positions and that there are none which must be considered for disclosure.

The Affordable Housing Affiliates are pass-through entities for income tax purposes and are not subject to income taxes. The Affordable Housing Affiliates' federal tax status as a pass-through entity is based on their legal status as a partnership or LLC. The Affordable Housing Affiliates are required to file tax returns with the Internal Revenue Service and other taxing authorities. For tax purposes, income, loss and tax credits are includable in the tax returns of the individual partners and members. Accordingly, no provision has been made for taxes in the accompanying consolidated financial statements. Generally, income tax returns filed by the Affordable Housing Affiliates are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2015 remain open.

WHC is a nonprofit California corporation that is not currently seeking an income tax exemption under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. For the year ended December 31, 2018, there was a federal and state tax loss that was not material to the consolidated financial statements as a whole. Therefore, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

Property Tax Exemption

The Affordable Housing Affiliates are generally exempt from real property taxes to a substantial degree. In the event such exemption is not renewed or no longer available, the Affordable Housing Affiliates cash flow would be negatively impacted.

Following the transfer of the VCHC Pacific Apartments, LLC Project from VCHC in a prior year, the property tax exemption was not applied to the property tax invoices received, resulting in payment of the property taxes in excess of the amount that the Affiliate believes should have been charged had the tax exemption been applied for the period affected. The Affiliate had requested and applied for the tax exemption and for refunds of the prior excess property taxes paid. In 2018, The County Tax Assessor granted the property tax exemptions for the year 2013 through 2016 and agreed to issue refunds for those affected years. As a result, the Affiliate has recorded a property tax refund receivable of $174,913 in the accompanying Statement of Financial Position as of December 31, 2018.

(2) Summary of Significant Accounting Policies, Continued

Concentration of Business and Credit Risk

The Organization's cash and cash equivalents are maintained in several bank accounts which, at times, are in excess of federally insured amounts. Such cash balances vary throughout the year. The Organization is subject to credit risk to the extent that its cash and cash equivalents exceed federal deposit insurance limits. The Organization has not experienced any losses in such accounts. At December 31, 2018 the uninsured balances approximate $1,534,000 based on actual bank balances. Management believes this credit risk is not significant in regard to these cash balances at December 31, 2018.

The Organization’s revenues are derived from several sources. Approximately 27% of revenue is from contributions and grants from non-governmental sources; 18% from fees charged to government agencies; and 51% from rental operations.

The Organization is subject to business risks associated with the level of charitable giving in both the private and public sectors, as well as the level of funding for particular government programs. The Organization operates in a heavily regulated environment and most of the Organization’s operations are subject to directives, rules and regulations of federal, state and local regulatory agencies. Such directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by such municipal agencies. The Affordable Housing Affiliates rent to people with qualifying levels of income who work primarily in the Los Angeles area. The Affordable Housing Affiliates are subject to business risks associated with the economy and level of unemployment in Los Angeles, as well as available rental subsidies, which affects occupancy and the tenants’ ability to make rental payments.

VCHC receives fees from partnerships in which it is the general partner, as well as grants and rent subsidies from programs such as HUD Section 8 and Continuum of Care Program. These funds are dependent upon the continued successful development and management of housing projects by the Organization, compliance with matching requirements of the programs, as well as the continued availability of funds from such programs.

VCHC also provides advances to affiliates involved in the development of the affordable housing projects, and has partnership management fees that are owed from the affiliates. Such advances and fees are unsecured and the realization of these fees is dependent upon the operating cash flow of the related affordable housing affiliate. Advances and fees related to affiliates have been eliminated in consolidation.

Amortization

Costs related to obtaining low-income housing tax credits, marketing and lease-up, compliance monitoring costs and land lease are being amortized using the straight-line method.

Statement of Cash Flows

For purposes of reporting cash flows, the Organization considers all highly liquid investments with a maturity rate of three months or less to be cash equivalents.

Subsequent Events

The Organization has evaluated subsequent events that have occurred from December 31, 2018 through August 21, 2019, 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 in the consolidated financial statements other than those disclosed in notes to financial statements (Note 16).

(3) Low Income Housing Property Reserves

Restricted cash includes cash deposited into separate bank accounts being held as collateral, and for predevelopment expenditures, tenant security deposits, housing project operating and replacement reserves, housing transition reserves, and mortgage escrow impounds that have been required to be established. Such reserves are required by various financing authorities, lenders or stipulations in the applicable partnership or operating agreements. The Organization is required to make annual deposits as stipulated in the various loan and regulatory agreements. The carrying amounts of restricted cash approximate their fair value.

According to various loan and other regulatory agreements, The Organization is required to designate a portion of its cash as restricted for the following purposes:

	VCHC	Affiliates	Total
Predevelopment Funds	$ 618,963	-	$ 618,963
Operating Reserves	37,501	839,485	876,986
Replacement Reserves	156,173	1,019,803	1,175,976
Revenue Deficit Reserves	-	102,000	102,000
Transition Reserves	-	236,171	236,171
Other Reserves	-	120,882	120,882
Security Deposits	72,267	125,710	197,977
Total	$ 884,904	2,444,051	$ 3,328,955

(4) Real Estate Under Development

The Organization has two low-income housing projects in development as of December 31, 2018, that are located at 718 Rose Avenue and 200 N. Venice Boulevard. Development costs are those capitalized costs paid on behalf of particular affordable housing projects prior to their being placed in service. Such costs include predevelopment costs, direct and indirect costs of construction, as well as carrying costs during the construction period including supervision and management. The funding for such costs are provided by acquisition, predevelopment and construction loans. In the event that a project is discontinued the capitalized costs are expensed.

(5) Mortgage Notes Payable

Notes payable primarily consists of collateralized trust deeds on real property and improvements as follows:

VCHC:

5032 South Slauson Avenue: Note payable through the Federal Home Loan Bank of San Francisco-Affordable Housing Program, in the original amount of $56,000, secured by a deed of trust on real property, non-interest bearing, principal deferred for the fifteen-year compliance period, subject to forgiveness if the property remains affordable within the Affordable Housing program regulations.	56,000
511 Brooks Avenue: Note payable through the Federal Home Loan Bank of San Francisco-Affordable Housing Program, in the original amount of $28,000, secured by a deed of trust on real property, non-interest bearing, principal deferred for the fifteen-year compliance period, subject to forgiveness if the property remains affordable within the Affordable Housing program regulations.	28,000

(5) Mortgage Notes Payable, Continued

640 Westminster Avenue: 3% residual receipts note payable to the City of Los Angeles, in the original amount of $300,000, secured by a deed of trust on real property, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due January, 2034. Interest incurred during 2018 was $9,000 and as of December 31, 2018, accrued interest totaled $143,583.	300,000
650 Westminster Avenue: 3% residual receipts note payable to the County of Los Angeles, Housing Authority, in the original amount of $20,000, secured by a deed of trust on real property, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due March, 2021. Subject to forgiveness provisions of principal and accrued interest at end of the note's twenty-eight year term.	20,000
920 6th Avenue: Note payable to Chase, in the original amount of $168,000, secured by a deed of trust on real property and replacement reserve account, bearing interest at 8.21% per annum, payable in monthly installments of principal and interest of $1,257, due March, 2028.	97,562
Note payable to the City of Los Angeles, in the original amount of $46,000, secured by a deed of trust on real property, non-interest bearing, principal deferred for the twenty-year term, due August, 2018, loan extension currently in process with the City.	46,000
200 Lincoln Boulevard/4216 Centinela Avenue: Note payable to Local Initiatives Support Corporation, in the original amount of $1,710,279, secured by a deed of trust on real property, bearing interest at 5.25% per annum, with interest only paid monthly through March, 2019. Thereafter, monthly installment of principal and interest due beginning April 1, 2019, over a period of nineteen years, all outstanding principal and unpaid interest due March, 2038.	1,571,043
720 Rose Avenue: Note payable to the City of Los Angeles, in the original amount of $175,370, secured by a deed of trust on real property, non-interest bearing and repaid with services, as defined in the loan agreement.	57,486
Note payable to the Corporation for Supportive Housing, in the original amount of $1,345,000, secured by a deed of trust on real property, bearing interest at 6% per annum which is paid monthly from lender's interest holdback reserve. All Unpaid principal and accrued interest due January, 2021. Interest incurred during 2018 was $46,129.	966,583
Predevelopment note payable to the Corporation for Supportive Housing, in the original amount of $3,273,000, secured by a deed of trust on the real property, bearing interest at 6% per annum, paid monthly from lender's interest holdback reserve. All unpaid principal and accrued interest due the earlier of the receipt of construction financing or December, 2021.	1,465,461

(5) Mortgage Notes Payable, Continued

Note payable to the Congregation of the Sisters of Charity of the Incarnate Word, in the original amount of $250,000, unsecured, bearing interest at 1% per annum, payable in annual installments of interest only, principal and unpaid accrued interest due February, 2020.	250,000
	4,858,135
Less unamortized debt issuance costs	(44,128)
VCHC Total	4,814,007
Affordable Housing Affiliates:	
Two amortizing notes payable to various lenders, secured by deeds of trust on real property, bearing interest ranging from 4.32% to 6.28% per annum, principal and interest due date ranging from December, 2026 to March, 2028.	501,969
Note payable to Sun West Mortgage Company Inc., in the original amount of $2,500,000, insured by HUD under Section 207/223(f) of the National Housing Act. The note is secured by a Multifamily deed of trust on real property, Assignment of Rents and Security agreement, bearing interest at 2.85% per annum, principal and interest payable in monthly installments of $9,413, due November 1, 2047.	2,223,318
Note payable to the City of Los Angeles, in the original amount of $750,000, secured by deed of trust on real property, non-interest bearing. The note is repaid with supportive services, as defined in the loan agreement, over a twenty-year period commencing September 1, 2012 and amortizing at a rate of $37,500 per year, due September, 2034.	509,375
Ten non-amortizing notes payable to various lenders, secured by deeds of trust on real property, interest ranging from zero to 5% per annum, some payable based on residual receipts, as defined, until all amounts have been paid in full, due date ranging from July, 2024 to December, 2069. Some notes subject to interest forgiveness provisions (note 14).	12,121,858
	15,356,520
Less unamortized debt issuance costs	(221,908)
Affordable Housing Affiliates Total	15,134,612
Total VCHC and affiliates Notes Payable	$ 19,948,619

Aggregate maturities of mortgage notes payable for the next five years are as follows:

Year Ending December 31	VCHC	Affiliates
2019	$ 64,838	$ 135,011
2020	257,978	138,728
2021	2,460,703	142,597
2022	9,397	146,623
2023	10,198	150,813
Thereafter	2,055,021	14,642,748
Total	$ 4,858,135	$ 15,356,520

(5) Mortgage Notes Payable, Continued

The City of Los Angeles loaned VCHC $2,750,000, at 5% per annum, in acquisition and predevelopment funds for the purpose of developing affordable housing. The City allowed VCHC to subsequently loan these funds to Fourth Avenue and Washington Place. Because the funds were part of a Government grant that required the loans to remain with VCHC, the security interests for the City Loans are cross collateralized against a deed of trust on real property owned by the Limited Partnerships and against the Partnerships promissory note to VCHC.

Concurrent with the execution of the City Loans, VCHC received $2,750,000 promissory notes from the Limited Partnerships, the terms of which are identical to the loan payable to the City of Los Angeles. Proceeds due under the notes receivable will be used to offset the identical payments due under the note payable. As such, VCHC has not reflected the notes, interest income and interest expense in the financial statements. In the event of default, although all notes are nonrecourse, VCHC could become liable for the remaining amount of indebtedness, if any, not satisfied by disposition of the collateralized properties.

An analysis of notes payable and accrued interest for 2018 is as follows:

	Current Portion	Non-Current Portion	Principal Balance as of 12/31/18	Accrued Interest as of 12/31/18
VCHC:				
Amortizing	$ 7,352	90,210	97,562	$ 667
Non-Amortizing	57,486	4,703,087	4,760,573	155,084
Subtotal VCHC	$ 64,838	4,793,297	4,858,135	$ 155,751
Less: Debt Issuance Costs			(44,128)	
Total VCHC			4,814,007	
Affordable Housing Affiliates:				
Amortizing	$ 97,511	2,627,776	2,725,287	$ 7,318
Non-Amortizing	37,500	12,593,733	12,631,233	1,267,879
Subtotal Affordable Housing Affiliates	$ 135,011	15,221,509	15,356,520	$ 1,275,197
Less: Debt Issuance Costs			(221,908)	
Total Affordable Housing Affiliates			15,134,612	

(6) Due From Affiliates

Due from affiliates represent costs that VCHC pays on behalf of particular Affordable Housing Affiliates projects. VCHC is reimbursed for costs such as on-site managers, maintenance personnel, and certain other direct project costs paid by VCHC on behalf of the affiliates. The advances, in the amount of $88,305, are reported net of allowance for doubtful accounts. Management's estimate of the allowance is based on expected operating performance and other factors. It is possible that management's estimate of the allowance will change. Advances to projects are classified as due from affiliates on the consolidating financial statements and have been eliminated in consolidation. Such loans are unsecured and are due on demand.

(7) Capitalized Costs

Costs incurred to obtain low-income housing tax credits, as well as certain leasing start-up and monitoring costs of the Organization have been capitalized and are being amortized as follows:

		Affiliates
Marketing and Tax Credit Fees	1 to 10 years	$ 51,936
Monitoring Fees	15 years	7,935
Land Lease Costs	53 years	68,333
		128,204
Less: Accumulated Amortization		(60,925)
Net Capitalized Costs		$ 67,279

Estimated amortization expense for the next five years through December 31, 2023 is $5,121 per year.

(8) Related Party Transactions

In the ordinary course of its operations, VCHC has significant related party transactions with affiliates. Such transactions provide a substantial amount of funding in connection with the development of low-income affordable housing projects.

VCHC earns developer fees, management fees, tenant resident service fees, and accounting fees in connection with services rendered to the affiliated entities under various terms and provisions as defined by each affiliated entity.

Partnership Management & Developer Fees

All development fee revenue is earned in connection with affiliated entities. Development fees which are paid from operating cash flows from the affiliated entities are eliminated in consolidation. Some of these fees are required to be deferred and paid from cash flows of the related property operations.

All of the partnership management, asset management, bookkeeping, and resident service fee income earned by VCHC is related to services provided to the affiliated entities. In general, VCHC, as General Partner for the limited partnerships receives these management fees under various terms and provisions as defined by each partnership. Such fees from the affiliated entities are eliminated in consolidation

(9) Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018 are available for the following purposes:

Community development programs	$ 63,714
Youth development and training programs	239,620
General operating	112,500
Total	$ 415,834

(10) Net Assets By Designations

As of December 31, 2018, net assets with donor restrictions of $415,834 are restricted for specific purposes or time restrictions, as indicated below. During the year ended December 31, 2018, net assets with donor restrictions of $130,947 were released from the restrictions by incurring expenses related to the donation which satisfied the donor restricted purpose or time restriction. At December 31, 2018, net asset designations are as follows:

Without donor restrictions:	
Undesignated	$ 8,700,934
Designated by the Board for operations	20,000
	8,720,934
With donor restrictions:	
Purpose restriction	303,334
Time-restricted for future periods	112,500
	415,834
Total net assets	$ 9,136,768

(11) Liquidity and Availability

Financial assets available for general expenditure, without donor restrictions or low income housing property reserves, limiting their use, within one year of December 31, 2018 are comprised of the following:

Financial assets:	
Cash and cash equivalents	$ 2,383,171
Cash reserves for low-income housing operations	1,046,486
Government contracts receivable	59,527
Grants receivable	196,366
Accounts receivable	246,490
Total financial assets	3,932,040
Amounts not available for general expenditures:	
Restricted by donor for community development programs	(63,714)
Restricted by donor for youth development and training programs	(239,620)
Board designated funds	(20,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,608,706

The Organization manages liquidity and reserves following low-income housing operating guidelines by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the Organization are expected to be met on a monthly basis from the rents of low-income housing units and other unrestricted grants and donations. In addition, the Organization maintains funds in real property operating and replacement reserves. These funds are used for the benefit of the tenants and/or the Organization and are required by affordable housing regulations and loan agreements. The funds may be withdrawn only with the approval of the regulatory agencies, lenders, and investors. Such funds are considered by the Organization to be reserves and are not subject to donor type restrictions.

(12) Retirement Plan

Employees may participate in an Internal Revenue Code section 403(b) retirement savings plan, established by VCHC. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement. All employee contributions are immediately vested.

(13) Guaranties

VCHC, as the Co-General Partner in the affiliated VCHC Gateway, L.P., has entered into certain guaranties with the Investor Limited Partner regarding construction completion, initial operating and tax credit guaranties, as defined in the Partnership Agreement, including the following:

Operating Deficit Guaranty

In general, VCHC is required to advance funds in the form of non-interest bearing loans or equity to meet any operating deficits that may arise during the initial operating period of the Project for various lengths of time, as defined in the limited partnership agreements. The potential obligation, which is not funded from the Project's operating reserves, is limited to $105,000.

Credit Recapture Guaranty

In the event of a recapture of tax credits received by an investor limited partner, VCHC shall be obligated to reimburse the investor limited partner for any recaptured credits plus any related penalties, interest or additional taxes due. VCHC is not obligated to reimburse if the recapture is due to a change in law or actions by the limited partners. As of December 31, 2018, no amounts were due under this guaranty.

(14) Commitments and Contingent Liabilities

VCHC:

VCHC entered into an operating lease arrangement for additional program and office space, which expires July 31, 2021. The lease agreement requires monthly rent payment of $6,000, increasing 6% per annum throughout the lease term. In addition, VCHC leases storage space on a month-to-month basis at the rate of $1,600 per month.

The future minimum rental payments under the operating leases are summarized as follows:

Year ending December 31	Amount
2019	$ 73,800
2020	78,228
2021	50,023
Total	$ 202,051

Rent expense for this operating lease totaled $49,207 for the year ended December 31, 2018.

VCHC also leases office equipment under various operating lease agreements. Gross monthly minimum lease payments are $651 through December, 2018 and then $186 through December, 2019. Equipment rental expense for the year ended December 31, 2018 approximated $12,270.

(14) Commitments and Contingent Liabilities, Continued

Mortgage note payable - A development agreement between VCHC and the County of Los Angeles provides for forgiveness of principal and interest on the 650 Westminster Avenue residual receipts note payable (see note 5) if certain conditions are met. These include that the related property is operated and maintained as low-income housing over the term of the loan, and that VCHC complies with various other provisions of the agreement. In the event that the property is not maintained as low-income housing, or if there are other material violations of the development agreement, the mortgage note and accrued interest become immediately due and payable. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provisions of the development agreement. Accordingly, VCHC does not accrue interest on the note payable in the financial statements. At December 31, 2018, the cumulative amount of unpaid interest on the note that could be due if provisions were not met approximated $14,800.

A regulatory agreement between VCHC and the City of Los Angeles provides for the repayment of the original $175,370 mortgage note payable on 718-20 Rose Avenue property based on VCHC furnishing services, as stipulated in the agreement, over the term of the loan. In the event there is a material violation of the agreement the balance of the loan becomes immediately due and payable at the option of the lender. The outstanding loan balance as of December 31, 2018 totaled $57,486.

VCHC's participation in the Affordable Housing Affiliate limited partnerships results in contingent liabilities. Pursuant to the terms of the partnership agreements, the limited partners are responsible only for initial capital contributions. As a result, VCHC may be required to arrange for additional funds related to any rehabilitation or operating needs of the partnerships. VCHC may also be subject to other liabilities of the partnerships if the partnership's assets should become insufficient to meet their obligations. In the opinion of management, the future revenues and the value of underlying assets of these partnerships will be sufficient to meet their obligations.

The properties owned and operated by the Organization are typically developed using monies provided by restrictive, low-interest rate, loans. The terms of these loans restrict the use of the property and generally require that it be rented to low-income qualified tenants for the period of the related loan term. Failure to comply with the terms of the loans would result in a requirement to repay a portion or the entire amount of proceeds received.

Affordable Housing Affiliates:

Forgivable Interest

Certain Affordable Housing Affiliates have entered into loans which contain terms that limit the amount of accrued but unpaid interest that may be payable. Generally, accrued but unpaid interest as of the time the loan is due shall be payable only to the extent the fair market value of the Project's property exceeds the principal balance of the loan plus the principal balance of any debt senior to the loan.

Due to this contingency, interest has not been accrued because the future fair market value of the property at loan maturity is not expected to be sufficient. The following is a schedule of contingent interest that could be due if the fair market value of the property is sufficient (see promissory note details below):

Fourth Avenue Limited Partnership	$ 1,312,000
Navy Blue Apartments Limited Partnership	525,000
12525 Washington Place Limited Partnership	1,409,000
Total	$ 3,246,000

(14) Commitments and Contingent Liabilities, Continued

Fourth Avenue

A loan agreement between the Fourth Avenue, VCHC, and the City of Los Angeles provides for possible forgiveness of interest on the mortgage note payable of $1,250,000. At the end of the note's forty-year term, accrued interest will be due and payable only if the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2018, Fourth Avenue is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $1,312,000, if the fair market value of the property is sufficient.

Navy Blue

A regulatory agreement between Navy Blue and the City of Los Angeles provides for possible forgiveness of interest on the mortgage note payable of $692,000. At the end of the note's thirty-year term, accrued interest will be due and payable only to the extent the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2018 Navy Blue is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $525,000, if the fair market value of the property is sufficient.

Washington Place

A loan agreement between Washington Place, VCHC and the City of Los Angeles provides for possible forgiveness of interest on the mortgage note payable of $1,500,000. At the end of the note's thirty-year term, accrued interest will be due and payable only if the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2018, the Organization is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $1,409,000, if the fair market value of the property is sufficient.

The deferral provisions as stipulated in the regulatory agreements for the above loans remain in effect only as long as the properties are operated and maintained as low-income housing and the Partnerships' comply with various other provisions of the agreements. In the event that the properties are not maintained as low-income housing, or if there are other material violations of the regulatory agreements the mortgage notes become due and payable. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provision of the regulatory agreements.

Horizon

VCHC was awarded a recoverable subsidy grant from the City of Los Angeles Housing Authority, under the Continuum of Care Program, in connection with the rental operations at the Horizon housing project. Under the terms of the contract, VCHC must provide tenants with supportive services in an amount equal to or greater than the amount of the rental subsidies received. Revenue from the subsidy is passed through to Horizon and is included in rental income in the accompanying financial statements.

Horizon received a contingent grant in the amount of $250,000 from the County of Los Angeles CDC, under its Emergency Shelter Funds program, for costs associated with the rehabilitation of the Horizon housing project. The grant is repayable only if in default with the 15 year grant agreement. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provisions of the grant agreement.

(15) Board Designated Net Assets

The Board of Directors has designated $20,000 of net assets for VCHC operating reserves. Board designations do not meet the criteria for being classified as restricted net assets. Board designations are not donor-imposed restrictions and are subject to change at the Board's discretion.

(16) Subsequent Events

As of August 21, 2019, the date that the financial statements were available to be issued, the $57,486 City of Los Angeles note payable for 718-20 Rose Avenue, was cancelled and a reconveyance of the deed of trust was issued and recorded.

In June, 2019, VCHC purchased real property for $2,500,000 located on Lincoln Boulevard, Los Angeles for eventual development as low-income housing. In connection with this acquisition VCHC entered into an acquisition and predevelopment loan with Local Initiatives Support Corporation. The loan, in the amount of $4,424,994, bears interest at 5.50% per annum and is due June, 2020, subject to extension. The interest only recourse loan is secured against the underlying real property and additional VCHC properties at 4216 South Centinela Avenue and 200 Lincoln Boulvevard.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Financial Position

December 31, 2018

Schedule 1

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
Assets				
Cash and cash equivalents	$ 1,987,897	389,024	6,250	$ 2,383,171
Low income housing property reserves	884,904	2,444,051	-	3,328,955
Government contracts receivable	59,527	-	-	59,527
Grants receivable	196,366	-	-	196,366
Accounts receivable, net	37,568	208,922	-	246,490
Prepaid expenses	1,007	23,333	-	24,340
Land	2,664,269	6,380,489	-	9,044,758
Buildings and improvements	4,290,571	17,827,068	(100,000)	22,017,639
Equipment and furniture	326,454	394,547	-	721,001
Accumulated depreciation	(2,918,464)	(6,233,829)	10,000	(9,142,293)
Net Property	4,362,830	18,368,275	(90,000)	22,641,105
Real estate under development	2,433,112	6,522	(1,378)	2,438,256
Financing costs, net	-	67,279	-	67,279
Due from affiliates	88,305	2,604	(90,909)	-
Deposits	10,214	9,710	-	19,924
Total assets	$ 10,061,730	21,519,720	(176,037)	$ 31,405,413
Liabilities and Net Assets				
Accounts payable	$ 57,842	52,733	-	$ 110,575
Construction costs payable	268,977	-	-`	268,977
Accrued payroll and vacation	154,962	-	-	154,962
Prepaid rent	34,080	88,405	-	122,485
Deferred revenue	56,557	-	-	56,557
Due to VCHC	-	382,639	(382,639)	-
Accrued interest payable	155,751	1,275,197	-	1,430,948
Notes payable	4,814,007	15,134,612	-	19,948,619
Tenant deposits	60,980	114,542	-	175,522
Total liabilities	5,603,156	17,048,128	(382,639)	22,268,645
Net Assets:				
Without donor restriction	4,022,740	4,471,592	206,602	8,700,934
Without donor restriction, board designated	20,000	-	-	20,000
Total net assets without donor restriction	4,042,740	4,471,592	206,602	8,720,934
With donor restriction	415,834	-	-	415,834
Total Net Assets	4,458,574	4,471,592	206,602	9,136,768
Total Liabilities and Net Assets	$ 10,061,730	21,519,720	(176,037)	$ 31,405,413

See accompanying auditor's report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Activities

Year ended December 31, 2018

Schedule 2

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
Changes in net assets without donor restrictions:				
Revenue and Support:				
Contributions and grants	$ 1,098,516	-	-	$ 1,098,516
Government grants	920,435	37,500	-	957,935
Program service	60,000	-	-	60,000
Rental income	913,803	1,754,687	-	2,668,490
Partnership mgmt and tenant service fees	571,122	-	(571,122)	-
Other income - refunds	3,005	136,461	-	139,466
Interest income	1,842	2,829	-	4,671
Total revenue without donor restrictions	3,568,723	1,931,477	(571,122)	4,929,078
Net assets released from restrictions:				
Satisfaction of program restrictions	3,447	-	-	3,447
Expiration of time restrictions	127,500	-	-	127,500
Total net assets released from restrictions	130,947	-	-	130,947
Total revenue without donor restrictions	3,699,670	1,931,477	(571,122)	5,060,025
Expenses:				
Salaries, benefits, taxes	2,092,623	366,909	(258,143)	2,201,389
Consultants	16,997	384	-	17,381
Job training and supplies	71,582	-	-	71,582
Education and after school programs	46,612	-	-	46,612
Rent	49,207	-	-	49,207
Legal and accounting	21,470	79,005	(19,272)	81,203
Office and administration	119,800	66,040	(11,301)	174,539
Conference, training & travel	54,928	-	-	54,928
Management and tenant service fees	-	199,221	(172,035)	27,186
Fundraising and outreach	94,319	-	-	94,319
Maintenance and repairs	170,088	458,436	(80,896)	547,628
Utilities	116,164	206,922	-	323,086
Insurance	196,596	124,709	(51,059)	270,246
Property tax and license and fees	15,442	67,016	(162)	82,296
Interest	141,796	360,783	-	502,579
Depreciation and amortization	157,762	477,621	(2,500)	632,883
Total expenses	3,365,386	2,407,046	(595,368)	5,177,064
Increase (decrease) in net assets without donor restrictions	334,284	(475,569)	24,246	(117,039)
Change in net assets with donor restrictions:				
Contributions and grants	296,424	-	-	296,424
Net assets released from restriction	(130,947)	-	-	(130,947)
Increase in net assets with donor restrictions	165,477	-	-	165,477
Total increase (decrease) in net assets	499,761	(475,569)	24,246	48,438
Other changes in net assets:				
Partner capital contributions, net	-	-	30,369	30,369
Net assets at beginning of year	3,958,813	4,947,161	151,987	9,057,961
Net assets at end of year	$ 4,458,574	4,471,592	206,602	$ 9,136,768

See accompanying auditor’s report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Cash Flows

Year ended December 31, 2018

Schedule 3

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	$ 499,761	(475,569)	24,246	$ 48,438
Adjustments to reconcile change in net assets to cash flow from operating activities:				
Depreciation and amortization expense	157,762	477,621	(2,500)	632,883
Amortization of debt issuance costs	12,124	7,518	-	19,642
Cancellation of debt	-	(37,500)	-	(37,500)
Decrease (Increase) in Operating Assets:				
Tenant security deposits	(48)	(3)	-	(51)
Government contracts receivable	136,503	-	-	136,503
Accounts receivable	(29,423)	(109,643)	-	(139,066)
Grants receivable	(152,110)	-	-	(152,110)
Prepaid expenses	12,465	(5,306)	-	7,159
Deposits	(1,000)	-	-	(1,000)
Increase (Decrease) in Operating Liabilities:				
Due to/from affiliates	(8,297)	55,540	(47,243)	-
Accounts payable and accrued expenses	(13,971)	(5,841)	-	(19,812)
Prepaid rent and deferred revenue	787	31,972	-	32,759
Accrued interest payable	(7,016)	240,926	-	233,910
Tenant security deposits	(208)	(5,411)	-	(5,619)
Net cash provided by operating activities	607,329	174,304	(25,497)	756,136
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net changes in restricted cash and reserves	178,545	(38,742)	-	139,803
Payment for building improvements	(19,464)	-	-	(19,464)
Payment for equipment and furniture	(6,410)	(9,333)	-	(15,743)
Payment for real estate under development	(1,739,502)	(6,522)	1,378	(1,744,646)
Net cash provided by (used in) investing activities	(1,586,831)	(54,597)	1,378	(1,640,050)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Partner contribution	-	59,547	-	59,547
Partner distribution	-	(59,547)	30,369	(29,178)
Payment of debt issuance costs	(44,276)	-	-	(44,276)
Proceeds from notes payable	3,079,942	-	-	3,079,942
Repayment of notes payable	(1,361,275)	(94,005)	-	(1,455,280)
Net cash provided by (used in) financing activities	1,674,391	(94,005)	30,369	1,610,755
Net increase in cash and cash equivalents	694,889	25,702	6,250	726,841
Cash and cash equivalents, beginning	1,293,008	363,322	-	1,656,330
Cash and cash equivalents, ending	$ 1,987,897	389,024	6,250	$ 2,383,171

Supplemental schedule of noncash investing and financing activities:

Supplemental noncash investing and financing activities: Additional costs of rental property from capitalized interest accrual and construction costs payable	$ 277,978	-	-	$ 277,978
Supplemental disclosure of cash flow information: cash paid for interest, net of amounts capitalized	$ 135,971	112,339	-	$ 248,310

See accompanying auditor's report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Combining Statement of Financial Position by Affiliates

December 31, 2018

Schedule 4

	Fourth Ave. Apts., L.P.	Horizon Apts., LLC	Navy Blue Apts., L.P.	VCHC Gateway, L.P.	VCHC Pacific Apts., LLC	12525 Washington Place, L.P.	Westside Housing Corporation	Combining Adjustments	Affiliates Total
Assets									
Cash and cash equivalents	$ 13,321	27,976	72,791	149,851	61,754	59,737	3,594	-	$ 389,024
Low income housing reserves	451,428	430,749	307,541	574,428	185,956	493,949	-	-	2,444,051
Accounts receivable, net	4,821	2,434	2,739	3,385	183,410	12,133	-	-	208,922
Prepaid expenses	-	5,299	-	8,132	9,902	-	-	-	23,333
Property and equipment	3,511,271	4,776,718	1,266,955	9,978,488	838,576	4,230,096	-	-	24,602,104
Accumulated depreciation	(2,106,111)	(405,847)	(892,676)	(618,338)	(223,205)	(1,987,652)	-	-	(6,233,829)
Real estate under development	-	-	6,522	-	-	-	-	-	6,522
Financing costs, net	-	-	37,099	30,180	-	-	-	-	67,279
Due from VCHC	-	-	-	2,604	-	-	-	-	2,604
Deposits	4,470	-	650	4,200	-	390	-	-	9,710
Total assets	1,879,200	4,837,329	801,621	10,132,930	1,056,393	2,808,653	3,594	-	21,519,720
Liabilities and Net Assets									
Accounts payable	2,684	1,504	32,083	7,225	5,757	3,480	-	-	52,733
Prepaid rent	3,115	17,368	9,872	40,551	10,328	7,171	-	-	88,405
Due to VCHC	147,419	15,057	130,919	-	10,572	78,672	-	-	382,639
Accrued interest payable	681	749,716	658	517,505	5,280	1,357	-	-	1,275,197
Notes payable	1,529,970	4,450,213	1,067,915	4,033,644	2,091,153	1,961,717	-	-	15,134,612
Tenant deposits	17,149	16,949	8,893	20,404	29,576	21,571	-	-	114,542
Total liabilities	1,701,018	5,250,807	1,250,340	4,619,329	2,152,666	2,073,968	-	-	17,048,128
Net Assets:									
Without donor restrictions	178,182	(413,478)	(448,719)	5,513,601	(1,096,273)	734,685	3,594	-	4,471,592
Total Liabilities and Net Assets	$ 1,879,200	4,837,329	801,621	10,132,930	1,056,393	2,808,653	3,594	-	$ 21,519,720

See accompanying auditor's report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Combining Statement of Activities by Affiliates

Year ended December 31, 2018

Schedule 5

	Fourth Ave. Apts., L.P.	Horizon Apts., LLC	Navy Blue Apts., L.P.	VCHC Gateway, L.P.	VCHC Pacific Apts., LLC	12525 Washington Place, L.P.	Westside Housing Corporation	Combining Adjustments	Affiliates Total
Changes in net assets without donor restrictions:									
Revenue & Support:									
Government grants	$ -	37,500	-	-	-	-	-	-	$ 37,500
Rental income	297,672	242,948	166,515	273,161	397,372	377,019	-	-	1,754,687
Partnership mgmt fees	-	-	-	-	-	-	9,676	(9,676)	-
Other income - refunds	2,611	2,708	-	-	131,142	-	-	-	136,461
Interest income	303	1,006	229	4	767	520	-		2,829
Total revenue without donor restrictions	300,586	284,162	166,744	273,165	529,281	377,539	9,676	(9,676)	1,931,477
Expenses:									
Salaries, benefits, taxes	69,831	50,720	33,802	54,142	69,716	88,698	-	-	366,909
Consultants	-	-	-	-	384	-	-	-	384
Legal & accounting	15,885	12,665	13,862	11,232	8,676	15,870	815	-	79,005
Office and administration	16,806	11,118	4,359	15,416	4,541	13,000	800	-	66,040
Management & tenant services	21,464	45,925	46,651	58,485	-	28,872	7,500	(9,676)	199,221
Maintenance & repairs	66,374	45,807	38,470	146,041	50,751	110,993	-	-	458,436
Utilities	43,551	24,337	14,770	18,690	44,812	60,762	-	-	206,922
Insurance	23,902	13,818	11,276	12,308	35,653	27,752	-	-	124,709
Property tax and license and fees	19,900	7,707	996	17,882	7,097	13,434	-	-	67,016
Interest	8,312	120,457	11,388	133,593	68,599	18,434	-	-	360,783
Depreciation & amortization	66,710	54,262	25,382	222,325	37,093	71,849	-	-	477,621
Total expenses	352,735	386,816	200,956	690,114	327,322	449,664	9,115	(9,676)	2,407,046
Increase (decrease) in net assets without donor restrictions	(52,149)	(102,654)	(34,212)	(416,949)	201,959	(72,125)	561	-	(475,569)
Other changes in net assets:									
Partner capital contribution	-	-	-	59,547	-	-	-	-	59,547
Partner capital distribution	-	-	-	(59,547)	-	-	-	-	(59,547)
Net assets at beginning of year	230,331	(310,824)	(414,507)	5,930,550	(1,298,232)	806,810	3,033	-	4,947,161
Net assets at end of year	$ 178,182	(413,478)	(448,719)	5,513,601	(1,096,273)	734,685	3,594	-	$ 4,471,592

See accompanying auditor's report.