HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

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

December 31, 2016

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

December 31, 2016

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LEVITT & ROSENBLUM
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hollywood Community Housing Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hollywood Community Housing Corporation, a nonprofit California corporation, and Affiliates (collectively the Organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statement of activities 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 audits. We did not audit the financial statements of certain controlled Affordable Housing Entities, which statements reflect total combined assets of $80,033,581 as of December 31, 2016 and total revenues of $3,184,558 for the year ended December 31, 2016. Those 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 those controlled partnerships, 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. Those standards require that we plan and perform the audits 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 Hollywood Community Housing Corporation and Affiliates as of December 31, 2016, 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 Schedule 1, 2 and 3 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, CPAs
August 29, 2017

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Financial Position

December 31, 2016

ASSETS	
Cash and equivalents	$ 1,771,013
Restricted cash reserves (note 6)	425,606
Accounts receivable, net	93,864
Grants receivable	85,000
Developer fee receivable	490,000
Prepaid expenses	31,429
Property, at cost (note 2)	
Land and improvements	549,053
Buildings and improvements	4,052,375
Leasehold improvements	305,956
Equipment and furniture	679,598
Real estate under development (note 5)	14,760,554
Less: accumulated depreciation	1,776,702
Net Property	18,570,834
Investment in Partnerships (note 4)	100
Deposits	15,085
Real estate and other assets held in controlled limited partnerships and other entities (note 10)	135,619,041
Total Assets	$ 157,101,972
LIABILITIES AND NET ASSETS	
Accounts payable	$ 141,256
Real estate development costs payable	342,539
Prepaid rent	10,073
Accrued vacation	54,372
Notes payable (notes 12 and 15)	16,074,943
Accrued interest payable (note 12)	1,134,353
Tenant security deposits	13,174
Notes payable and other liabilities held in controlled limited partnerships and other entities (note 10)	113,960,963
Commitments and contingencies (see notes)	
Total Liabilities	131,731,673
Net Assets:	
Unrestricted	2,784,704
Unrestricted, controlling interest in limited partnerships and other entities	(3,259,599)
Unrestricted, non-controlling interest in limited partnerships (note 2)	25,520,818
Total unrestricted net assets	25,045,923
Temporarily restricted net assets (note 7)	324,376
Total Net Assets	25,370,299
Total Liabilities and Net Assets	$ 157,101,972

See accompanying notes to consolidated financial statements.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Activities

Year ended December 31, 2016

Changes in unrestricted net assets:	
Revenues and Support:	
Contributions	$ 647,663
Government contracts	258,159
Project developer fees	789,000
Project management fees	8,061
Rental income	504,941
Laundry and vending machines	174,199
Cancellation of indebtedness	140,876
Investment income	368
Income from controlled limited partnerships and other entities (note 10)	6,790,176
Total unrestricted revenue	9,313,443
Net assets released from restrictions:	
Satisfaction of program restrictions	78,502
Total unrestricted revenue and support	9,391,945
Expenses:	
Salaries	1,321,930
Employee benefits and taxes	216,928
Social service and education	45,926
Consultants	44,857
Office and administration	106,969
Legal and professional	46,385
Fundraising and outreach	38,203
Property tax and insurance	161,258
Maintenance and repairs	185,077
Property and asset management fees	13,012
Utilities	110,579
Interest	74,027
Expenses from controlled limited partnerships and other entities (note 10)	7,302,225
Expenses before depreciation and amortization	9,667,376
Depreciation and amortization	3,817,058
Total expenses	13,484,434
Decrease in unrestricted net assets	(4,092,489)
Change in temporarily restricted net assets:	
Contributions	310,417
Net assets released from restrictions	(78,502)
Increase in temporarily restricted net assets	231,915
Decrease in net assets	$ (3,860,574)
Change in net assets attributable to non-controlling interest	$ (3,672,499)
Change in net assets attributable to controlling interest	(188,075)
	$ (3,860,574)

See accompanying notes to consolidated financial statements.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2016

Changes in Net Assets:

Net assets, unrestricted at January 1, 2016	$ 23,883,236
Changes in unrestricted net assets	(4,092,489)
Transfer of net assets	(2,437,164)
Partner contributions	7,783,482
Syndication costs	(91,142)
Net assets, unrestricted at December 31, 2016	$ 25,045,923
Net assets, temporarily restricted at January 1, 2016	$ 92,461
Changes in temporarily restricted net assets	231,915
Net assets, temporarily restricted at December 31, 2016	$ 324,376
Total net assets at December 31, 2016	$ 25,370,299

See accompanying notes to consolidated financial statements.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Cash Flows

Year ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ (3,860,574)
Adjustments to reconcile change in net assets to cash flow from operating activities:	
Depreciation expense and amortization expense	3,906,053
Organization costs	11,879
Prepaid investor service fee	5,005
Cancellation of indebtedness	(311,143)
Unrealized gain on interest rate swap	(64,254)
(Increase) decrease in operating assets:	
Tenant security deposits	(52,011)
Grants receivable	(85,000)
Accounts receivable	87,303
Prepaid expenses	(65,400)
Developer fee receivable	10,000
Deposits	(7,983)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	137,781
Prepaid rent	24,233
Accrued interest payable	1,668,198
Tenant security deposits	57,492
Net cash provided by operating activities	1,461,579
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net changes in property and other reserves	4,477
Increase in investments	(100)
Payment for equipment and furniture	(391,400)
Payment for land and building	(7,434,582)
Payment for real estate under development	(3,600,654)
Net cash used in investing activities	(11,422,259)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Contributions	7,783,482
Syndication costs paid	(91,142)
Repayment of notes payable	(6,000,933)
Proceeds from notes payable	9,075,744
Net cash provided by financing activities	10,767,151
Net increase in cash	806,471
Cash, beginning	1,946,530
Total consolidated cash	2,753,001
Less: cash held in controlled limited partnerships	(981,988)
Cash, ending	$ 1,771,013
Supplemental noncash investing and financing activities: Additional costs of rental property from capitalized interest accrual and construction costs payable	$ 1,172,730
Supplemental disclosure of cash flow information: cash paid for interest, net of amounts capitalized	$ 501,067

See accompanying notes to consolidated financial statements.

(1) Purpose and Activities

Hollywood Community Housing Corporation (HCHC) is a community based nonprofit California corporation organized for the purpose of providing affordable housing for low-income people. This is accomplished through acquisition, construction, rehabilitation and operations of residential properties in a manner that enhances existing neighborhoods. Most properties acquired are eventually syndicated as low-income housing partnerships with HCHC owning a one-percent or less interest as the general partner, while some properties eventually become HUD housing projects with HCHC as the sponsoring organization. HCHC's Affiliates are comprised of Affordable Housing Entities described in note 2.

HCHC Laundry, LLC (HCHC Laundry) was formed for the purpose of owning, constructing and operating a neighborhood laundry facility located in one of HCHC's affordable housing developments. HCHC Laundry, LLC is a single member LLC, with HCHC as its single member. Build out of the facility was completed and operations commenced in February, 2011.

Hollywood Housing Holdings, LLC (HHH) is a California limited liability company (comprised of HCHC as the LLC's single member) organized for the purpose of assisting HCHC in the development and management of low-income housing properties located primarily in the greater Hollywood, California area.

Collectively, HCHC Laundry, HHH, and HCHC and its Affiliates shall be referred to as the Organization.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated 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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of HCHC, HCHC Laundry LLC, Hollywood Housing Holdings LLC, plus 23 affordable housing entities (Affordable Housing Affiliates), which are comprised of 20 limited partnerships and limited liability companies which are in operation; 1 limited partnership which is in the construction phase; and 2 HUD Section 811 corporations . 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 HCHC. All significant inter-company accounts and material transactions have been eliminated in consolidation.

The following is a summary of limited liability companies (LLC) established to own up to a 1% general partner interest in Affordable Housing affiliates

General Partner	Affordable Housing Affiliates
Alexandria LLC	Alexandria House Apartments, L.P.
HCHC Recap I, LLC	HCHC Recap I, L.P.
Step Up on Colorado LLC	Step Up on Colorado, L.P.
Step Up on Vine LLC	Step Up on Vine, L.P.

(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, 2016.

Affordable Housing Entities,	Owner Interest	# of units
Argyle Community L.P.	100.00%	-
Carlton Way Apartments L.P.	100.00%	-
Dunning Apartments Partnership, L.P.	100.00%	26
Kenmore Apartments, L.P.	100.00%	21
Mirada Terrace Apartments, L.P.	100.00%	30
Selma-Hudson Community, L.P.	100.00%	30
St. Andrew's Community L.P.	100.00%	16
Wilcox Apartments, L.P.	100.00%	-
Alexandria House Apartments, L.P.	.0051%	16
Barnsdall Court, L.P.	.10%	38
Harold Way Apartments, L.P.	.01%	51
HCHC Recap I, L.P.	.01%	68
Hollywood Bungalow Courts, L.P.	.01%	42
Innes Heights, L.P.	.01%	19
Mariposa Place Apartments, L.P.	.01%	58
Palomar Apartments, L.P.	.01%	27
Palos Verde Apts, L.P. (Under Development)	.01%	N/A
Step Up on Colorado, L.P.	.005%	34
Step Up on Vine, L.P.	.005%	34
Views at 270, L.P.	.01%	56
Allesandro Housing 811-01 (Allesandro)		18
Hollywood Housing 811-97- Waterloo Heights Apts (Waterloo)		18
Total units		602

Allesandro and Waterloo are HUD Section 811 projects and are consolidated because HCHC has both an economic interest and control of the organizations through a majority voting interest in their governing boards.

During 2016, the Wilcox, Argyle Community and Carlton Way projects were sold to HCHC Recap 1 L.P. The purchase price was generally equal to the outstanding debt of each project. Pursuant to GAAP the sale of the projects is considered a transfer between entities under common control and therefore no gain or loss is recognized in the consolidated statement of activities.

Non-Controlling Interest in Limited Partnerships

Non-controlling interest in limited partnerships represent the aggregate balance of the investor limited partners' equity interest in the non-wholly-owned affiliated affordable housing limited partnerships that are included in the accompanying consolidated financial statements.

Estimates

The preparation of 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.

(2) Summary of Significant Accounting Policies, Continued

Accounts and Grants Receivable

HCHC 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, 2016. 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.

Revenue Recognition

HCHC is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

In conformity with GAAP, contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires because the stipulated time restriction ends or the purpose restriction is accomplished, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Rental income is recognized for apartment rentals as it accrues. 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. Fees earned are eliminated in consolidation.

General support received under grants is recorded when unconditionally promised by the grantor.

Amortization

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

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. Furniture and equipment are depreciated over five to seven years. Buildings are depreciated over twenty-seven and a half to forty years. Intangible costs are capitalized and amortized on a straight-line basis over the estimated useful lives of the related cost. The estimated life of the assets for depreciation purposes may be different than their actual economic useful lives.

The Organization reviews its long-lived assets 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 assets to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the property. If the long-lived asset is considered to be impaired, the loss to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value of such property. There was no impairment loss recognized for the year 2016.

(2) Summary of Significant Accounting Policies, Continued

Income Taxes

HCHC is exempt from Federal and California income taxes under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. However, HCHC could be subject to Federal and California tax on unrelated business income, if any, as stipulated in IRC Section 511. HCHC 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 HCHC has adequately addressed all relevant tax positions and that there are no tax positions 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 2013 remain open.

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.

Statement of Cash Flows

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

Cash paid for the following as of December 31, 2016:

Income taxes: None

Developer Fees

HCHC is responsible for the development of properties held in accordance with provisions codified in the limited partnership agreements. Development fees are earned in connection with the construction and oversight of the development of the projects. The development fees are recognized as revenue commencing with the closing of a project's construction financing in accordance with the project Developer Fee Agreement and the percentage of completion method. Upon completion, the remaining development fee is recorded as a receivable with a corresponding offset to deferred revenue if the amount of development fee owed exceeds the amount of the fee earned to such date in accordance with the preceding formula.

In the event that a portion, or all, of the development fee is not paid at the end of the development period (deferred development fee), the deferred development fee is generally assumed to be paid from future project cash flow and thereby recognized when paid. Development fees that are earned during the development period and paid for with investor equity or project financing are capitalized by the limited partnerships. Any deferred development fees paid from project operations are eliminated in consolidation. Total developer fees earned and recognized from the limited partnerships approximated $789,000 during 2016.

(2) Summary of Significant Accounting Policies, Continued

Contracts

Revenue from contracted services are classified as exchange transactions and recognized as support in accordance with the terms of the contract. Funds received for services not yet earned are reported as deferred revenue in the consolidated financial statements.

Business and Concentration of Credit Risk

The Organization's revenue during the year is derived primarily from the development and management of affordable housing projects, grants, and rental income. Rental income derived from related housing projects accounted for approximately 77% of revenues in 2016; 8% from the management and development of affordable housing projects; and 13% is from contributions and grants from governmental and private sources.

The Organization's cash and cash equivalents are maintained in bank accounts which, at times, may be 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. Management believes this credit risk is not significant in regard to these cash balances as of December 31, 2016.

The Organization's operations are concentrated in the multifamily real estate market. The Organization is subject to business risks associated with the level of funding for particular government programs, as well as charitable giving in both the private and public sectors. The Organization operates in a heavily regulated environment. 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. Also, The Affordable Housing Affiliates rent to people with qualifying levels of income who work primarily in the Los Angeles area and are subject to business risks associated with the economy and level of unemployment in Los Angeles, as well as available rental subsidies, which affect occupancy and the tenants' ability to make rental payments.

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

HCHC also provides advances to affiliates involved in the development of the affordable housing projects, and has deferred developer fees and 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 provided to affiliates have been eliminated in consolidation.

Change in Accounting Principle

During 2016, HCHC adopted the provisions of Accounting Standards Update 215-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 reclassifies debt issuance costs by no longer reporting them as assets but instead reporting them as a direct deduction from the carrying amount of the related loan. Amortization of the debt issuance costs is included as a component of interest expense. ASU 2015-03 has been adopted by the Organization on a retrospective basis.

Advertising

Advertising costs are expensed as incurred.

(2) Summary of Significant Accounting Policies, Continued

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.

Fair Value Measurements

The carrying amount of the Organizations' 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 15). 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.

Syndication Costs

Syndication costs directly reduce limited partner equity when incurred.

Subsequent Events

The Organization has evaluated subsequent events that have occurred from December 31, 2016 through August 29, 2017, the date that the financial statements were available to be issued, and determined that there were no subsequent events that required recognition in the consolidated financial statements other than those disclosed in note 16.

(3) Advances to Projects

Advances to projects represent costs that HCHC pays on behalf of particular affordable housing projects in which HCHC is a participating partner and initial costs associated with HCHC Laundry, LLC. Generally, these advances are for development or predevelopment costs for projects in construction or in the initial stages of development. The advances are reported net of allowance for doubtful accounts in the amount of $20,580. 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.

(4) Investment in Partnerships

HCHC owns various interests in investor limited partnerships organized for the purpose of developing and maintaining low-income housing. HCHC typically participates as a general partner in these partnerships which have been consolidated in the accompanying financial statements. As its ownership interest in these partnerships is generally minimal, HCHC expenses its partnership capital contributions in the first year the equity investor becomes a limited partner. The limited partners' interest of up to 99.99% in these partnerships is reflected as a non-controlling interest in the accompanying consolidated financial statements.

(4) Investment in Partnerships, Continued

Partnership investments also include the equity interest of HCHC in certain tax credit partnerships that are not controlled by HCHC. HCHC accounts for its investment in such limited partnerships in accordance with the equity method of accounting, under which the investment is carried at cost and is adjusted for HCHC's share of the partnerships results of operations and by cash distributions received. The equity method is discontinued if the carrying amount of the investment is reduced to zero. These limited partnerships' activities are consolidated with the business activities of their controlling owners.

The following is a summary of the financial information of HCHC's equity interest in limited partnerships not controlled by HCHC and accounted for in accordance with the equity method as of December 31, 2016:

Partnership	Owner Interest	Total Assets	Total Liabilities	Partners' Equity	Partners' Net Inc.	HCHC Ptr.Equity
La Brea Franklin LP	20.0%	3,144,000	6,963,000	(3,819,000)	(246,000)	-
Western Carlton Apts LP	.10%	7,493,000	6,385,000	1,108,000	(86,000)	-
Western Carlton II LP	.005%	9,602,000	8,246,000	1,356,000	(398,000)	-
VCHC Gateway LP	.005%	10,306,000	4,386,000	5,920,000	(342,000)	100

La Brea/Franklin Housing, L.P. is a California limited partnership which was initially formed on June 10, 1991. The Partnership operates a 40-unit apartment project in Los Angeles, California. The Project entered into regulatory agreements with the California Tax Credit Allocation Committee and the City of Los Angeles which restrict the use of this property as low-income housing. The General Partners are Thomas L Safran, an individual, and Hollywood Community Housing Corporation. The Limited Partners are Safran La Brea Limited, LLC, and Hollywood Housing Holdings, LLC, both California limited liability companies.

Western Carlton Apartments Limited Partnership is a California limited partnership which was initially formed on May 22, 1996. The Partnership owns and operates a 61-unit apartment complex in Los Angeles, California. Regulatory agreements entered into with the City of Los Angeles and the California Tax Credit Allocation Committee restrict the use of this property as low-income housing. The Managing General Partner is Hollywood Community Housing Corporation, and the Developer General Partner is MBA Urban Development Co., a Missouri corporation. The Limited Partner is SunAmerica Housing Fund 643, a Nevada limited partnership.

Western Carlton II L.P., is a California limited partnership which was initially formed on June 5, 2000. The Partnership owns and operates a 60-unit apartment complex in Los Angeles, California. . Regulatory agreements entered into with the City of Los Angeles and the California Tax Credit Allocation Committee restrict the use of this property as low-income housing.. The Managing General Partner is Hollywood Community Housing Corporation, and the Development General Partner is MBA Urban Development Co., a Missouri corporation. The Limited Partner is SunAmerica Housing Fund 1041, a Nevada limited partnership.

VCHC Gateway, L.P., is a California limited partnership. The initial Partnership was formed in September, 2014, for the purpose of developing an affordable rental housing development for low income persons with related amenities located in Los Angeles, California. The Partnership owns and is currently developing the property. The General Partner is VCHC Gateway, LLC, which owns a .01% interest. HCHC is the co-administrative member of the LLC with a 49% interest. The Limited Partner is NEF Assignment Corporation, a California nonprofit corporation, which owns a 99.99% interest in the Partnership.

(5) Real Estate Under Development

The Organization has several projects in development as of December 31, 2016. Development costs are those costs that the Organization pays on behalf of particular affordable housing projects currently owned by the Organization prior to their being placed in service. The Organization capitalizes these costs until the project is transferred to an Affiliate entity or the project is discontinued and the capitalized costs are expensed. The funding for such costs are generally provided by acquisition, predevelopment and construction loans.

(6) Restricted Cash Reserves

Reserves and restricted deposits primarily consist of housing project operating and replacement reserves, mortgage escrow impounds, and tenant security deposits. 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. Reserves are included as restricted cash in the accompanying consolidated financial statements.

(7) Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2016, are available for the following purposes:

Tenant supportive services	$ 161,876
General operating support	75,000
Low-income housing predevelopment expense	87,500
Total	$ 324,376

(8) Retirement Plan

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

(9) Intangible Costs

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

		Affiliates
Marketing and Tax Credit Fees	1- 15 years	$ 354,459
Less: Accumulated Amortization		(186,532)
Net Intangible Costs		$ 167,927

Estimated amortization expense for the next five years and thereafter is as follows:

Year Ending December 31	Affiliates
2017	$ 25,210
2018	23,935
2019	21,213
2020	16,893
2021	15,228
Thereafter	65,448
Total	$ 167,927

(10) Investments in Controlled Limited Partnerships and Other Entities

The following is the summarized combined financial information of the Affordable Housing Entities controlled by HCHC as of December 31, 2016:

ASSETS	
Cash and equivalents	$ 981,988
Reserves and security deposits	5,129,551
Accounts receivable	52,406
Prepaid expenses	110,235
Property, at cost	
Land and improvements	27,210,835
Buildings and improvements	133,300,812
Equipment and furniture	1,824,095
Real estate under development	1,979,320
Less: accumulated depreciation	35,152,837
Net Property	129,162,225
Intangible costs, net of accumulated amortization (note 9)	167,927
Deposits	14,709
Total real estate and other assets held in controlled entities	135,619,041
Assets eliminated in consolidation	1,208,644
Total real estate and other assets held in controlled entities, **before elimination**	$ 136,827,685
LIABILITIES AND NET ASSETS	
Accounts payable	$ 348,067
Real estate development costs payable	432,789
Prepaid rent	41,593
Other financing costs payable	141,974
Tenant security deposits	454,810
Accrued interest payable (note 12)	16,850,338
Notes payable (note 12)	95,691,392
Total Notes payable and other liabilities held in controlled entities	113,960,963
Unrestricted net assets	21,658,078
Liabilities and net assets eliminated in consolidation	1,208,644
Total liabilities and net assets held in controlled entities, **before elimination**	$ 136,827,685

(10) Investments in Controlled Limited Partnerships and Other Entities, Continued

REVENUE	
Rental income	$ 6,555,222
Laundry and vending machines	60,724
Cancellation of indebtedness	170,267
Investment income	3,963
Total income from controlled entities	6,790,176
Income eliminated in consolidation	-
Total income from controlled entities, **before elimination**	$ 6,790,176
EXPENSES	
Salaries	$ 765,758
Employee benefits and taxes	271,076
Social service and education	7,168
Office and administration	307,843
Bad debts	26,042
Legal and professional	245,237
Property tax and insurance	405,162
License, permits, and fees	67,142
Bond fees and other financing costs	33,307
Maintenance and repairs	1,760,957
Property and asset management fees	439,823
Utilities	758,340
Organization costs	11,879
Interest	2,202,491
Expenses before depreciation and amortization	7,302,225
Depreciation and amortization	3,596,824
Total expenses from controlled entities	10,899,049
Expenses eliminated in consolidation	393,647
Total expenses from controlled entities, **before elimination**	$ 11,292,696

(11) Related Party Transactions

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

HCHC earns developer fees, management fees, tenant resident service fees, and accounting fees in connection with services rendered to the Affordable Housing Affiliates under various terms and provisions as defined by each Affiliate. Additionally, for the year ending December 31, 2016, HCHC earned approximately $8,000 in management fees from the limited partnerships not controlled by HCHC, as described in note 4.

(12) Notes Payable

Notes payable consist of unsecured debt and collateralized trust deeds on real property and improvements as follows:

HCHC:

$200,000 unsecured line of credit with Wells Fargo Bank, bearing interest at 2% per annum. Interest only payable in quarterly installments through October, 2017; thereafter principal payments of $25,000 plus interest payments due quarterly, any unpaid principal and accrued interest due October, 2019. The loan is immediately due and payable if the Organization ceases its normal business operations.	$ 200,000
$500,000 unsecured line of credit with Wells Fargo Bank, interest accruing at a rate of 3.5% per annum plus .0625% above the reference One-Month LIBO rate (4.32% at December 31, 2016). Interest only payable in monthly installments, principal and any accrued interest all due March, 2017 and subsequently paid in full in May, 2017.	492,226
$500,000 line of credit with Union Bank, secured by Organization assets, interest accruing at a rate of 0.5% per annum above the reference rate determined by Union Bank (4% at December 31, 2016). Interest only payable in monthly installments, principal and any accrued interest all due March, 2017. The loan was subsequently extended and is due March, 2018. At December 31, 2016, $200,000 was available for borrowing on the line of credit. The line of credit is subject to certain bank covenants, as defined in the lender Covenant Agreement.	300,000
Unsecured recoverable grant from Enterprise Community Partners, in the original amount of $100,000, to be used for predevelopment and operational support. The recoverable grant is non-interest bearing, due March, 2017 and subsequently paid in full in March, 2017.	100,000
Note payable to the City of Los Angeles, in the original amount of $6,527,000, secured by a deed of trust on real property, bearing interest at 3% per annum, unpaid principal and accrued interest due September, 2018. Interest incurred during 2016 was $141,728 and as of December 31, 2016, accrued interest totaled $766,056.	4,994,322
Note payable to the City of Los Angeles, in the original amount of $3,100,000, secured by a deed of trust on real property, bearing interest at 3% per annum. In the event of default, the interest rate will increase to the maximum amount permitted by law. Unpaid principal and all accrued interest due in full March, 2019. Interest incurred during 2016 was $81,259 and as of December 31, 2016, accrued interest totaled $268,222.	2,883,442
Note payable to the Corporation for Supportive Housing, in the original amount of $1,760,000, 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 December, 2017. Interest incurred during 2016 was $91,783.	1,546,827
Unsecured predevelopment note payable to the Corporation for Supportive Housing, in the original amount of $75,000, bearing interest at interest at 3% per annum, paid monthly from lender's interest holdback reserve. All Unpaid principal and accrued interest due April, 2017 and subsequently paid in full in March, 2017. Interest incurred during 2016 was $600.	20,000
Unsecured predevelopment note payable to Low Income Investment Fund, in the original amount of $400,000, bearing interest at interest at 6.25% per annum which is paid monthly from lender's interest holdback reserve. All Unpaid principal and accrued interest due July, 2017. The loan was subsequently extended and is due January, 2019. Interest incurred during 2016 was $6,380.	103,338

(12) Notes Payable, Continued

Note payable to Low Income Investment Fund, in the original amount of $490,000, secured by a deed of trust on real property, bearing interest at interest at 4.76% per annum which is paid monthly from lender's interest holdback reserve. All Unpaid principal and accrued interest due July, 2017. The loan was subsequently extended and is due January, 2019. Interest incurred during 2016 was $23,713.	478,896
Note payable to the City of Los Angeles, in the original amount of $1,200,000, secured by a deed of trust on real property, bearing interest at 4% per annum, payable annually based on residual receipts, as defined, until all amounts have been paid in full, due the earlier of December, 2035 or at time of sale or refinancing.	1,200,000
Note payable to Low Income Investment Fund, in the original amount of $600,000, secured by a deed of trust on real property, bearing interest at interest at 6% per annum which is paid monthly from lender's interest holdback reserve. All Unpaid principal and accrued interest shall be due the earlier of obtaining project construction financing or January, 2018. The loan is subject to certain bank covenants, as defined. Interest incurred during 2016 was $16,973.	560,080
Note payable to the City of Los Angeles, in the original amount of $437,479, secured by a deed of trust on real property, bearing interest at 5% per annum, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due the earlier of March, 2037 or at time of sale or refinancing. Subject to possible interest forgiveness provisions at the end of the loan term.	435,498
Note payable to the City of Los Angeles, in the original amount of $1,200,000, secured by a deed of trust on real property, non-interest bearing, payable annually based on residual receipts, as defined, until all amounts have been paid in full, due the earlier of March, 2037 or at time of sale or refinancing.	1,200,000
Note payable to the City of Los Angeles, in the original amount of $135,000, secured by a deed of trust on real property, non-interest bearing, payable annually based on residual receipts, until all amounts have been paid in full, due at time of sale or refinancing.	135,000
Deferred note payable to the City of Los Angeles, in the original amount of $1,910,915, secured by a deed of trust on real property, bearing interest at 3% per annum. Beginning in 2012, the lender makes an annual determination if the property has been maintained in accordance with the loan agreement, as defined. If determined to be in compliance, 5% of the principal balance and all interest that was accrued for the year shall be deemed paid to the lender. Any amount of unpaid principal and accrued interest shall be due in full January, 2031. Interest incurred during 2016 was $43,398 and as of December 31, 2016, accrued interest totaled $31,988.	1,430,035
	16,079,664
Less unamortized debt issuance costs	(4,721)
HCHC Total	$ 16,074,943

Affordable Housing Affiliates:

Nine amortizing notes payable to various lenders, secured by deeds of trust on real property, bearing interest ranging from 2.40% to 8.45% per annum, principal and interest due date ranging from January, 2018 to December 1, 2039.	$ 12,427,063
Forty nine non-amortizing notes payable to various lenders, secured by deeds of trust on real property, interest ranging from zero to 5.96% per annum, payable based on residual receipts, as defined, until all amounts have been paid in full, due date ranging from July 2021 to July 2070. Some notes subject to interest forgiveness provisions (see note 15).	80,824,925

(12) Notes Payable, Continued

Two non-amortizing notes payable to The US Department of Housing and Urban Development under Section 811 of the Housing Act, in the original amount of $3,514,300, non-interest bearing. Loan forgiveness as stipulated in the loan agreements remain in effect as long as the properties are operated and maintained as low-income housing for the disabled.	3,514,300
	96,766,288
Less unamortized debt issuance costs	(1,074,896)
Affordable Housing Affiliates Total	$ 95,691,392

At December 31, 2016, required principal repayments of notes payable are as follows:

Year Ending December 31	HCHC	Affordable Housing Affiliates
2017	$ 3,041,287	$ 155,686
2018	5,554,402	7,128,563
2019	3,083,442	174,488
2020	-	1,474,893
2021	-	206,126
Thereafter	4,400,533	87,626,532
Total	$ 16,079,664	$ 96,766,288

The City of Los Angeles loaned HCHC $5,436,590, at 5% per annum, for the purpose of developing affordable housing. The City allowed HCHC to subsequently assign the real property and its rights under three loan agreements to Mirada Terrace Apartments Limited Partnership, Harold Way Limited Partnership, and Mariposa Place Apartments Limited Partnership, of which HCHC participates as the General Partner. Because the funds were part of a government grant that required the loans to remain with HCHC, the security interest for the City loans are cross collateralized against real property assigned to the Limited Partnerships.

Concurrent with the execution of these loans, HCHC received $5,436,590 in promissory notes from the Limited Partnerships, the terms of which were identical to the loans payable to the City of Los Angeles. Proceeds due under the notes receivable will be used to offset the identical payments due under the notes payable. As such, HCHC has not reflected the notes, interest income and interest expense in the financial statements. Accrued interest expense/interest income on the notes approximated $3,017,000 at December 31, 2016.

	Current Portion	Non-Current Portion	Principal Balance as of 12/31/16	Accrued Interest as of 12/31/16
HCHC:				
Amortizing	$ -	-	-	$ -
Non-Amortizing	3,041,287	13,038,377	16,079,664	1,134,353
Subtotal HCHC	$ 3,041,287	13,038,377	16,079,664	$ 1,134,353
Less: Debt Issuance Costs			(4,721)	
Total HCHC			16,074,943	
Affordable Housing Affiliates:				
Amortizing	$ 155,686	12,271,377	12,427,063	$ 14,217
Non-Amortizing	-	84,339,225	84,339,225	16,836,121
Subtotal Affordable Housing Affiliates	$ 155,686	96,610,602	96,766,288	$ 16,850,338
Less: Debt Issuance Costs			(1,074,896)	
Total Affordable Housing Affiliates			95,691,392	

(13) Functional Expenses

Functional expenses for 2016 are allocated as follows:

Program Services	$ 11,076,113
Management and General	2,255,946
Fundraising	152,375
Total Expenses	$ 13,484,434

(14) Guaranties

In connection with the sale of the Wilcox, Argyle Community and Carlton Way projects to HCHC Recap 1, L.P., the Sellers financed a portion of the acquisition by issuing non-amortizing residual receipts promissory notes due January, 2071, totaling $944,000 to HCHC Recap 1, L.P. Pursuant to the promissory notes, HCHC has guaranteed repayment of principal, accrued interest and any costs of enforcement under the notes if in default.

HCHC, as the General Partner in various Affordable Housing Affiliates has entered into certain guarantees with the Investor Limited Partner regarding construction completion, initial operating and tax credit guaranties, as defined in the Partnership Agreements, including the following:

Development Guaranty

In general, HCHC is obligated to pay any development cost deficits or, at the option of the investor limited partner, to purchase the interest of the investor limited partner if the project is not completed or if permanent financing has not been obtained by specific dates. Under these guarantees HCHC provides assurance on project completion and repayment guarantees to lenders for the respective loans. These obligations typically terminate upon funding of permanent project financing.

Credit Recapture Guaranty

In the event of a recapture of tax credits previously received by an investor limited partner, HCHC shall be obligated to reimburse the investor limited partner for any recaptured credits plus any related penalties, interest or additional taxes due. HCHC is not obligated to reimburse if the recapture is due to a change in law or actions by the limited partners.

(15) Commitments and Contingent Liabilities

Operating Deficit Guaranty

In general, HCHC is required to advance funds to the Affordable Housing Affiliates 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 certain maximums, as indicated below. The following are the Affordable Housing Affiliates that are under the operating deficit guaranty and the maximum amount of the guaranty:

Affordable Housing Affiliates	Amount
Step Up on Colorado, L.P.	$ 150,000
Step Up on Vine, L.P.	145,000
HCHC Recap 1, L.P.	325,000
VCHC Gateway L.P.	105,000

(15) Commitments and Contingent Liabilities, Continued

HCHC:

HCHC leases office equipment under various operating lease agreements. Gross monthly minimum lease payments are $628 through September, 2017 and then $550 through July, 2019. Equipment rental expense for the year ended December 31, 2016 approximated $8,600.

According to loan and regulatory agreements, HCHC is required to maintain rental property reserves. HCHC is required to fund annually, from available cash flows, operating reserves equal to three percent of net rental income and replacement reserves of $5,750 per year for its 1938 N. Argyle Avenue housing project.

In 2009 HCHC purchased its office facility, which is located within the Mariposa Place Apartments, L.P.'s (of which HCHC is the General Partner) affordable housing complex. Along with the purchase agreement, HCHC and Mariposa Place entered into a separate reciprocal easement agreement which provided permanent easements, subject to covenants and restrictions per terms of the easement agreement. The reciprocal easement agreement was amended in January, 2012, to include requirements that HCHC make annual payments to Mariposa Place for parking spaces of $3,840 and 7.55% of the annual building insurance costs.

In addition, HCHC entered into a master commercial lease agreement with Mariposa Place for additional commercial space located at the complex. The commercial lease agreement was amended in January, 2012. The lease has a 30-year term expiring December 31, 2039. The lease agreement also requires HCHC to pay an annual rent of $1 over the life of the lease, plus its proportional share of operating expenses. The total amount incurred by HCHC in 2016 for these charges was $6,275.

HCHC's participation in the limited partnerships described above 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, HCHC may be required to arrange for additional funds related to any rehabilitation or operating needs of the partnerships. HCHC 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.

In connection with the Affordable Housing Affiliates who have received low-income housing tax credits, the Affordable Housing Affiliates' awarded housing tax credits are contingent on their ability to maintain compliance with applicable Internal Revenue Service tax credit regulations on an ongoing basis. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits. The General Partner is responsible to ensure that the Partnership satisfies such requirements as part of its guarantees, as defined in the Partnership Agreement.

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.

HCHC Litigation

Certain HCHC Affordable Housing Affiliates, along with 60 other housing property owners with Community Redevelopment Agency of the City of Los Angeles (CRA) funding, were listed as nominal defendants in a lawsuit brought against the City of Los Angeles and the CRA by the Plaintiffs; Independent Living Center of Southern California, Fair Housing Council of San Fernando Valley, and Community Actively Living Independent and Free. The complaint alleges that the CRA failed to ensure apartment complexes that were funded with CRA funds were accessible to people with disabilities. Management does not believe that the outcome of this legal matter will have a material effect on the Organization's consolidated financial position or results of operations.

(15) Commitments and Contingent Liabilities, Continued

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 exceeds the principal balance of the loan plus the principal balance of any loans 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):

Dunning Apartments Partnership, L.P.	$ 1,950,000
St. Andrew's Community Limited Partnership	686,000
Total	$ 2,636,000

A regulatory agreement with the City of Los Angeles provides for possible forgiveness of interest on the Dunning Apartments mortgage note payable of $1,479,564. At the end of the note's forty-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, 2016, the Organization is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $1,950,000, if the fair market value of the property is sufficient at loan maturity.

A regulatory agreement with the City of Los Angeles provides for possible forgiveness of interest on the St. Andrew's Community mortgage note payable of $1,127,000. At the end of the note's forty-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, 2016, the Organization is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $686,000, if the fair market value of the property is sufficient.

The deferral provisions as stipulated in the loan agreements remain in effect only as long as the properties are operated and maintained as low-income housing and the Organization complies 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 loan 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 provisions of the loan agreements.

(16) Subsequent Events

The Organization entered into the following transactions during 2017:

HCHC:

On June 23, 2017, HCHC obtained an unsecured predevelopment loan for the development of real property located in Los Angeles. In connection with this financing HCHC executed a promissory note payable to the Low Income Investment Fund, in the amount of $500,000, due the earlier of the closing of construction financing or December 23, 2019, subject to an option to extend. The loan bears interest at the rate of 5.75% per annum with interest only paid monthly.

On May 30, 2017, HCHC executed a loan agreement with the City of Los Angeles related to the development of real property located in Los Angeles that was previously acquired by HCHC. In connection with this development HCHC executed a promissory note payable to the City in an amount not to exceed $1,605,973 which is due May 30, 2059. The loan is repayable from 50% of project residual receipts and bears interest at the rate of 4% per annum.

On August 29, 2017, a determination was made that the Organization's Westlake housing project was no longer feasible. Costs of the project have been capitalized and are reflected on the financial statements as real estate under development in the amount of $225,307. These capitalized costs will be expensed in 2017.

Affordable Housing Entities:

On May 1, 2017, Paul Williams Apartments, L.P., Limited Partnership was formed. The amended and restated agreement allows for the withdrawal of HCHC, as the temporary limited partner, and the admittance of Bank of America, N.A., as the investor Limited Partner. The entity is controlled by HCHC. The project involves the rehabilitation of 41 units of multi-family housing. Development of the property is expected to be completed in December, 2018.

On May 31, 2017, Coronel Apartments, L.P., Limited Partnership was formed. The amended and restated agreement allows for the withdrawal of Hollywood Housing Holdings, LLC, as the temporary limited partner, and the admittance of U.S. Bancorp Community Development Corporation., as the investor Limited Partner. The entity is controlled by HCHC. The project involves the development of 54 units of multi-family housing. Development of the property is expected to be completed in February, 2019.

Supplementary Information

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Financial Position

December 31, 2016

SCHEDULE 1

	General and Administration	Rental Operations	HCHC Total	HCHC Laundry LLC	Affordable Housing Affiliates	Elimination Adjustments	HCHC and Affiliates Total
ASSETS							
Cash and equivalents	$ 1,639,091	103,867	1,742,958	28,055	-	-	$ 1,771,013
Restricted reserves and deposits	152,373	273,233	425,606	-	-	-	425,606
Accounts receivable	84,854	9,010	93,864	-	-	-	93,864
Grant receivable	85,000	-	85,000	-	-	-	85,000
Developer fee receivable	490,000	-	490,000	-	-	-	490,000
Prepaid expenses	29,630	897	30,527	902	-	-	31,429
Due from (to) other fund	12,500	(12,500)	-	-	-	-	-
Property, at cost							
Land and improvements	-	549,053	549,053	-	-	-	549,053
Buildings and improvements	988,649	3,263,726	4,252,375	-	-	(200,000)	4,052,375
Leasehold improvements	-	-	-	305,956	-	-	305,956
Equipment and furniture	342,004	65,894	407,898	271,700	-	-	679,598
Real estate under development	14,760,554	-	14,760,554	-	-	-	14,760,554
Less: accumulated depreciation	483,515	963,006	1,446,521	347,592	-	17,411	1,776,702
Net Property	15,607,692	2,915,667	18,523,359	230,064	-	(182,589)	18,570,834
Advances to affiliates	308,849	-	308,849	-	-	(308,849)	-
Investment in affiliates	226,135	-	226,135	-	-	(226,035)	100
Deposits	10,000	-	10,000	5,085	-	-	15,085
Note receivable from affiliate	200,000	-	200,000	-	-	(200,000)	-
Real estate and other assets held in controlled limited partnerships	-	-	-	-	136,827,685	(1,208,644)	135,619,041
Total Assets	$ 18,846,124	3,290,174	22,136,298	264,106	136,827,685	(2,126,117)	$ 157,101,972

See accompanying auditor's report.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Financial Position, Continued

December 31, 2016

SCHEDULE 1

	General and Administration	Rental Operations	HCHC Total	HCHC Laundry LLC	Affordable Housing Affiliates	Elimination Adjustments	HCHC and Affiliates Total
LIABILITIES AND NET ASSETS							
Accounts payable	$ 127,230	7,054	134,284	6,972	-	-	$ 141,256
Real estate development costs payable	342,539	-	342,539	-	-	-	342,539
Due to affiliates	6,260	-	6,260	37,995	-	(44,255)	-
Prepaid rent	-	10,073	10,073	-	-	-	10,073
Accrued vacation	54,372	-	54,372	-	-	-	54,372
Notes payable	12,879,131	3,195,812	16,074,943	200,000	-	(200,000)	16,074,943
Accrued interest payable	1,102,365	31,988	1,134,353	-	-	-	1,134,353
Tenant security deposits	2,331	10,843	13,174	-	-	-	13,174
Notes payable and other liabilities held in controlled limited partnerships	-	-	-	-	116,278,340	(2,317,377)	113,960,963
Total Liabilities	14,514,228	3,255,770	17,769,998	244,967	116,278,340	(2,561,632)	131,731,673
Commitments and contingencies							
Net Assets:							
Unrestricted	4,007,520	34,404	4,041,924	19,139	20,549,345	435,515	25,045,923
Temporarily restricted	324,376	-	324,376	-	-	-	324,376
Total Net Assets	4,331,896	34,404	4,366,300	19,139	20,549,345	435,515	25,370,299
Total Liabilities and Net Assets	$ 18,846,124	3,290,174	22,136,298	264,106	136,827,685	(2,126,117)	$ 157,101,972

See accompanying auditor's report.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Activities

Year ended December 31, 2016

SCHEDULE 2

	General and Administration	Rental Operations	HCHC Total	HCHC Laundry LLC	Affordable Housing Affiliates	Elimination Adjustments	HCHC and Affiliates Total
Changes in unrestricted net assets:							
Revenues and Support:							
Contributions	$ 647,663	-	647,663	-	-	-	$ 647,663
Government contracts	258,159	-	258,159	-	-	-	258,159
Program and resident service fees	81,974	-	81,974	-	-	(81,974)	-
Project developer fees	839,000	-	839,000	-	-	(50,000)	789,000
Project management fees	191,513	-	191,513	-	-	(183,452)	8,061
Rental income	288,813	216,128	504,941	-	-	-	504,941
Laundry and vending machines	-	2,145	2,145	172,054	-	-	174,199
Cancellation of indebtedness	-	140,876	140,876	-	-	-	140,876
Investment income	142	226	368	-	-	-	368
Income from controlled limited partnerships	-	-	-	-	6,790,176	-	6,790,176
Total unrestricted revenue	2,307,264	359,375	2,666,639	172,054	6,790,176	(315,426)	9,313,443
Net assets released from restrictions:							
Satisfaction of program restrictions	78,502	-	78,502	-	-	-	78,502
Total unrestricted revenue and support	2,385,766	359,375	2,745,141	172,054	6,790,176	(315,426)	9,391,945
Expenses:							
Salaries	1,230,652	30,203	1,260,855	61,075	-	-	1,321,930
Employee benefits and taxes	195,599	15,083	210,682	6,246	-	-	216,928
Social service and education	45,495	431	45,926	-	-	-	45,926
Consultants	44,857	-	44,857	-	-	-	44,857
Office and administration	85,069	19,458	104,527	10,659	-	(8,217)	106,969
Legal and professional	38,507	7,298	45,805	580	-	-	46,385
Fundraising and outreach	38,203	-	38,203	-	-	-	38,203
Property tax and insurance	132,805	9,967	142,772	18,486	-	-	161,258
Maintenance and repairs	72,602	91,786	164,388	20,689	-	-	185,077
Property and asset management fees	-	13,012	13,012	-	-	-	13,012
Partnership mgmt and resident service fees	(29,000)	29,000	-	-	-	-	-
Utilities	40,219	23,129	63,348	47,231	-	-	110,579
Interest	17,673	56,354	74,027	-	-	-	74,027
Real estate development expense	280,000	-	280,000	-	-	(280,000)	-
Expenses from controlled limited partnerships	-	-	-	-	7,661,778	(359,553)	7,302,225
Expenses before depreciation and amortization	$ 2,192,681	295,721	2,488,402	164,966	7,661,778	(647,770)	$ 9,667,376

See accompanying auditor's report.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Activities, Continued

Year ended December 31, 2016

SCHEDULE 2

	General and Administration	Rental Operations	HCHC Total	HCHC Laundry LLC	Affordable Housing Affiliates	Elimination Adjustments	HCHC and Affiliates Total
Changes in unrestricted net assets, Continued:							
Depreciation and amortization	$ 72,894	93,129	166,023	59,211	3,630,918	(39,094)	$ 3,817,058
Total expenses	2,265,575	388,850	2,654,425	224,177	11,292,696	(686,864)	13,484,434
Increase (Decrease) in unrestricted net assets	120,191	(29,475)	90,716	(52,123)	(4,502,520)	371,438	(4,092,489)
Change in temporarily restricted net assets:							
Contributions	310,417	-	310,417	-	-	-	310,417
Net assets released from restrictions	(78,502)	-	(78,502)	-	-	-	(78,502)
Increase in temporarily restricted net assets	231,915	-	231,915	-	-	-	231,915
Increase (decrease) in net assets	352,106	(29,475)	322,631	(52,123)	(4,502,520)	371,438	(3,860,574)
Other changes in net assets:							
Partnership contributions	284,049	-	284,049	-	7,472,876	26,557	7,783,482
Syndication costs	-	-	-	-	(91,142)	-	(91,142)
Transfers	-	-	-	-	(2,294,034)	(143,130)	(2,437,164)
Net assets at beginning of year	3,695,741	63,879	3,759,620	71,262	19,964,165	180,650	23,975,697
Net assets at end of year	$ 4,331,896	34,404	4,366,300	19,139	20,549,345	435,515	$ 25,370,299

See accompanying auditor’s report.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Cash Flows

Year ended December 31, 2016

SCHEDULE 3

	General and Administration	Rental Operations	HCHC Total	HCHC Laundry LLC	Affordable Housing Affiliates	Elimination Adjustments	HCHC and Affiliates Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Change in net assets	$ 352,106	(29,475)	322,631	(52,123)	(4,502,520)	371,438	$ (3,860,574)
Adjustments to reconcile change in net assets to cash flow from operating activities:							
Depreciation expense and amortization expense	72,894	93,984	166,878	59,211	3,719,058	(39,094)	3,906,053
Prepaid investor service fee	-	-	-	-	5,005		5,005
Organization costs	-	-	-	-	11,879		11,879
Cancellation of indebtedness	-	(140,876)	(140,876)	-	(170,267)		(311,143)
Unrealized gain on interest rate swap	-	-	-	-	(64,254)		(64,254)
(Increase) decrease in operating assets:							
Tenant security deposits	-	(4)	(4)	-	(52,007)		(52,011)
Grants receivable	(85,000)		(85,000)	-	-		(85,000)
Accounts receivable	87,589	(975)	86,614	-	689		87,303
Prepaid expenses	953	(44)	909	(229)	(66,080)		(65,400)
Developer fee receivable	10,000	-	10,000	-	-		10,000
Due from affiliates	688	-	688	-	-	(688)	-
Deposits	-	-	-	173	(8,156)		(7,983)
Increase (decrease) in operating liabilities:							
Accounts payable and accrued expenses	58,817	3,189	62,006	38	75,737		137,781
Prepaid rent	-	9,312	9,312	-	14,921		24,233
Due to affiliates	6,260	-	6,260	(42)	71,145	(77,363)	-
Accrued interest payable	692	43,399	44,091	-	1,670,161	(46,054)	1,668,198
Tenant security deposits	-	(484)	(484)	-	57,976		57,492
Net cash provided by operating activities	504,999	(21,974)	483,025	7,028	763,287	208,239	1,461,579
CASH FLOWS FROM INVESTING ACTIVITIES:							
Payment for property and other reserves	(141)	(4,244)	(4,385)	-	8,862		4,477
Payment for equipment and furniture	-	-	-	-	(391,400)		(391,400)
Increase in housing partnership investments	(300)	-	(300)	-	-	200	(100)
Payment for land and building	-	-	-	-	(7,448,582)	14,000	(7,434,582)
Payment for real estate under development	(1,777,889)	-	(1,777,889)	-	(1,330,682)	(492,083)	(3,600,654)
Net cash used in investing activities	$ (1,778,330)	(4,244)	(1,782,574)	-	(9,161,802)	(477,883)	$ (11,422,259)

See accompanying auditor's report.

HOLLYWOOD COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Cash Flows, Continued

Year ended December 31, 2016

SCHEDULE 3

	General and Administration	Rental Operations	HCHC Total	HCHC Laundry LLC	Affordable Housing Affiliates	Elimination Adjustments	HCHC and Affiliates Total
CASH FLOWS FROM FINANCING ACTIVITIES:							
Proceeds from (payment of) affiliate advances	$ 17,300	(17,300)	-	-	(11,935)	11,935	$ -
Contributions	284,049	-	284,049	-	7,472,876	26,557	7,783,482
Syndication costs paid	-	-	-	-	(91,142)		(91,142)
Repayment of notes payable	(100,000)	-	(100,000)	-	(5,900,933)		(6,000,933)
Proceeds from notes payable	2,070,598	-	2,070,598	-	7,005,146		9,075,744
Net cash provided by financing activities	2,271,947	(17,300)	2,254,647	-	8,474,012	38,492	10,767,151
Net increase (decrease) in cash	998,616	(43,518)	955,098	7,028	75,497	(231,152)	806,471
Cash, beginning	640,475	147,385	787,860	21,027	906,491	231,152	1,946,530
Total consolidated cash	1,639,091	103,867	1,742,958	28,055	981,988		2,753,001
Less: cash held in controlled limited partnerships	-	-	-	-	(981,988)	-	(981,988)
Cash, ending	$ 1,639,091	103,867	1,742,958	28,055	-		$ 1,771,013
Supplemental noncash investing and financing activities:							
Additional costs of rental property from capitalized interest accrual and construction costs payable.	$ 606,624	-	606,624	-	566,106	-	$ 1,172,730
Supplemental disclosure of cash flow information:							
cash paid for interest, net of amounts capitalized.	$ 16,980	12,101	29,081	-	471,986	-	$ 501,067

See accompanying auditor's report.