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November 30, 2015

Dear Funder or Lender:


Included in this package are the audited *consolidated* financial statements of A Community of Friends and Subsidiaries for the year ended June 30, 2015. The consolidated financials include the wholly owned limited partnerships of

Parker Hotel, L.P.
Las Palomas Hotel, L.P.
Gower Street Apartments, L.P.
39 West Apartments, L.P.

For the financial statements of A Community of Friends, please refer to the column titled "A Community of Friends" on pages 30 and 31.

Please send any questions regarding the enclosed financial statements to me at rdement@acof.org.

Best regards,



Renae S. DeMent
Director of Finance



**Consolidated Financial Statements
and Supplementary Information
A Community of Friends and Subsidiary
As of and for the Year Ended June 30, 2015
with Report of Independent Auditors**

An Independently Owned Member
McGLADREY ALLIANCE



Vasquez
& Company LLP
Certified Public Accountants and Business Consultants

**Consolidated Financial Statements
and Supplementary Information
A Community of Friends and Subsidiary
*As of and for the Year Ended June 30, 2015
with Report of Independent Auditors***

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Report of Independent Auditors

To the Board of Directors A Community of Friends

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of A Community of Friends and Subsidiary (collectively the "Company"), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of A Community of Friends and Subsidiary as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of A Community of Friend and Subsidiary as a whole. The accompanying supplementary information on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015 on our consideration of A Community of Friends and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering A Community of Friends and Subsidiary's internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
November 25, 2015**

**A Community of Friends and Subsidiary
Consolidated Statement of Financial Position
June 30, 2015**

ASSETS

Current assets

| | |
|--------------------------------|---------------|
| Cash and cash equivalents | \$ 2,258,159 |
| Rental properties reserves | 2,537,416 |
| Project receivables | 1,523,913 |
| Partnership receivables | 222,799 |
| Developer fees receivable, net | 1,179,225 |
| Contracts receivable | 794,728 |
| Other receivables | 173,009 |
| Prepaid expenses and deposits | <u>75,239</u> |

Total current assets 8,764,488

| | |
|---|--------------|
| Long-term project receivables | 742,029 |
| Long-term partnership receivables | 1,678,577 |
| Long-term developer fees receivables, net | 2,821,706 |
| Notes, advances, and interest receivable, net | 12,291,246 |
| Investment in partnerships | 3,521,266 |
| Real estate in development | 521,197 |
| Property and equipment, net | 9,626,713 |
| Other long-term assets | <u>7,534</u> |

Total assets \$ 39,974,756

LIABILITIES AND NET ASSETS

Current liabilities

| | |
|---|------------------|
| Accounts payable and accrued expenses | \$ 1,272,091 |
| Current portion of notes and interest payable | <u>1,060,000</u> |

Total current liabilities 2,332,091

| | |
|--|-------------------|
| Deficiency in partnership investments | 56,039 |
| Notes and interest payable, net of current portion | <u>26,910,416</u> |

Total liabilities 29,298,546

Net assets

| | |
|------------------------|----------------|
| Unrestricted | 10,362,516 |
| Temporarily restricted | 213,694 |
| Permanently restricted | <u>100,000</u> |

Total net assets 10,676,210

Total liabilities and net assets \$ 39,974,756

See notes to consolidated financial statements.

**A Community of Friends and Subsidiary
Consolidated Statement of Activities
Year ended June 30, 2015**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenue and support | | | | |
| Government grants and contracts | \$ 1,789,889 | \$ - | \$ - | \$ 1,789,889 |
| Foundation grants | 467,738 | 114,113 | 100,000 | 681,851 |
| Developer fees | 1,542,002 | - | - | 1,542,002 |
| Partnership and property management fees | 1,105,018 | - | - | 1,105,018 |
| Rental income | 2,003,455 | - | - | 2,003,455 |
| Administrative fees | 62,362 | - | - | 62,362 |
| Interest income from loans | 331,731 | - | - | 331,731 |
| Other interest income | 1,607 | - | - | 1,607 |
| Gain on forgiveness of debt | 1,189,031 | - | - | 1,189,031 |
| Gain on sale of property | 3,124,488 | - | - | 3,124,488 |
| In-kind donations | 5,601 | - | - | 5,601 |
| Fundraising | 230,883 | - | - | 230,883 |
| Miscellaneous | 34,560 | - | - | 34,560 |
| Net assets released from restriction | 275,000 | (275,000) | - | - |
| Total revenue and support | <u>12,163,365</u> | <u>(160,887)</u> | <u>100,000</u> | <u>12,102,478</u> |
| Functional expenses | | | | |
| Program services | 7,385,874 | - | - | 7,385,874 |
| Fund development | 217,848 | - | - | 217,848 |
| Administrative services | 1,351,395 | - | - | 1,351,395 |
| Total functional expenses | <u>8,955,117</u> | <u>-</u> | <u>-</u> | <u>8,955,117</u> |
| Change in net assets before income from investment in partnerships | 3,208,248 | (160,887) | 100,000 | 3,147,361 |
| Income from investment in partnerships | <u>1,133,861</u> | <u>-</u> | <u>-</u> | <u>1,133,861</u> |
| Change in net assets | 4,342,109 | (160,887) | 100,000 | 4,281,222 |
| Net assets, beginning of year | 6,020,407 | 374,581 | - | 6,394,988 |
| Net assets, end of year | <u>\$ 10,362,516</u> | <u>\$ 213,694</u> | <u>\$ 100,000</u> | <u>\$ 10,676,210</u> |

See notes to consolidated financial statements.

**A Community of Friends and Subsidiary
Consolidated Statement of Cash Flows
Year ended June 30, 2015**

| | |
|---|---------------------|
| Cash flows from operating activities | |
| Change in net assets | \$ 4,281,222 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation and amortization | 711,807 |
| Income from investment in partnerships | (1,133,861) |
| Bad debts | 139,036 |
| Gain on forgiveness of debt | (1,189,031) |
| Gain on sale of property | (3,124,488) |
| Decrease (increase) in: | |
| Receivables | (775,220) |
| Prepaid expenses and deposits | 24,886 |
| Interest receivable | (69,236) |
| Other assets | 8,307 |
| Rental properties reserves | 1,045,067 |
| Increase (decrease) in: | |
| Accounts payable and accrued expenses | 13,117 |
| Accrued interest | <u>(4,251,419)</u> |
| Net cash used in operating activities | <u>(4,319,813)</u> |
| Cash flows from investing activities | |
| Disposal of property and equipment | 5,743,651 |
| Purchase of property and equipment | (37,122) |
| Investment in limited partnership | 1,364,056 |
| Issuance of note receivable | (450,000) |
| Real estate in development | <u>420,286</u> |
| Net cash provided by investing activities | <u>7,040,871</u> |
| Cash flows from financing activities | |
| Proceeds from notes payable | 450,000 |
| Payments on notes payable | (3,806,806) |
| Distribution from limited partnership | <u>281,757</u> |
| Net cash used in financing activities | <u>(3,075,049)</u> |
| Change in cash and cash equivalents | (353,991) |
| Cash and cash equivalents, beginning of year | <u>2,612,150</u> |
| Cash and cash equivalents, end of year | <u>\$ 2,258,159</u> |
| Supplemental disclosure of cash flow information | |
| Interest paid | <u>\$ 369,272</u> |

See notes to consolidated financial statements.

NOTE 1 ORGANIZATION

A Community of Friends (ACOF) was organized in 1988 pursuant to the General Nonprofit Corporation laws of the State of California.

ACOF is an affordable housing developer that specializes in developing permanent supportive housing for formerly homeless individuals and families living with mental illness, and ensuring the provision of supportive services to these households. ACOF provides supportive services in approximately half of the buildings in its portfolio, and partners with community-based social service agencies to provide services in its other buildings.

ACOF functions as a general partner in the limited partnerships that own the buildings developed as affordable housing. As discussed further in Note 2, ACOF also directly owns and manages four affordable apartment buildings.

ACOF's income is derived from fees earned related to development, rents and partnership and property management of its affordable housing projects, grants received from foundations and corporations, and contracts awarded by various federal and local government agencies.

In August 2011, ACOF formed Supportive Housing LLC to be the limited partner for acquisitions and for partnerships where the investor limited partner exits at the end of the 15-year tax credit compliance period. During the years 2012 to 2014, Supportive Housing LLC purchased the limited partner interests (99%) in Parker Hotel, L.P., Las Palomas Hotel, L.P., 235 Berendo, L.P., Gower Street Apartments L.P. and 39 West Apartments, L.P. ACOF holds the remaining 1% interest in all five partnerships. In October 2014, the partners (ACOF and Supportive Housing LLC) of 235 Berendo, L.P. sold the land, real and personal property and other assets and liabilities of the partnership to Berendos, L.P. ACOF is the general partner and holds 1% interest in Berendos, L.P.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ACOF and investments in limited partnerships or limited liability companies in which ACOF has a controlling interest (collectively, the "Company"). All significant intercompany transactions have been eliminated in consolidation.

The following entities are included in the consolidated financial statements of ACOF:

- A Community of Friends
- Supportive Housing LLC, which controls the following:
 - Parker Hotel, L.P.
 - Las Palomas Hotel, L.P.
 - 235 Berendo, L.P.
 - Gower Street Apartments, L.P.
 - 39 West Apartments, L.P.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation (continued)

The accounts of 235 Berendo, L.P. are included in the consolidated financial statements up to the date of its sale, October 27, 2014.

There are additional 36 limited partnerships in which the Company has an interest which are not controlled by the Company and do not require inclusion in the consolidated statements in the current year. (See Note 9).

Basis of Presentation

The Company reports information regarding its financial position and activities according to three classes of net assets: *unrestricted, temporarily restricted, and permanently restricted net assets*. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Method of Accounting

The Company's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Developer Fee Income Recognition/Receivable

The Company receives developer fees in connection with overseeing construction projects from initial identification through purchase, construction and occupancy, which average a 48-month period. Although development efforts begin prior to the purchase of property, the related developer fees are generally not determined until after partnerships are formed and/or project financing has been arranged.

In the aggregate, approximately 60% of the development effort is expended prior to obtaining project construction financing, and the remaining construction takes an average of 16 months thereafter. As a result, management established its income recognition policy for developer fees to recognize a total of 60% of the income upon obtaining project financing, and to recognize the remaining income ratably over the succeeding 16 months. Management establishes a reserve on developer fees receivables based on the limited partnerships' ability to generate sufficient future cash flows for payment.

Contributions and Pledges

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Conditional contributions are recorded as support in the period the condition is met. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent. Management has elected to present temporarily restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

The Company places its cash and cash equivalents with major, national financial institutions. Except for the \$100,000 deposit with Enterprise Community Loan Fund, Inc., the balances at the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. At times, cash balances are in excess of the insured limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contracts and Contract Receivable

The Company enters into contracts with various governmental agencies to fund supportive services. The contracts are generally for a period of one to three years and renewed annually.

Contracts receivable represent monies due from governmental agencies. Because of administrative delays, the Company can incur costs under a contract already awarded but awaiting contract execution by the governmental agencies. These costs accounted for as receivable represent an increased credit risk. The Company has historically not suffered any loss as a result of the delay in the government agencies signing the contracts.

Interest Capitalized

The Company follows the policy of capitalizing interest during predevelopment as a component of the cost of property constructed or as a project receivable from a related limited partnership. For the year ended June 30, 2015, there was no interest capitalized in real estate in development.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is computed using the straight-line method over the estimated useful lives as follows:

| | |
|---------------------------|------------------|
| Building and improvements | 27.5 to 40 years |
| Furniture and equipment | 5 to 7 years |

Investment in Partnerships

The Company is the general partner in various limited partnerships. These investments are accounted for using the equity method and the Company will only recognize additional losses on these limited partnerships to the extent that the Company is liable for the obligations of the limited partnerships or is otherwise committed to provide them additional financial support.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and administrative services benefited.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate in Development

The Company capitalizes all costs associated with the acquisition, development, and construction of real estate for eventual transfer to a limited partnership.

Income Taxes

ACOF and its wholly-owned subsidiary, Supportive Housing LLC are exempt from income taxes under Internal Revenue Code Section 501 (c)(3) and Section 23701 (d) of the California Revenue and Taxation Code. Accordingly, a provision for federal or state income taxes is not recorded in the accompanying consolidated financial statements. ACOF is classified as an organization that is not a private foundation under Section 509(a)(i) and 170(b)(a)(vi) of the Internal Revenue Code.

Generally accepted accounting principles prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2015, the Company had no unrecognized tax benefits or tax penalties or interest.

ACOF and Supportive Housing LLC's federal and state income tax returns for 2011 and subsequent years are subject to examination by the regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Use of Estimates

The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Rental Properties

ACOF wholly-owns and manages four rental properties known Selby Hotel (29 units), Orbison House (nine units), Step Out Apartments (11 units), and Central Court Apartments (seven units).

In October 2014, ACOF sold 226 Berendo Apartments and 235 Berendo, L.P.'s land, real and personal property and other assets and liabilities to Berendos, L.P. (in which ACOF is the general partner), but continued the management of 226 Berendo Apartments.

In-kind Donations

The value of significant contributed goods are reflected as contributions in the accompanying consolidated financial statements if an objective basis is available to measure the fair value of such goods at the date of donation.

NOTE 3 CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to increased credit risk are receivables from the limited partnerships in which the Company is a general partner.

The receivables from the limited partnerships include project receivables, developer fees receivables, notes and interest receivables, and partnership receivables. The credit risk of these receivables from the limited partnerships is affected by the cash flows of the limited partnerships (See Note 9 for financial information regarding the limited partnerships).

At June 30, 2015, the Company has developer fees receivable from various limited partnerships amounting to \$4,541,026. The partnership agreements allow for the deferred payment of these developer fees over a ten-year period. The Company estimates that for certain of the limited partnerships, overall project cash flows will increase after five years when the limited partnerships' permanent loans are paid off, after which deferred developer fee payments will increase. At June 30, 2015, the Company has recognized a reserve on the developer fees receivable from these various limited partnerships amounting to \$540,095 (See Note 8).

Notes receivable are from related partnerships. The Company receives funds to loan to the partnerships either by borrowing the funds (mirror loans), or by receiving a grant. The notes receivable where funds were received by grant represent the greater credit risk. The total of such notes receivable is \$3,200,000 with interest accrual of \$1,808,204 at June 30, 2015 (see Note 12).

Management believes the notes will be paid upon the ultimate disposition of the property in the limited partnership. The Company reviews notes receivable for impairment whenever events or changes in circumstances indicate that the carrying value of the notes may not be recoverable. During the year ended June 30, 2015, no such events occurred, and accordingly no impairment loss was recognized for the year then ended.

NOTE 4 CASH AND CASH EQUIVALENTS

At June 30, 2015, cash and cash equivalents are for uses as follows:

| | | |
|---------------------------------------|-------|---------------------|
| A Community of Friends and Subsidiary | \$ | 1,729,760 |
| Rental Properties' Operations | | 528,399 |
| | Total | <u>\$ 2,258,159</u> |

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 5 RENTAL PROPERTIES RESERVES

At June 30, 2015, rental properties reserves total \$2,537,416 and consisted of the following:

| Property | Replacement Reserve | Operating Reserve | Other Reserves |
|---------------------------|------------------------|----------------------|-------------------|
| Orbison House | \$ 6,407 | \$ 16,071 | \$ 3,260 |
| Central Court Apartments | 49,332 | 47,399 | 3,098 |
| Figueroa Court Apartments | - | - | 16,553 |
| Gower St. Apartments | 172,831 | 411,475 | 10,306 |
| Las Palomas Hotel | 72,232 | 361,643 | 10,935 |
| Parker Hotel | 167,850 | 132,259 | 12,895 |
| Selby Hotel | 145,874 | 64,352 | 10,176 |
| Step Out Apartments | 93,268 | 143,216 | 19,605 |
| 39 West Apartments | 219,982 | 335,928 | 10,469 |
| | <u>\$ 927,776</u> | <u>\$ 1,512,343</u> | <u>\$ 97,297</u> |

Rental properties reserves are funds held for use by the properties for operations and replacements. The reserves are required by regulatory agreements.

NOTE 6 PARTNERSHIP RECEIVABLES

At June 30, 2015, partnership receivables consisted of the following:

| | |
|-------------------------------------|---------------------|
| Accrued partnership management fees | \$ 1,872,042 |
| Accrued administrative fees | <u>29,334</u> |
| | Total |
| | 1,901,376 |
| Less current portion | <u>222,799</u> |
| Long-term | <u>\$ 1,678,577</u> |

NOTE 7 PROJECT RECEIVABLES

At June 30, 2015, project receivables consisted of the following:

In operation in 2015:

| | | |
|---------------------------------|----|---------|
| Berendos, L.P. | \$ | 19,881 |
| Amistad Apartments, L.P. | | 137 |
| Calvert Street Apartments, L.P. | | 18,305 |
| Camino de Las Flores, L.P. | | 36,496 |
| 836 Fedora, L.P. | | 9,329 |
| Figueroa Court Apartments, L.P. | | 34,665 |
| Fox Normandie Apartments, L.P. | | 22,556 |
| Gateway Housing, LP | | 30,701 |
| Jackson Aisle Apartments, L.P. | | 32,946 |
| Santos Plaza, L.P. | | 388,587 |
| V. Nueva, L.P. | | 42,427 |
| Vendome Palms, L.P. | | 31,395 |
| Willowbrook Place, L.P. | | 31,224 |

In predevelopment and construction in 2015:

| | |
|--------------------------------------|---------|
| Avalon Apartments, L.P. | 616,401 |
| Beverly PSH, L.P. | 572,958 |
| Fullerton Supportive Housing, L.P. | 126,599 |
| Redlands Supportive Housing, LP | 6,000 |
| Vista del Rio Housing Partners, L.P. | 2,100 |
| West Villas, L.P. | 243,235 |

| | | |
|--|--|-----------|
| | | Total |
| | | 2,265,942 |

| | | |
|----------------------|----|-----------|
| Less current portion | | 1,523,913 |
| Long-term | \$ | 742,029 |

NOTE 8 DEVELOPER FEES RECEIVABLE

At June 30, 2015, developer fees receivable consisted of the following:

| | | |
|---|-------|-------------------------|
| Avalon Apartments, L.P. | \$ | 1,303,355 |
| Berendos, L.P. | | 500,000 |
| Cedar Springs, L.P. | | 420,840 |
| Camino de las Flores, L.P. | | 2,731 |
| Gateway Housing, LP | | 86,526 |
| Jackson Aisle Apartments, L.P. | | 2,474 |
| ND Sepulveda I, L.P. | | 101,150 |
| ND Sepulveda II, L.P. | | 101,150 |
| Osborne Place, L.P. | | 749,900 |
| Santos Plaza, L.P. | | 94,966 |
| Tyrol Plaza, L.P. | | 88 |
| Vendome Palms, L.P. | | 476,500 |
| Vista Del Rio Housing Partners, L.P. | | 67,588 |
| Woodland Terrace, L.P. | | <u>633,758</u> |
| | Total | 4,541,026 |
| Less allowance for uncollectible receivables | | <u>540,095</u> |
| | | 4,000,931 |
| Less current portion | | <u>1,179,225</u> |
| Long-term | \$ | <u><u>2,821,706</u></u> |

NOTE 9 INVESTMENT IN PARTNERSHIPS

The partnerships construct, own and operate affordable apartment buildings in the greater Los Angeles and Orange County metropolitan areas. The Company identifies the properties for development, arranges for investor partners and other financing, supervises construction, and oversees the resulting rental activity. It usually serves as a general partner with a minor ownership interest and receives developer fees and other fees as provided for in each of the partnership/investor agreements. Some of the properties are encumbered by mortgages, which are usually non-recourse to the partnerships and their partners.

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 9 INVESTMENT IN PARTNERSHIPS (CONTINUED)

At June 30, 2015, investment in partnerships consisted of the following:

| | |
|--------------------------------------|---------------------|
| 3101 West Venice, L.P. | \$ 39,200 |
| 836 Fedora, L.P. | (1,884) |
| AMCAL Avenida Fund, L.P. | (43) |
| Amistad Apartments, L.P. | (2,021) |
| Avalon Apartments, L.P. | (3,229) |
| Berendos, L.P. | 1,957 |
| Beverly PSH, L.P. | 500 |
| Brandon Apartments, L.P. | (1,637) |
| California Hotel 1140, L.P. | (31,358) |
| Calvert Street Apartments, L.P. | (166) |
| Camino de las Flores, L.P. | (145) |
| Cedar Springs, L.P. | - |
| Figueroa Court Apartments, L.P. | (230) |
| Figueroa Court Partners | (278) |
| Fox Normandie Apartments, L.P. | (3,999) |
| Fullerton Supportive Housing, L.P. | (792) |
| Gateways Housing, L.P. | 4,910 |
| Jackson Aisle Apartments, L.P. | (38) |
| La Primavera Apartments, L.P. | (111) |
| Maryland Apartments, L.P. | (1,459) |
| ND Sepulveda I, L.P. | 379 |
| ND Sepulveda II, L.P. | 379 |
| Osborne Place, L.P. | (4,170) |
| Rayen Apartments, L.P. | 92,214 |
| Santos Plaza, L.P. | 4,684 |
| Sonya Gardens, L.P. | 3,882 |
| Step Up On Fifth, L.P. | 13,183 |
| The Villas at Gower, L.P. | 23,684 |
| Tyrol Plaza, L.P. | 6,633 |
| Vendome Palms, L.P. | 257,507 |
| Vista Del Rio Housing Partners, L.P. | 3,071,981 |
| V. Nueva, L.P. | (4,029) |
| West Villas, L.P. | - |
| Willis Avenue Apartments, L.P. | (49) |
| Willowbrook Place, L.P. | 173 |
| Woodland Terrace, L.P. | (401) |
| Total | \$ <u>3,465,227</u> |

At June 30, 2015, the above is summarized in the financial statements as follows:

| | |
|--|---------------------|
| Investment in partnerships (assets) | \$ 3,521,266 |
| Deficiency in partnership investments (liability) | <u>(56,039)</u> |
| | \$ <u>3,465,227</u> |

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 9 INVESTMENT IN PARTNERSHIPS (CONTINUED)

The following is a summary of selected financial information from the financial statements of the limited partnerships for the year ended December 31, 2014:

| | Total Assets | Non- Recourse Debt | Total Capital (Deficit) | Revenues | Net Income (Loss) | Company's Allocated Share of Partnership Income (Loss) |
|--------------------------------------|-------------------------|-----------------------------------|--|----------------------|----------------------------------|---|
| 3101 West Venice, L.P. | \$ 2,341,124 | \$ 2,298,911 | \$ 39,200 | \$ - | \$ (800) | \$ (800) |
| 836 Fedora, L.P. | 1,316,450 | 1,337,971 | (65,613) | 304,897 | (457) | 2 |
| AMCAL Avenida Fund, L.P. | 11,264,099 | 6,922,229 | 3,779,860 | 344,028 | (476,651) | (21) |
| Amistad Apartments, L.P. | 5,711,310 | 3,865,816 | 1,720,522 | 436,451 | (368,180) | (40) |
| Avalon Apartments, L.P. | 20,163,358 | 18,120,894 | 626,070 | 38,276 | (288,911) | (29) |
| Berendos, L.P. | 8,550,022 | 5,647,919 | 266,664 | 99,998 | (25,628) | (4) |
| Beverly PSH, L.P. | 2,061,461 | 2,060,161 | 500 | 800 | 400 | 400 |
| Brandon Apartments, L.P. | 3,400,641 | 2,822,765 | 550,704 | 416,198 | (219,049) | (22) |
| California Hotel 1140, L.P. | 2,258,317 | 2,664,211 | (434,680) | 314,179 | (141,041) | (1,356) |
| Calvert Street Apartments, L.P. | 4,038,004 | 2,572,875 | 678,760 | 251,965 | (244,548) | (26) |
| Camino de las Flores, L.P. | 7,748,298 | 6,237,374 | 1,173,605 | 320,201 | (395,273) | (20) |
| Cedar Springs, L.P. | 3,685,612 | - | 1,883,816 | - | - | - |
| Figueroa Court Apartments, L.P. | 2,930,187 | 3,341,976 | (524,968) | 371,890 | (164,959) | (70) |
| Figueroa Court Partners | (1,522) | 2,005 | (1,522) | - | (99) | (278) |
| Fox Normandie Apartments, L.P. | 2,781,720 | 1,603,069 | 1,061,867 | 434,625 | (89,861) | (150) |
| Fullerton Supportive Housing, L.P. | 1,808,660 | 1,808,660 | (800) | - | - | - |
| Gateways Housing, L.P. | 3,769,716 | 1,555,349 | 1,800,452 | 246,239 | (214,955) | (14) |
| Jackson Aisle Apartments, L.P. | 3,162,939 | 2,093,458 | 627,980 | 333,560 | (175,453) | (11) |
| La Primavera Apartments, L.P. | 3,891,488 | 2,137,331 | 1,727,529 | 317,743 | (144,924) | (11) |
| Maryland Apartments, L.P. | 1,902,022 | 1,622,061 | 61,445 | 221,048 | (147,963) | (17) |
| ND Sepulveda I, L.P. | 23,157,219 | 8,209,583 | 14,488,425 | 757,460 | (1,074,461) | 754 |
| ND Sepulveda II, L.P. | 21,866,492 | 7,380,248 | 13,918,280 | 817,602 | (1,061,458) | 754 |
| Osborne Place, L.P. | 20,974,528 | 9,716,996 | 10,019,465 | 922,704 | (971,880) | (294) |
| Rayen Apartments, L.P. | 11,623,155 | 5,619,697 | 5,924,853 | 763,840 | (644,527) | (65) |
| Santos Plaza, L.P. | 4,608,397 | 2,770,008 | 656,261 | 335,843 | (342,387) | (37) |
| Sonya Gardens, L.P. | 3,125,070 | 2,236,948 | 706,270 | 528,280 | (293,985) | (31) |
| Step Up On Fifth, L.P. | 15,967,755 | 12,222,126 | 1,858,682 | 562,540 | (871,810) | (42) |
| The Villas at Gower, L.P. | 28,196,686 | 14,982,153 | 10,739,346 | 901,134 | (954,980) | (38) |
| Tyrol Plaza, L.P. | 7,114,769 | 2,369,058 | 4,703,527 | 821,352 | (203,825) | (10) |
| Vendome Palms, L.P. | 12,875,784 | 10,203,882 | 2,151,100 | 395,886 | (380,558) | (40) |
| Vista Del Rio Housing Partners, L.P. | 12,191,337 | 2,843,841 | 8,176,431 | 368,252 | (585,850) | (11) |
| V. Nueva, L.P. | 3,403,607 | 2,878,136 | 451,800 | 548,757 | (135,205) | (132) |
| West Villas, L.P. | 2,126,736 | - | 3,435 | 4,235 | 3,435 | - |
| Willis Avenue Apartments, L.P. | 14,684,359 | 7,852,310 | 6,769,029 | 565,982 | (577,238) | (55) |
| Willowbrook Place, L.P. | 5,816,296 | 3,733,977 | 1,504,144 | 331,278 | (265,500) | (31) |
| Woodland Terrace, L.P. | 9,118,277 | 6,314,908 | 1,345,504 | 561,019 | (531,316) | (56) |
| | <u>\$ 289,634,373</u> | <u>\$ 168,048,906</u> | <u>\$ 98,387,943</u> | <u>\$ 13,638,262</u> | <u>\$ (11,989,897)</u> | <u>\$ (1,801)</u> |

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 10 REAL ESTATE IN DEVELOPMENT

At June 30, 2015, real estate in development consisted of:

| | | |
|----------|----------|----------------|
| Land | \$ | 215,298 |
| Building | | 305,899 |
| | Total \$ | <u>521,197</u> |

NOTE 11 PROPERTY AND EQUIPMENT

At June 30, 2015, property and equipment consisted of the following:

| | | |
|---|----|-------------------|
| Land, building, and improvements | \$ | 20,000,032 |
| Furniture and equipment | | <u>752,137</u> |
| | | 20,752,169 |
| Less accumulated depreciation and amortization | | <u>11,125,456</u> |
| Total | \$ | <u>9,626,713</u> |

For the year ended June 30, 2015, provision for depreciation and amortization amounted to \$711,807.

NOTE 12 NOTES, ADVANCES, AND INTEREST RECEIVABLE

At June 30, 2015, notes, advances, and interest receivable consisted of the following:

| | <u>Interest Receivable</u> | <u>Principal</u> |
|--|--------------------------------|------------------|
| Notes receivable from limited partnerships are proceeds from notes payable to Los Angeles Housing and Community Investment Department (HCID) and are loaned directly to the limited partnerships with the same interest rate and terms as the notes payable (see Note 13). These notes receivable are from the following limited partnerships: | | |
| Figueroa Court Apartments, L.P. | \$ 480,635 | \$ 1,497,333 |
| V. Nueva, L.P. | 1,030,178 | 1,599,181 |
| Calvert Street Apartments, L.P. | 912,644 | 1,440,450 |

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 12 NOTES, ADVANCES, AND INTEREST RECEIVABLE (CONTINUED)

| | Interest Receivable | Principal |
|---|--------------------------------|------------------|
| Notes receivable from California Hotel 1140, L.P. proceeds from note payable to Bank of America Community Development Bank loaned directly to California Hotel 1140, L.P. Interest accrues at 3% annually. The principal balance and any accrued and unpaid interest matures on December 15, 2047. | \$ 78,603 | \$ 194,079 |
| Notes receivable from Maryland Apartments, L.P. proceeds from note payable to U.S. Bank loaned directly to Maryland Apartments, L.P. Interest accrues at 0.5% per annum and matures in December 2021. | 11,938 | 162,986 |
| Notes receivable from V. Nueva, L.P., interest accrues at 1% per annum and matures in December 2018. | 12,509 | 75,000 |
| Notes receivable from Osborne Place, L.P. proceeds from note payable to Los Angeles Homeless Services Authority loaned directly to Osborne Place, L.P. Interest is at 0% and matures in 2068. | - | 400,000 |
| Notes receivable from The Villas at Gower, L.P., collateralized by a deed of trust on a certain property located in Los Angeles, California with interest at 0% and matures in 2065. The note was funded by California Department of Housing and Community Development's Infill Infrastructure Grant Program. | - | 1,810,000 |
| As discussed in Note 3, the funding for the following notes receivable originated from grant funds: | | |
| Notes receivable from Figueroa Court Apartments, L.P. has annual payments of \$3,250 due from residual receipts and matures in April 2017. Interest accrues at 7.18% per annum. | 654,050 | 400,000 |
| Notes receivable from California Hotel 1140, L.P., interest accrues at 0.5% per annum and matures in December 2017. | 27,001 | 400,000 |

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 12 NOTES, ADVANCES, AND INTEREST RECEIVABLE (CONTINUED)

| | Interest Receivable | Principal |
|--|--------------------------------|------------------|
| Notes receivable from Amistad Apartments, L.P., interest accrues at 5.6% per annum and matures in December 2033. | \$ 280,000 | \$ 400,000 |
| Notes receivable from Calvert Street Apartments, L.P., interest accrues at 5.46% per annum and matures in December 2032. | 243,879 | 400,000 |
| Notes receivable from La Primavera Apartments, L.P., interest accrues at 4.92% per annum and matures in December 2032. | 255,840 | 400,000 |
| Notes receivable from Willowbrook Place, L.P., interest accrues at 5.0% per annum and matures in October 2060. | 174,707 | 400,000 |
| Notes receivable from Woodland Terrace, L.P., interest accrues at 5.0% per annum and matures in December 2060. | 172,727 | 400,000 |
| Notes receivable from Santos Plaza, L.P., interest is at 0% and matures in 2034. | - | 400,000 |
| Notes receivable from Beverly PSH, L.P. proceeds from drawings from ACOF's line of credit with Enterprise Community Loan Fund, Inc. Interest accrues at 7% per annum and matures at the earlier date of Beverly PSH, L.P.'s receipt of permanent financing or October 2018. | - | 300,000 |
| Notes receivable from 3101 West Venice, L.P. proceeds from drawings from ACOF's line of credit with Enterprise Community Loan Fund, Inc. Interest accrues at 7% per annum and matures at the earlier date of 3101 West Venice, L.P.'s receipt of permanent financing or June 2016. | - | 450,000 |
| Notes receivable from Berendos, L.P., interest accrues at 0% per annum and matures in October 2071. Payments shall be made annually based on net cash flow the previous year and any unpaid principal shall be due in full on maturity date. | - | 961,784 |
| Total | 4,334,711 | 12,090,813 |
| Less allowance for uncollectible notes and interest receivable | 1,362,494 | 2,771,784 |
| Net notes, advances and interest receivable | \$ 2,972,217 | \$ 9,319,029 |

NOTE 13 NOTES AND INTEREST PAYABLE

At June 30, 2015, notes and interest payable consisted of the following:

| | Interest Payable | Principal |
|---|---------------------|--------------|
| <i>A Community of Friends</i> | | |
| Notes payable to HCID, principal and interest due in annual payments (as defined in the loan agreements) derived from the cashflows of the various limited partnerships. Interest accrues annually on the outstanding principal balance at 2.5% to 5.72% per annum until the loan is repaid upon final sale of the properties or refinancing of the loan. The proceeds were loaned directly to specified limited partnerships, represented by loans receivable (see Note 12) with the same terms as the notes payable. The loans are collateralized by a deed of trust on the respective property. The notes payable mature as follows: | | |
| Figueroa Court Apartments, L.P., due in September 2038 | \$ 480,635 | \$ 1,497,333 |
| Las Palomas Hotel, L.P., due in June 2051 | 1,912,317 | 2,100,355 |
| V. Nueva, L.P., due August 2040 | 1,030,178 | 1,599,182 |
| Calvert Street Apartments., due July 2041 | 912,644 | 1,440,450 |
| Note payable to Bank of America with no interest or principal payments due until maturity. Interest accrues at the rate charged by the Federal Home Loan Bank of San Francisco per annum on the unpaid portion of the outstanding principal. Should ACOF comply with requirements as stated in the loan agreement, this note becomes interest free. The loan matures in December 2052 and is collateralized by a deed of trust on the California Hotel 1140, L.P. property. Management does not anticipate having to pay interest, and therefore, has not accrued interest on this loan. | - | 194,079 |
| Note payable to U.S. Bank. Should ACOF comply with requirements as stated in the loan agreement, the loan balance will be forgiven, otherwise principal is payable in full in December 2021. The note is collateralized by a deed of trust on the Maryland Apartments, L.P. property. | - | 162,986 |

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

| | Interest Payable | Principal |
|---|-----------------------------|------------------|
| <p>Notes payable to the California Department of Housing and Community Development (HCD). Interest accrues at a simple interest rate of 3% per annum. Interest payments are due annually unless a written request for a deferral of interest payments is submitted. The outstanding principal is to be repaid exclusively from residual receipts (as defined in the loan agreement) and is due upon maturity. The notes payable are collateralized by trust deeds on the property and are as follows:</p> | | |

| | | |
|---|------------|------------|
| Orbison House property, due in March 2031 | \$ 251,746 | \$ 345,000 |
| Selby property, due in July 2031 | 519,090 | 725,000 |

Notes payable to HCID, principal and interest due in annual payments made exclusively from residual receipts (as defined in the loan agreement) derived from the project at the financed property, collateralized by a deed of trust. Interest accrues annually on the outstanding principal balance at 3% per annum until the final sale of the property or refinancing of the loan. Any unpaid accrued interest will be rolled over into the principal balances at the beginning of each calendar year. The notes payable mature as follows:

| | | |
|--|---------|---------|
| Orbison House property, due in December 2019 | 189,924 | 204,000 |
| Selby property, due in July 2021 | 297,171 | 325,000 |

Notes payable to HCID with no interest or principal payments due until maturity. Interest accrues at the rate of 8.5% to 10% per annum on the unpaid portion of the outstanding principal. Should ACOF comply with the Rent Regulatory Agreement, these notes become interest free. The loans are collateralized by a deed of trust on the Selby Hotel property. Management does not anticipate having to pay interest, and therefore, has not recorded accrued interest on these loans. Management requested an extension of these notes and is waiting for approval by the lender. The notes payable originally due in February 2012 was extended as follows:

| | | |
|---------------|---|---------|
| February 2019 | - | 413,250 |
| February 2019 | - | 50,000 |

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

| | Interest Payable | Principal |
|--|-----------------------------|------------------|
| <p>Note payable to HCD for affordable housing related to the Step Out Apartments. Interest accrues at 3% per annum and is payable at 0.42% of the principal on an annual basis. The note is collateralized by a deed of trust on the property and matures in 2043.</p> | \$ 169,181 | \$ 516,851 |
| <p>Note payable to Housing Authority of the County of Los Angeles. Interest accrues at a simple interest rate of 3% per annum. The outstanding principal and accrued interest is to be repaid in annual installments. The loan is collateralized by the Step Out Apartments property and matures on May 15, 2031.</p> | 392,766 | 1,063,688 |
| <p>Note payable to the Community Development Commission of the County of Los Angeles used for acquisition of the Step Out Apartments property. Interest accrues at a simple interest rate of 3% per annum. Principal and interest are due in annual payments made exclusively from residual receipts (as defined in the loan agreement) derived from the project and are due March 2031. The note is collateralized by a deed of trust on the Step Out Apartments.</p> | 61,749 | 176,893 |
| <p>Note payable to Bank of America. Interest accrues at the Affordable Housing Program ("AHP") subsidy rate if AHP requirements are not met. If AHP requirements are met, principal and interest will be forgiven. The loan is collateralized by a deed of trust on the Step Out Apartments property and matures in March 2020.</p> | - | 280,000 |
| <p>Notes payable to HCID, to be used in the financing acquisition of the Central Court Apartment and partially finance the rehabilitation and permanent costs. The loans are non-interest bearing and annual principal payments are made exclusively from residual receipts (as defined in the loan agreement) derived from the project at the financed property. The notes are collateralized by a deed of trust on the Central Court property. Both notes mature in February 2059.</p> | - | 725,808 |

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

| | Interest Payable | Principal |
|--|-----------------------------|------------------|
| <p>Note payable to HCD for affordable housing related to Central Court. Interest accrues at 3% per annum and is payable at 0.42% of the principal on an annual basis. The note is collateralized by a deed of trust on the property and matures on the 55th anniversary of the date of recordation (September 2062) of the Regulatory Agreement or such later date as may be approved in writing by HCD.</p> | \$ 113,263 | \$ 689,200 |
| <p>Note payable to Wells Fargo Bank to be used for predevelopment and land acquisition for affordable housing projects. The unsecured note accrues interest at 2% per annum, with initial maturity date of October 2014 and was extended to October 2016. The interest is payable on a quarterly basis and the principal is due at maturity.</p> | - | 600,000 |
| <p>Unsecured working capital line of credit and predevelopment loan with Enterprise Community Loan Fund, Inc. at 0% per annum and matures in October 2015. It has an initial maturity of December 2010. This loan was modified in October 2010 to extend the maturity date to October 2013. In August 2015, the loan was paid in full and ACOF entered into another loan agreement amounting to \$400,000 payable 24 months from date of Promissory Note.</p> | - | 310,000 |
| <p>Drawn by Beverly PSH, L.P. from ACOF's existing line of credit with Enterprise Community Loan Fund, Inc. The funds were drawn in the form of predevelopment loan of \$300,000, bearing 7% interest rate per annum, secured by Collateral Assignment of Developer Fees executed by ACOF and St. Anne's Maternity Home and matures at the earlier date of Beverly PSH, L.P.'s receipt and permanent loan financing or October 2015. In October 2015, ACOF and Enterprise Community Loan Fund, Inc. entered into a first amended and restated line of credit agreement to increase the principal amount to \$1,000,000 and extend the maturity date to October 2018.</p> | - | 300,000 |

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Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

| | Interest Payable | Principal |
|--|---------------------|---------------|
| <p>Note payable to Enterprise Community Loan Fund, Inc. wherein the proceeds were loaned directly to 3101 West Venice, L.P. for project development. (See note 7). The note bears simple interest rate of 7% per annum, secured by a Collateral Assignment of ACOF's Developer Fees and is payable at the earlier date of (a) 3101 West Venice, L.P.'s receipt of construction/permanent financing for the Project or (b) June 2016.</p> | \$ - | \$ 450,000 |
| <p>Note payable to Los Angeles Homeless Services Authority (LAHSA) wherein the proceeds were loaned directly to Osborne Place, L.P. for project predevelopment (see Note 12). The note bears 0% interest rate per annum, is collateralized by a deed of trust on real property of Osborne and is payable to LAHSA on the earliest of (a) the date the Property ceases to operate as initially funded under SHP grant within 20 years from operating start date, (b) the date the Property is sold or refinanced and (c) on event of default by ACOF.</p> | - | 400,000 |
| <u><i>Parker Hotel, L.P.</i></u> | | |
| <p>Note payable to the City of Los Angeles at 2% interest per annum. Principal and interest are paid annually, from residual receipts sourced from operations. The note matures in March 2035 and is collateralized by a deed of trust.</p> | 1,537,063 | 1,605,167 |
| <u><i>Gower Street Apartments, L.P.</i></u> | | |
| <p>Note payable to the City of Los Angeles at an interest rate of 5% per annum. Payment of principal and interest is sourced from 50% of the residual receipts. The note secured by a deed of trust on real property will mature in June 2037 and any unpaid interest at maturity date will be forgiven if fair market value of the collateral property is less than the principal balance of the note and all other indebtedness secured by the property. As of June 30, 2015, no interest was accrued because the current market value of the property is lower than the loan balance.</p> | - | 1,968,068 |

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2015**

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

| | Interest Payable | Principal |
|--|-----------------------------|------------------|
| <u>39 West Apartments, L.P.</u> | | |
| Note payable to HCID, bearing interest rate of 5% per annum. Principal and interest payments are due annually from residual receipts as defined in the loan agreement. The note matures in December 2016 and is collateralized by a deed of trust on the property. | \$ 721,101 | \$ 1,056,484 |
| Non-interest bearing note payable to Citbank, collateralized by a deed of trust on the property. All payments are deferred until due date on March 2019. | - | 182,794 |
| Total | 8,588,828 | 19,381,588 |
| Less current portion | - | 1,060,000 |
| Long-term portion | \$ 8,588,828 | \$ 18,321,588 |

235 Berendo, L.P.

In 2014, management of 235 Berendo L.P. negotiated a reduction by \$1,093,031 of accrued interest on various notes payable to the City of Los Angeles Housing and Community Investment Department, in connection with the assumption of loan by the buyer of the property. In addition, note payable to Citibank amounting to \$96,000 was forgiven as a result of compliance with the requirements stated in the loan agreement. The reduction of interest payable and forgiveness of notes payable totaling to \$1,189,031 was recorded as gain from forgiveness of debt in the Consolidated Statement of Activities.

Future maturities of notes payable at June 30, 2015 were as follows:

| Year ending June 30, | Amount |
|-------------------------|---------------|
| 2016 | \$ 1,060,000 |
| 2017 | 600,000 |
| 2018 | 280,000 |
| 2019 | 463,250 |
| 2020 | - |
| Thereafter | 25,567,166 |
| Total | \$ 27,970,416 |

NOTE 14 GOVERNMENT/FOUNDATION GRANTS AND CONTRACTS

Unrestricted revenue from government grants and contracts consisted of the following:

| Program and Funding Agency | |
|--|----------------------------|
| Supportive Housing Program: | |
| U.S. Department of Housing and Urban Development | \$ 1,542,725 |
| Los Angeles County Department of Mental Health | 232,164 |
| Los Angeles County | <u>15,000</u> |
| Total | <u><u>\$ 1,789,889</u></u> |

In 2015, ACOF received grants amounting to \$306,900 from NeighborWorks America and were recorded as foundation grants in the Consolidated Statement of Activities. As provided for in the grant agreement, \$206,900 of the grant were classified as unrestricted revenue and \$100,000 were permanently restricted. (see Note 16).

NOTE 15 TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2015, temporarily restricted net assets are available for the following purposes or periods:

| | |
|---------------------------------------|--------------------------|
| Predevelopment support | \$ 25,000 |
| Permanent supportive housing services | 138,694 |
| Alternative financing research | <u>50,000</u> |
| Total | <u><u>\$ 213,694</u></u> |

NOTE 16 PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2015, permanently restricted net assets consist of Capital Grant Funds of \$100,000 received from Neighbor Works America. The funds will be used to provide funds for capital items at two buildings.

NOTE 17 COMMITMENTS AND CONTINGENCIES

Leases

ACOF began leasing its office in May 2011 under a non-cancelable operating lease that expires in April 2017. Additional office space was leased in March 2013 at the same rental rates. The following is a schedule of future minimum lease payments under the said lease as of June 30, 2015 that have initial or remaining lease terms in excess of one year:

| Year ending June 30, | Amount |
|-------------------------|-------------------|
| 2016 | \$ 179,508 |
| 2017 | 163,699 |
| Total | <u>\$ 343,207</u> |

For the year ended June 30, 2015, rent expense charged to operations amounted to \$179,023.

Contingencies

ACOF is contingently liable for all obligations of the partnerships relating to certain recourse notes payable. In some cases, ACOF, as General Partner, has guaranteed to pay all operating deficits and in others has guaranteed the limited partners a return on their investments. However, the guarantees are only to the extent that such items are in excess of reserves that have been set aside for that purpose. Management believes the reserves are adequate, and it is unlikely the Company will be called upon to pay on the guarantees.

At June 30, 2015, ACOF was contingently liable for approximately \$1,737,676 in interest related to various notes payable. Management believes the likelihood ACOF will be required to pay the interest is remote and has not recorded such interest on the consolidated statement of financial position at June 30, 2015.

ACOF also provided construction loan guarantees for various projects under construction. ACOF will be responsible for repaying a loan if, when the loan becomes due, the project does not make payment on the loan. ACOF does not require collateral or other security from its projects related to these guarantees. These construction loan guarantees are estimated to be \$4,579,004 at June 30, 2015. Management believes the likelihood of funding a material amount of any of the guarantees is remote.

ACOF is involved in a pending litigation arising from the normal course of business. After consultation with legal counsel, management estimates that the matter will be resolved without material effect on ACOF's financial position and statement of activities.

NOTE 18 RELATED PARTY TRANSACTIONS

ACOF receives fees for certain services performed by ACOF on behalf of the partnerships. These fees are to be paid to ACOF when cash flows of the limited partnerships are positive. The following fees were earned by ACOF for the year ended June 30, 2015.

| | | |
|--|----|------------------|
| Partnership and property management fees | \$ | 1,105,018 |
| Developer fees | | 1,542,002 |
| Administrative fees | | <u>62,362</u> |
| Total fees earned from partnerships | \$ | <u>2,709,382</u> |

In October 2009, ACOF entered into a Memorandum of Understanding – Subcontract for Property Management Services (MOU) with Barker Management, Inc. (BMI). In accordance with the MOU, ACOF and BMI collaborated to provide management services to the following supportive housing developments in ACOF’s portfolio: Amistad Apartments, Camino de Las Flores Apartments and Las Palomas Hotel.

In April 2011, the MOU was amended to add the following five additional supportive housing developments: 235 Berendo, Fedora Apartments, Fox Normandie Apartments, Vista Nueva Apartments and Willow Apartments. The amended MOU also revised the compensation of BMI to a flat rate of \$25 per unit per month (\$15 per month for 235 Berendo) with ACOF receiving the balance of the management fees earned beginning January 1, 2011. The amendment also provided for the automatic renewal of the MOU for each successive one year term, unless terminated as provided in the original MOU.

In March 2013, a third amendment to the MOU was made to add the following properties: Figueroa Courts, 39 West Apartments, Santos Plaza Apartments, Vendome Palms and Jackson Aisle Apartments.

For the year ended June 30, 2015, ACOF earned property management fees under this agreement in the amount of \$243,852.

NOTE 19 EMPLOYEE RETIREMENT PLAN

ACOF has a profit sharing plan for all eligible employees. Contributions to the plan are discretionary with the rates determined by the Board of Directors. For the year ended June 30, 2015, ACOF's contributions to the plan amounted to \$151,632.

NOTE 20 SUBSEQUENT EVENTS

The Company has evaluated events or transactions that occurred subsequent to the statement of financial position date through November 25, 2015, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that no other subsequent matters required disclosure or adjustment to the accompanying financial statements.

A Community of Friends and Subsidiary
Schedule of Consolidated Functional Expenses
Year ended June 30, 2015

| | Program Services | | | | Total | Fund Development | Administrative Services | Total |
|---------------------------------------|---------------------|------------------------|---------------------|------------------|---------------------|-------------------|-------------------------|---------------------|
| | Supportive Housing | Real Estate Activities | Property Management | Rental | | | | |
| Personnel expenses | | | | | | | | |
| Salaries | \$ 1,312,780 | \$ 599,652 | \$ 374,236 | \$ 56,301 | \$ 2,342,969 | \$ 115,945 | \$ 778,986 | \$ 3,237,900 |
| Payroll taxes | 103,390 | 48,119 | 29,704 | 293 | 181,506 | 8,919 | 58,031 | 248,456 |
| Employee benefits | 199,797 | 68,572 | 42,938 | 191 | 311,498 | 13,822 | 91,835 | 417,155 |
| Total personnel expenses | 1,615,967 | 716,343 | 446,878 | 56,785 | 2,835,973 | 138,686 | 928,852 | 3,903,511 |
| Other expenses | | | | | | | | |
| Advertising | 4,679 | 1,759 | 1,866 | - | 8,304 | 508 | 18,868 | 27,680 |
| Auditing and accounting | 14,621 | 9,039 | 13,879 | 1,890 | 39,429 | 1,102 | 14,384 | 54,915 |
| Auto expense | 19,324 | 6,604 | 756 | 719 | 27,403 | 537 | 2,841 | 30,781 |
| Bad debt | - | 141,217 | - | (2,181) | 139,036 | - | - | 139,036 |
| CoC cash match | 606 | - | - | - | 606 | - | - | 606 |
| Consulting | 1,640 | 140,038 | - | - | 141,678 | 2,800 | 7,386 | 151,864 |
| Contractual-supportive services | 407,561 | - | - | - | 407,561 | - | - | 407,561 |
| Depreciation and amortization | 1,166 | 11,664 | 8,165 | 214,718 | 235,713 | 2,333 | 15,163 | 253,209 |
| Donated supplies | 5,601 | - | - | - | 5,601 | - | - | 5,601 |
| Dues, fees and subscriptions | 835 | 7,433 | 660 | 5,425 | 14,353 | 2,567 | 18,713 | 35,633 |
| Equipment leases | 3,463 | 3,158 | 2,703 | - | 9,324 | 366 | 4,645 | 14,335 |
| Fundraising | - | - | - | - | - | 36,375 | - | 36,375 |
| Interest | - | 300,424 | - | 121,151 | 421,575 | - | 5,988 | 427,563 |
| Legal fees | - | 1,800 | - | 3,570 | 5,370 | - | - | 5,370 |
| Liability insurance | 5,856 | 3,176 | 3,086 | 15,332 | 27,450 | 330 | 23,148 | 50,928 |
| Marketing | - | - | - | - | - | 8,291 | 6,613 | 14,904 |
| Meals | 1,296 | 1,216 | 516 | - | 3,028 | 239 | 17,260 | 20,527 |
| Miscellaneous | 822 | 640 | 985 | 1,201 | 3,648 | 87 | 11,336 | 15,071 |
| Office expenses | 46,111 | 25,219 | 15,482 | 4,158 | 90,970 | 6,945 | 66,035 | 163,950 |
| Postage and printing | 2,091 | 4,418 | 159 | - | 6,668 | 1,181 | 5,852 | 13,701 |
| Maintenance and repairs | - | - | - | 93,970 | 93,970 | - | - | 93,970 |
| Rent and parking | 7,068 | 58,040 | 37,907 | - | 103,015 | 7,750 | 100,551 | 211,316 |
| Rental operations | 225,457 | - | - | - | 225,457 | - | - | 225,457 |
| Resident programs | 197,435 | - | - | - | 197,435 | - | 5,829 | 203,264 |
| Security | - | - | - | 57,599 | 57,599 | - | - | 57,599 |
| Seminars and training | 6,716 | 8,055 | 3,620 | 517 | 18,908 | 577 | 9,231 | 28,716 |
| Taxes and licenses | 38 | 246 | 284 | 4,360 | 4,928 | - | 455 | 5,383 |
| Telephone | 9,577 | 8,570 | 8,353 | 10,117 | 36,617 | 1,405 | 12,740 | 50,762 |
| Temporary staff | - | - | - | - | - | - | 29,825 | 29,825 |
| Travel | 6,977 | 7,785 | 2,280 | - | 17,042 | 1,131 | 5,360 | 23,533 |
| Utilities | - | - | - | 53,916 | 53,916 | - | - | 53,916 |
| Worker's compensation insurance | 37,029 | 30,466 | 14,156 | 576 | 82,227 | 4,638 | 40,320 | 127,185 |
| Total - A Community of Friends | 2,621,936 | 1,487,310 | 561,735 | 643,823 | 5,314,804 | 217,848 | 1,351,395 | 6,884,047 |
| Expenses - Subsidiaries | | | | | | | | |
| Rental operations | - | - | - | 2,071,070 | 2,071,070 | - | - | 2,071,070 |
| Total functional expenses | \$ 2,621,936 | \$ 1,487,310 | \$ 561,735 | 2,714,893 | \$ 7,385,874 | \$ 217,848 | \$ 1,351,395 | \$ 8,955,117 |

See report of independent auditors.

**A Community of Friends and Subsidiary
Consolidating Schedule of Financial Position
June 30, 2015**

| | Supportive Housing LLC | | | | | | | Eliminations | Consolidated |
|--|---------------------------|-----------------------|----------------------------|-----------------------|-------------------------------------|-----------------------------|-----------------------|--------------|----------------------|
| | A Community of Friends | Parker Hotel, L.P. | Las Palomas Hotel, L.P. | 235 Berendo, L.P.* | Gower Street Apartments, L.P. | 39 West Apartments, L.P. | | | |
| ASSETS | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | \$ 2,100,631 | \$ 590 | \$ 487 | \$ 1,387 | \$ 110,816 | \$ 45,635 | \$ (1,387) | \$ | 2,258,159 |
| Rental properties reserves | 618,611 | 313,004 | 444,810 | 6,869 | 594,612 | 566,379 | (6,869) | | 2,537,416 |
| Project receivables | 1,553,039 | - | - | - | - | - | (29,126) | | 1,523,913 |
| Partnership receivables | 222,799 | - | - | - | - | - | - | | 222,799 |
| Developer fees receivable, net | 1,179,225 | - | - | - | - | - | - | | 1,179,225 |
| Contracts receivable | 794,728 | - | - | - | - | - | - | | 794,728 |
| Other receivables | 11,519 | 2,477 | 32,886 | 553 | 123,022 | 3,105 | (553) | | 173,009 |
| Prepaid expenses and deposits | 66,686 | - | 4,170 | 1,075 | 2,386 | 1,997 | (1,075) | | 75,239 |
| Total current assets | 6,547,238 | 316,071 | 482,353 | 9,884 | 830,836 | 617,116 | (39,010) | | 8,764,488 |
| Long-term project receivables | 742,029 | - | - | - | - | - | - | | 742,029 |
| Long-term partnership receivables | 2,106,760 | - | - | - | - | - | (428,183) | | 1,678,577 |
| Long-term developer fees receivables, net | 2,821,706 | - | - | - | - | - | - | | 2,821,706 |
| Notes, advances, and interest receivable, net | 16,289,297 | - | - | - | - | - | (3,998,051) | | 12,291,246 |
| Investment in partnerships | 3,917,137 | - | - | - | - | - | (395,871) | | 3,521,266 |
| Real estate in development | 521,197 | - | - | - | - | - | - | | 521,197 |
| Property and equipment, net | 3,698,948 | 839,587 | 1,951,234 | 1,509,874 | 1,774,040 | 1,757,410 | (1,904,380) | | 9,626,713 |
| Other long-term assets | - | 823 | - | 6,711 | - | - | - | | 7,534 |
| Total assets | \$ 36,644,312 | \$ 1,156,481 | \$ 2,433,587 | \$ 1,526,469 | \$ 2,604,876 | \$ 2,374,526 | \$ (6,765,495) | | \$ 39,974,756 |
| LIABILITIES AND NET ASSETS | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 1,123,391 | \$ 25,821 | \$ 294,145 | \$ 28,654 | \$ 246,169 | \$ 39,874 | \$ (485,963) | \$ | 1,272,091 |
| Current portion of notes and interest payable | 1,060,000 | - | - | - | - | - | - | | 1,060,000 |
| Total current liabilities | 2,183,391 | 25,821 | 294,145 | 28,654 | 246,169 | 39,874 | (485,963) | | 2,332,091 |
| Deficiency in partnership investments | 3,542,063 | - | - | - | - | - | (3,486,024) | | 56,039 |
| Notes and interest payable, net of current portion | 19,839,739 | 3,142,230 | 3,998,051 | 2,655,328 | 1,968,068 | 1,960,379 | (6,653,379) | | 26,910,416 |
| Total liabilities | 25,565,193 | 3,168,051 | 4,292,196 | 2,683,982 | 2,214,237 | 2,000,253 | (10,625,366) | | 29,298,546 |
| Net assets | | | | | | | | | |
| Unrestricted | 10,765,425 | (2,011,570) | (1,858,609) | (1,157,513) | 390,639 | 374,273 | 3,859,871 | | 10,362,516 |
| Temporarily restricted | 213,694 | - | - | - | - | - | - | | 213,694 |
| Permanently restricted | 100,000 | - | - | - | - | - | - | | 100,000 |
| Total net assets | 11,079,119 | (2,011,570) | (1,858,609) | (1,157,513) | 390,639 | 374,273 | 3,859,871 | | 10,676,210 |
| Total liabilities and net assets | \$ 36,644,312 | \$ 1,156,481 | \$ 2,433,587 | \$ 1,526,469 | \$ 2,604,876 | \$ 2,374,526 | \$ (6,765,495) | | \$ 39,974,756 |

* Represents balances as of October 27, 2014 (before sale) to Berendos, L.P. Elimination of the balances are included the Eliminations column.

See report of independent auditors.

**A Community of Friends and Subsidiary
Consolidating Schedule of Activities
Year ended June 30, 2015**

| | Supportive Housing LLC | | | | | | Eliminations | Consolidated |
|--|---------------------------|-----------------------|----------------------------|-----------------------|-------------------------------------|--------------------------------|---------------------|----------------------|
| | A Community of Friends | Parker Hotel, L.P. | Las Palomas Hotel, L.P. | 235 Berendo, L.P.* | Gower Street Apartments, L.P. | 39 West Apartments, L.P. | | |
| Revenue and support | | | | | | | | |
| Government grants and contracts | \$ 1,789,889 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,789,889 |
| Foundation grants | 681,851 | - | - | - | - | - | - | 681,851 |
| Developer fees | 1,542,002 | - | - | - | - | - | - | 1,542,002 |
| Partnership and property management fees | 1,195,034 | - | - | - | - | - | (90,016) | 1,105,018 |
| Rental income | 310,279 | 206,261 | 462,094 | 82,221 | 590,384 | 352,216 | - | 2,003,455 |
| Administrative fees | 62,362 | - | - | - | - | - | - | 62,362 |
| Interest income from loans | 436,749 | - | - | - | - | - | (105,018) | 331,731 |
| Other interest income | 1,607 | - | - | - | - | - | - | 1,607 |
| Gain on forgiveness of debt | - | - | - | 1,189,031 | - | - | - | 1,189,031 |
| Gain on sale of property | 3,124,488 | - | - | - | - | - | - | 3,124,488 |
| In-kind donations | 5,601 | - | - | - | - | - | - | 5,601 |
| Fundraising | 230,883 | - | - | - | - | - | - | 230,883 |
| Miscellaneous | 34,560 | - | - | - | - | - | - | 34,560 |
| Total revenue and support | <u>9,415,305</u> | <u>206,261</u> | <u>462,094</u> | <u>1,271,252</u> | <u>590,384</u> | <u>352,216</u> | <u>(195,034)</u> | <u>12,102,478</u> |
| Functional expenses | | | | | | | | |
| Program services | 5,314,804 | 358,246 | 838,666 | 56,582 | 543,043 | 431,271 | (156,738) | 7,385,874 |
| Fund development | 217,848 | - | - | - | - | - | - | 217,848 |
| Administrative services | 1,351,395 | - | - | - | - | - | - | 1,351,395 |
| Total functional expenses | <u>6,884,047</u> | <u>358,246</u> | <u>838,666</u> | <u>56,582</u> | <u>543,043</u> | <u>431,271</u> | <u>(156,738)</u> | <u>8,955,117</u> |
| Change in net assets before income (loss) from of investment in partnership | 2,531,258 | (151,985) | (376,572) | 1,214,670 | 47,341 | (79,055) | (38,296) | 3,147,361 |
| Income (loss) from investment in partnerships | <u>(1,086,163)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,220,024</u> | <u>1,133,861</u> |
| Change in net assets | 1,445,095 | (151,985) | (376,572) | 1,214,670 | 47,341 | (79,055) | 2,181,728 | 4,281,222 |
| Net assets, beginning of year | 9,634,024 | (1,859,585) | (1,482,037) | (2,090,426) | 343,298 | 453,328 | 1,396,386 | 6,394,988 |
| Distribution to partners | - | - | - | (281,757) | - | - | 281,757 | - |
| Net assets, end of year | <u>\$ 11,079,119</u> | <u>\$ (2,011,570)</u> | <u>\$ (1,858,609)</u> | <u>(1,157,513)</u> | <u>390,639</u> | <u>\$ 374,273</u> | <u>\$ 3,859,871</u> | <u>\$ 10,676,210</u> |

* Represents balances for the period from July 1, 2014 to October 27, 2014 (before sale) to Berendos, L.P.
Elimination of balances are included in the Elimination column.

See report of independent auditors.

**Report of Independent Auditors on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

**Board of Directors
A Community of Friends**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of A Community of Friends and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 25, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasquez + Company LLP

**Los Angeles, California
November 25, 2015**



www.vasquezcpa.com

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