



A Community of Friends



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November 29, 2016

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, 2016. 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



**A Community of Friends and Subsidiary
Consolidated Financial Statements
and Supplementary Information
*As of and for the Year Ended June 30, 2016
with Report of Independent Auditors***

**A Community of Friends and Subsidiary
Consolidated Financial Statements
and Supplementary Information
*As of and for the Year Ended June 30, 2016
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, 2016, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from 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 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 financial statements referred to above present fairly, in all material respects, the financial position of A Community of Friends and Subsidiary as of June 30, 2016, 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 financial statements of A Community of Friends and Subsidiary as a whole. The accompanying supplementary information on pages 29 through 33 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 audit 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 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 28, 2016**

**A Community of Friends and Subsidiary
Consolidated Statement of Financial Position
June 30, 2016**

ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,290,584
Rental properties reserves	2,604,575
Project receivables	650,067
Partnership receivables	121,050
Developer fees receivable, net	3,709,693
Contracts receivable	752,341
Other receivables	67,020
Prepaid expenses and deposits	<u>76,772</u>
Total current assets	10,272,102
Long-term project receivables	555,036
Long-term partnership receivables	2,425,598
Long-term developer fees receivables, net	3,430,940
Notes, advances, and interest receivable, net	11,746,927
Investment in partnerships	3,706,838
Real estate in development	558,702
Property and equipment, net	9,042,688
Other long-term assets	<u>10,823</u>
Total assets \$	<u><u>41,749,654</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable and accrued expenses	\$ 1,359,239
Current portion of notes and interest payable	<u>330,625</u>
Total current liabilities	1,689,864
Deficiency in partnership investments	78,582
Notes and interest payable, net of current portion	<u>27,810,168</u>
Total liabilities	<u>29,578,614</u>
Net assets	
Unrestricted	11,806,790
Temporarily restricted	194,250
Permanently restricted	<u>170,000</u>
Total net assets	<u>12,171,040</u>
Total liabilities and net assets \$	<u><u>41,749,654</u></u>

See notes to consolidated financial statements.

**A Community of Friends and Subsidiary
Consolidated Statement of Activities
Year ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Government grants and contracts	\$ 1,835,590	\$ -	\$ -	\$ 1,835,590
Foundation grants	398,785	175,000	70,000	643,785
Developer fees	4,719,283	-	-	4,719,283
Partnership and property management fees	1,240,205	-	-	1,240,205
Rental income	1,798,202	-	-	1,798,202
Administrative fees	91,245	-	-	91,245
Interest income from loans	288,833	-	-	288,833
Other interest income	1,669	-	-	1,669
Fundraising	250,922	-	-	250,922
Miscellaneous	62,923	-	-	62,923
Net assets released from restriction	194,444	(194,444)	-	-
Total revenue and support	<u>10,882,101</u>	<u>(19,444)</u>	<u>70,000</u>	<u>10,932,657</u>
Functional expenses				
Program services	7,752,052	-	-	7,752,052
Fund development	406,402	-	-	406,402
Administrative services	1,472,424	-	-	1,472,424
Total functional expenses	<u>9,630,878</u>	<u>-</u>	<u>-</u>	<u>9,630,878</u>
Change in net assets before income from investment in partnerships	1,251,223	(19,444)	70,000	1,301,779
Income from investment in partnerships	<u>193,051</u>	<u>-</u>	<u>-</u>	<u>193,051</u>
Change in net assets	1,444,274	(19,444)	70,000	1,494,830
Net assets, beginning of year	10,362,516	213,694	100,000	10,676,210
Net assets, end of year	<u>\$ 11,806,790</u>	<u>\$ 194,250</u>	<u>\$ 170,000</u>	<u>\$ 12,171,040</u>

See notes to consolidated financial statements.

**A Community of Friends and Subsidiary
Consolidated Statement of Cash Flows
Year ended June 30, 2016**

Cash flows from operating activities	
Change in net assets	\$ 1,494,830
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	706,221
Income from investment in partnerships	193,051
Bad debts	157,785
Increase in:	
Receivables	(2,733,544)
Prepaid expenses and deposits	(1,533)
Interest receivable	(311,340)
Other assets	(3,289)
Rental properties reserves	(67,159)
Increase in:	
Accounts payable and accrued expenses	87,148
Accrued interest	500,026
Net cash provided by operating activities	<u>22,196</u>
Cash flows from investing activities	
Purchase of property and equipment	(196,953)
Investment in limited partnerships	(125,486)
Net decrease of notes receivable	699,821
Real estate in development	(37,505)
Net cash provided by investing activities	<u>339,877</u>
Cash flows from financing activities	
Proceeds from notes payable	730,625
Payments on notes payable	(1,060,273)
Net cash used in financing activities	<u>(329,648)</u>
Change in cash and cash equivalents	32,425
Cash and cash equivalents, beginning of year	<u>2,258,159</u>
Cash and cash equivalents, end of year	<u>\$ 2,290,584</u>
Supplemental disclosure of cash flow information	
Interest paid	<u>\$ 19,899</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.
 - Gower Street Apartments, L.P.
 - 39 West Apartments, L.P.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation (continued)

There are additional 39 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, 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.

Partnership and Property Management Fees

The Company receives partnership and management fees for certain management services provided to the limited partnerships. Fees are recognized as earned in accordance with the terms of the related partnership agreements.

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 Contracts 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, 2016, 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 Company capitalizes all purchases of property and equipment with a cost of \$1,000 or more. The provision for depreciation and amortization is computed using the straight-line method over the estimated useful lives as follows:

Buildings 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Partnership and Property Management Fees

The Company receives partnership and management fees for certain services provided to the limited partnerships. Fees are recognized as earned in accordance with the terms of the related partnership agreements.

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.

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 23701d 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 Sections 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, 2016, 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 2012 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).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016, the Company has developer fees receivable from various limited partnerships amounting to \$7,680,728. The partnership agreements allow for the deferred payment of these developer fees over 10 to 12 year periods. The Company estimates that for certain of the limited partnerships, overall project cash flows will increase after the limited partnerships' permanent loans are paid off, after which deferred developer fee payments will increase. At June 30, 2016, 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 government grant. The notes receivable where funds were received by grants represent the greater credit risk. The total of such notes receivable is \$3,200,000 with interest accrual of \$1,942,034 at June 30, 2016 (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, 2016, no such events occurred, and accordingly no impairment loss was recognized for the year then ended.

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

NOTE 4 CASH AND CASH EQUIVALENTS

At June 30, 2016, cash and cash equivalents are for uses as follows:

A Community of Friends and Subsidiary	\$	1,713,156
Rental Properties' Operations		<u>577,428</u>
Total	\$	<u>2,290,584</u>

NOTE 5 RENTAL PROPERTIES RESERVES

At June 30, 2016, rental properties reserves total \$2,604,575 and consisted of the following:

Property	Replacement Reserve	Operating Reserve	Other Reserves
Orbison House	\$ 6,408	\$ 16,073	\$ 3,260
Central Court Apartments	42,519	47,408	3,664
Figueroa Court Apartments	-	-	16,556
Gower St. Apartments	173,082	413,506	10,608
Las Palomas Hotel	76,877	368,266	10,936
Parker Hotel	178,139	140,440	12,896
Selby Hotel	146,754	64,544	10,177
Step Out Apartments	93,294	143,267	34,419
39 West Apartments	232,591	348,575	10,316
	<u>\$ 949,664</u>	<u>\$ 1,542,079</u>	<u>\$ 112,832</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, 2016, partnership receivables consisted of the following:

Accrued partnership management fees	\$	2,511,439
Accrued administrative fees		<u>35,209</u>
	Total	2,546,648
Less current portion		<u>121,050</u>
Long-term	\$	<u>2,425,598</u>

NOTE 7 PROJECT RECEIVABLES

At June 30, 2016, project receivables consisted of the following:

In operation in 2016:

Avalon Apartments, L.P.	\$	307,406
Berendos, L.P.		144,818
Calvert Street Apartments, L.P.		33,305
Gateways Housing, LP		30,701
Santos Plaza, L.P.		360,053
West Villas, L.P.		3,911

In predevelopment and construction in 2016:

Huntington Square, L.P.		245,309
Riverside Supportive Housing, L.P.		79,600

	Total	1,205,103
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Less current portion		650,067
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Long-term	\$	555,036
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**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

NOTE 8 DEVELOPER FEES RECEIVABLE

At June 30, 2016, developer fees receivable, which included deferred developer fees, consisted of the following:

<u>In operation in 2016:</u>	
Avalon Apartments, L.P.	\$ 1,268,355
Berendos, L.P.	700,000
Camino de las Flores, L.P.	2,731
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.	596,832
Santos Plaza, L.P.	94,966
Vendome Palms, L.P.	467,500
Vista Del Rio Housing Partners, L.P.	67,588
Woodland Terrace, L.P.	592,758
 <u>In construction in 2016:</u>	
Beverly PSH, L.P.	1,060,011
Cedar Springs, L.P.	630,840
West Villas, L.P.	940,000
3101 West Venice, L.P.	<u>1,054,373</u>
Total	<u>7,680,728</u>
Less allowance for uncollectible receivables	<u>540,095</u>
	7,140,633
Less current portion	<u>3,709,693</u>
Long-term	<u>\$ 3,430,940</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, 2016**

NOTE 9 INVESTMENT IN PARTNERSHIPS (CONTINUED)

At June 30, 2016, investment in partnerships consisted of the following:

3101 West Venice, L.P.	\$ 40,000
836 Fedora, L.P.	(1,895)
AMCAL Avenida Fund, L.P.	(57)
Amistad Apartments, L.P.	(2,064)
Avalon Apartments, L.P.	(91)
Berendos, L.P.	1,904
Beverly PSH, L.P.	893
Brandon Apartments, L.P.	(1,658)
California Hotel 1140, L.P.	(32,770)
Calvert Street Apartments, L.P.	(192)
Camino de las Flores, L.P.	(166)
Cedar Springs, L.P.	-
Figueroa Court Apartments, L.P.	(1,821)
Figueroa Court Partners	(21,055)
Fox Normandie Apartments, L.P.	(4,191)
Fullerton Supportive Housing, L.P.	86,233
Gateways Housing, L.P.	91,422
Huntington Square, L.P.	(800)
Jackson Aisle Apartments, L.P.	(52)
La Primavera Apartments, L.P.	(120)
Maryland Apartments, L.P.	(1,475)
ND Sepulveda I, L.P.	326
ND Sepulveda II, L.P.	336
Osborne Place, L.P.	(4,232)
Rayen Apartments, L.P.	92,147
Redlands Supportive Housing, L.P.	(404)
Riverside Supportive Housing, L.P.	(800)
Santos Plaza, L.P.	4,645
Sonya Gardens, L.P.	3,902
Step Up On Fifth, L.P.	13,137
The Villas at Gower, L.P.	23,652
Tyrol Plaza, L.P.	6,624
Vendome Palms, L.P.	257,468
Vista Del Rio Housing Partners, L.P.	3,071,973
V. Nueva, L.P.	(4,190)
West Villas, L.P.	11,245
Willis Avenue Apartments, L.P.	(96)
Willowbrook Place, L.P.	930
Woodland Terrace, L.P.	(452)
Total	<u>\$ 3,628,256</u>

At June 30, 2016, the above is summarized in the financial statements as follows:

Investment in partnerships (assets)	\$ 3,706,838
Deficiency in partnership investments (liability)	<u>(78,582)</u>
	<u>\$ 3,628,256</u>

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

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, 2015:

	<u>Total Assets</u>	<u>Non- Recourse Debt</u>	<u>Total Capital (Deficit)</u>	<u>Revenues</u>	<u>Net Income (Loss)</u>	<u>Company's Allocated Share of Partnership Income (Loss)</u>
3101 West Venice, L.P.	\$ 4,282,021	\$ 2,525,753	\$ 1,236,504	\$ -	\$ (800)	\$ (800)
836 Fedora, L.P.	1,235,468	1,358,387	(172,333)	190,647	(106,731)	(11)
AMCAL Avenida Fund, L.P.	11,040,034	6,951,344	3,508,129	437,162	(271,731)	(14)
Amistad Apartments, L.P.	5,395,591	3,254,739	1,292,733	443,443	(398,889)	(43)
Avalon Apartments, L.P.	19,821,729	17,158,254	681,626	775,308	(1,040,629)	3,138
Berendos, L.P.	13,376,321	9,694,064	(333,984)	520,218	(489,776)	(53)
Beverly PSH, L.P.	4,280,367	2,301,110	1,972,258	1,200	400	393
Brandon Apartments, L.P.	3,247,158	2,875,852	344,962	412,649	(206,145)	(21)
California Hotel 1140, L.P.	2,162,050	1,982,531	(575,880)	323,055	(141,199)	(1,412)
Calvert Street Apartments, L.P.	3,887,627	521,357	420,565	260,999	(232,659)	(26)
Camino de las Flores, L.P.	7,382,083	6,367,839	762,368	350,760	(389,208)	(21)
Cedar Springs, L.P.	14,183,849	-	1,883,816	-	-	-
Figueroa Court Apartments, L.P.	2,803,648	3,336,885	(720,925)	366,783	(195,960)	(196)
Figueroa Court Partners	(105,406)	169	(105,406)	-	(103,884)	(20,777)
Fox Normandie Apartments, L.P.	2,693,101	1,630,268	870,097	450,401	(191,768)	(192)
Fullerton Supportive Housing, L.P.	2,126,069	2,039,036	86,233	107,000	87,033	87,033
Gateways Housing, L.P.	3,567,507	973,228	1,610,590	288,441	(208,040)	(14)
Huntington Square, L.P.	176,706	176,706	(800)	-	(800)	(800)
Jackson Aisle Apartments, L.P.	3,063,023	2,144,721	421,552	327,845	(151,558)	(11)
La Primavera Apartments, L.P.	3,850,978	2,183,419	1,635,327	337,720	(134,913)	(9)
Maryland Apartments, L.P.	1,792,007	1,654,241	(94,386)	220,049	(134,660)	(15)
ND Sepulveda I, L.P.	22,788,122	8,409,147	14,059,987	917,675	(832,400)	(53)
ND Sepulveda II, L.P.	20,122,373	7,558,721	12,154,837	752,604	(869,545)	(43)
Osborne Place, L.P.	20,431,480	9,592,477	9,396,753	941,603	(674,627)	(62)
Rayen Apartments, L.P.	11,171,179	5,818,927	5,258,407	722,916	(668,131)	(67)
Redlands Supportive Housing, L.P.	396,792	397,592	(800)	-	(800)	(396)
Riverside Supportive Housing, L.P.	59,800	59,800	(800)	-	(800)	(800)
Santos Plaza, L.P.	4,375,386	2,887,017	267,052	329,154	(351,641)	(39)
Sonya Gardens, L.P.	3,216,601	2,232,266	904,718	978,652	170,801	20
Step Up On Fifth, L.P.	15,180,671	12,377,726	969,158	482,341	(919,385)	(46)
The Villas at Gower, L.P.	27,155,250	15,115,732	10,096,612	1,002,357	(684,484)	(32)
Tyrol Plaza, L.P.	6,840,453	1,654,449	4,512,306	797,346	(188,378)	(9)
Vendome Palms, L.P.	12,649,555	10,327,722	1,783,051	414,936	(362,838)	(37)
Vista Del Rio Housing Partners, L.P.	11,880,523	2,862,370	7,857,150	388,426	(448,243)	(15)
V. Nueva, L.P.	3,298,894	165,000	291,073	535,544	(172,838)	(161)
West Villas, L.P.	4,054,677	236	1,533,177	7,710	6,910	6,910
Willis Avenue Apartments, L.P.	14,158,776	7,791,245	6,289,925	571,601	(476,447)	(48)
Willowbrook Place, L.P.	5,574,799	3,644,616	1,197,836	328,209	(348,132)	(31)
Woodland Terrace, L.P.	8,793,341	6,440,422	828,493	596,118	(481,921)	(51)
	<u>\$ 302,410,603</u>	<u>\$ 166,465,368</u>	<u>\$ 92,121,981</u>	<u>\$ 15,580,872</u>	<u>\$ (11,614,816)</u>	<u>\$ 71,189</u>

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

NOTE 10 REAL ESTATE IN DEVELOPMENT

At June 30, 2016, real estate in development consisted of:

Land	\$	159,303
Buildings		399,399
	Total \$	<u>558,702</u>

NOTE 11 PROPERTY AND EQUIPMENT

At June 30, 2016, property and equipment consisted of the following:

Land, buildings, and improvements	\$	20,149,506
Furniture and equipment		<u>799,616</u>
		20,949,122
Less accumulated depreciation and amortization		<u>11,906,434</u>
	Total \$	<u>9,042,688</u>

For the year ended June 30, 2016, provision for depreciation and amortization amounted to \$706,221.

NOTE 12 NOTES, ADVANCES, AND INTEREST RECEIVABLE

At June 30, 2016, 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.	\$ 503,550	\$ 1,497,333
V. Nueva, L.P.	1,104,265	1,599,182
Calvert Street Apartments, L.P.	985,764	1,440,450

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

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.	84,426	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.	12,753	162,986
Notes receivable from V. Nueva, L.P., interest accrues at 1% per annum and matures in December 2018.	13,259	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
As discussed in Note 3, the funding for the following notes receivable originated from grant funds:		
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 the California Department of Housing and Community Development's Infill Infrastructure Grant Program.	-	1,810,000
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.	692,696	400,000

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

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

	Interest Receivable	Principal
Notes receivable from California Hotel 1140, L.P., interest accrues at 0.5% per annum and matures in December 2017.	29,001	400,000
Notes receivable from Amistad Apartments, L.P., interest accrues at 5.6% per annum and matures in December 2033.	302,400	400,000
Notes receivable from Calvert Street Apartments, L.P., interest accrues at 5.46% per annum and matures in December 2032.	256,983	400,000
Notes receivable from La Primavera Apartments, L.P., interest accrues at 4.92% per annum and matures in December 2032.	275,520	400,000
Notes receivable from Willowbrook Place, L.P., interest accrues at 5.0% per annum and matures in October 2060.	194,707	400,000
Notes receivable from Woodland Terrace, L.P., interest accrues at 5.0% per annum and matures in December 2060.	190,727	400,000
Notes receivable from Santos Plaza, L.P., interest is at 0% and matures in 2034.	-	400,000
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
Notes receivable from Figueroa Court Apartments, L.P., proceeds from NeighborWorks Capital funds loaned directly to Figueroa Court Apartments, LP; bears interest equal to the lesser of 12% per annum or the maximum statutory rate allowable by law. Entire unpaid principal balance is due on April 6, 2020.	-	27,225

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

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

	Interest Receivable	Principal
Notes receivable from Fox Normandie Apartments, L.P., proceeds from NeighborWorks Capital funds loaned directly to Fox Normandie Apartments, L.P.; bears interest equal to the lesser of 18% per annum or the maximum statutory rate allowable by law. Entire unpaid principal balance is due on May 16, 2020.	-	22,953
Total	4,646,051	11,390,992
Less: allowance for uncollectible notes and interest receivable	1,518,332	2,771,784
Net notes, advances and interest receivable	\$ 3,127,719	\$ 8,619,208

NOTE 13 NOTES AND INTEREST PAYABLE

At June 30, 2016, notes and interest payable consisted of the following:

	Interest Payable	Principal
<i><u>A Community of Friends</u></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	\$ 503,551	\$ 1,497,333
Las Palomas Hotel, L.P., due in June 2051	1,994,814	2,100,081
V. Nueva, L.P., due August 2040	1,104,266	1,599,182
Calvert Street Apartments., due July 2041	985,765	1,440,450

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

	Interest Payable	Principal
<p>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.</p>	-	194,079
<p>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.</p>	-	162,986
<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	262,096	345,000
Selby property, due in July 2031	540,840	725,000

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

	Interest Payable	Principal
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	196,044	204,000
Selby property, due in July 2021	306,921	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. The notes payable originally due in February 2012 was extended as follows:		
February 2019	-	413,250
February 2019	-	50,000
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.	179,819	516,851

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

	Interest Payable	Principal
<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>	424,677	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>	67,056	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>	131,758	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 and matures in October 2018. The interest is payable on a quarterly basis and the principal is due at maturity.</p>	-	600,000
<p>Unsecured working capital and predevelopment loan payable to Enterprise Community Loan Fund, Inc. at annual interest rate of 0%. The note matures in August 2017.</p>	-	400,000
<p>Recoverable grant payable to Enterprise Community Partners, Inc. at 0% interest rate. Loan proceeds shall be used to advance the predevelopment of two projects, Beverly Terrace and West Villas. The grant shall be repaid by ACOF no later than December 1, 2016.</p>	-	190,475
<p>Note payable to Enterprise Community Loan Fund, Inc. wherein proceeds were loaned directly to specified limited partnerships listed below, and shall be used for project development. (See note 7). The note bears simple interest rate of 7% per annum, secured by Assignment of Developer Fees executed by ACOF. The note is payable 18 months from June 2016 or the date of receipt of construction or permanent financing for the Project.</p>	-	
<p>Riverside Supportive Housing, L.P.</p>	-	120,350
<p>Huntington Square, L.P.</p>	-	19,800

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

	Interest Payable	Principal
<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>	1,617,322	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
<u><i>39 West Apartments, L.P.</i></u>		
<p>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 2036 and is collateralized by a deed of trust on the property.</p>	773,925	1,056,484

**A Community of Friends and Subsidiary
Notes to Consolidated Financial Statements
Year ended June 30, 2016**

NOTE 13 NOTES AND INTEREST PAYABLE (CONTINUED)

	Interest Payable	Principal
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	9,088,854	19,051,939
Less current portion	-	330,625
Long-term portion	<u>\$ 9,088,854</u>	<u>\$ 18,721,314</u>

Future maturities of interest and notes payable at June 30, 2016 were as follows:

Year ending June 30,	Amount
2017	\$ 330,625
2018	680,000
2019	1,063,250
2020	-
2021	-
Thereafter	26,066,918
Total	<u>\$ 28,140,793</u>

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	\$ 1,623,959
Los Angeles County Department of Mental Health	211,631
Total	<u>\$ 1,835,590</u>

During fiscal year, ACOF received additional grants amounting to \$190,500 from NeighborWorks America and were recorded as foundation grants in the Consolidated Statement of Activities. As provided for in the grant agreement, \$120,500 of the grant was classified as unrestricted revenue and \$70,000 were permanently restricted. (see Note 16).

NOTE 15 TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2016, temporarily restricted net assets are available for the following purposes or periods:

Substance and abuse recovery	\$	19,250
July 1, 2016 to June 30, 2018		<u>175,000</u>
	Total \$	<u><u>194,250</u></u>

NOTE 16 PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2016, permanently restricted net assets consist of Capital Grant Funds of \$170,000 received from NeighborWorks America. The funds will be used for capital items at four 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. Future minimum lease payments under the said lease that is due for the year ending June 30, 2017 amounted to \$163,699.

For the year ended June 30, 2016, rent expense charged to operations amounted to \$204,843.

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, 2016, ACOF was contingently liable for approximately \$1,820,684 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, 2016.

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 \$23,980,672 at June 30, 2016. Management believes the likelihood of funding a material amount of any of the guarantees is remote.

NOTE 17 COMMITMENTS AND CONTINGENCIES (CONTINUED)

ACOF is involved in a pending litigation arising from the normal course of business. The case is still in the preliminary stage and after consultation with legal counsel, management estimates 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, 2016.

Partnership and property management fees	\$	1,240,204
Developer fees		4,719,283
Administrative fees		91,245
Total fees earned from partnerships	\$	<u>6,050,732</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 and subsequent amendments thereto, ACOF and BMI collaborate to provide management services to the following supportive housing developments: Amistad Apartments, Camino de Las Flores Apartments, Las Palomas Hotel, 235 Berendo, Fedora Apartments, Fox Normandie Apartments, Vista Nueva Apartments, Willow Apartments, Figueroa Courts, 39 West Apartments, Santos Plaza Apartments, Vendome Palms and Jackson Aisle 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.

For the year ended June 30, 2016, ACOF earned property management fees under this agreement in the amount of \$250,490.

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, 2016, ACOF's contributions to the plan amounted to \$186,215.

NOTE 20 SUBSEQUENT EVENTS

The Company has evaluated events or transactions that occurred subsequent to the statement of financial position date through November 28, 2016, 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, 2016**

	Program Services				Total	Fund Development	Administrative Services	Total
	Supportive Housing	Real Estate Activities	Property Management	Rental				
Personnel expenses								
Salaries	\$ 1,427,438	812,569	308,918	41,736	\$ 2,590,661	\$ 243,263	873,358	\$ 3,707,282
Payroll taxes	110,371	63,773	22,281	2,382	198,807	18,128	65,363	282,298
Employee benefits	228,414	99,671	37,337	7,969	373,391	23,426	112,629	509,446
Total personnel expenses	1,766,223	976,013	368,536	52,087	3,162,859	284,817	1,051,350	4,499,026
Other expenses								
Advertising	4,129	3,925	4,576	129	12,759	3,108	9,680	25,547
Auditing and accounting	1,590	17,601	11,170	1,620	31,981	4,769	20,696	57,446
Auto expense	22,062	5,759	605	174	28,600	726	3,251	32,577
Bad debt	-	141,217	-	16,568	157,785	-	-	157,785
Continuum of Care cash match	258	-	-	-	258	-	-	258
Consulting	-	46,020	31,475	-	77,495	-	2,665	80,160
Contractual-supportive services	369,013	-	-	-	369,013	-	-	369,013
Depreciation and amortization	968	9,677	6,774	218,982	236,401	1,935	12,580	250,916
Donated supplies	-	-	-	-	-	-	-	-
Dues, fees and subscriptions	644	1,347	598	10	2,599	7,186	23,279	33,064
Equipment leases	4,189	5,976	2,616	-	12,781	994	4,766	18,541
Fundraising	-	-	-	-	-	43,014	-	43,014
Interest	-	264,740	-	122,102	386,842	-	-	386,842
Legal fees	-	-	-	7,469	7,469	-	5,750	13,219
Liability insurance	4,123	10,326	5,868	16,428	36,745	4,358	21,629	62,732
Marketing	-	-	-	-	-	15,746	4,135	19,881
Meals	1,529	920	666	-	3,115	557	18,097	21,769
Miscellaneous	4,937	832	8,491	438	14,698	289	27,800	42,787
Office expenses	39,282	22,523	12,574	6,683	81,062	10,087	75,023	166,172
Postage and printing	1,373	3,673	1,594	-	6,640	2,599	3,750	12,989
Maintenance and repairs	-	-	-	104,667	104,667	-	-	104,667
Rent and parking	6,301	69,927	55,635	-	131,863	14,267	91,376	237,506
Rental operations	198,668	-	-	-	198,668	-	-	198,668
Resident programs	259,350	-	-	211	259,561	-	11,582	271,143
Security	-	-	-	26,989	26,989	-	-	26,989
Seminars and training	6,218	9,698	2,654	563	19,133	1,882	7,541	28,556
Taxes and licenses	74	783	569	4,177	5,603	182	956	6,741
Telephone	6,616	13,116	5,838	6,703	32,273	2,442	12,374	47,089
Temporary staff	-	2,047	-	-	2,047	-	32,387	34,434
Travel	3,847	7,560	2,321	-	13,728	1,501	8,072	23,301
Utilities	-	-	-	47,845	47,845	-	-	47,845
Worker's compensation insurance	42,149	20,722	17,923	6,989	87,783	5,943	23,685	117,411
Total - A Community of Friends	2,743,543	1,634,402	540,483	640,834	5,559,262	406,402	1,472,424	7,438,088
Expenses - Subsidiaries								
Rental operations	-	-	-	2,192,790	2,192,790	-	-	2,192,790
Total functional expenses	\$ 2,743,543	\$ 1,634,402	\$ 540,483	2,833,624	\$ 7,752,052	\$ 406,402	\$ 1,472,424	\$ 9,630,878

See report of independent auditors.

**A Community of Friends and Subsidiary
Consolidating Schedule of Financial Position
June 30, 2016**

	Supportive Housing LLC							Eliminations	Consolidated
	A Community of Friends	Parker Hotel, L.P.	Las Palomas Hotel, L.P.	Gower Street Apartments, L.P.	39 West Apartments, L.P.				
ASSETS									
Current assets									
Cash and cash equivalents	\$ 2,198,533	\$ 2,733	\$ 635	\$ 85,826	\$ 2,857	-	-	-	\$ 2,290,584
Rental properties reserves	628,343	331,475	456,079	597,196	591,482	-	-	-	2,604,575
Project receivables	650,067	-	-	-	-	-	-	-	650,067
Partnership receivables	121,050	-	-	-	-	-	-	-	121,050
Developer fees receivable, net	3,709,693	-	-	-	-	-	-	-	3,709,693
Contracts receivable	752,341	-	-	-	-	-	-	-	752,341
Other receivables	8,937	2,477	35,217	11,454	8,935	-	-	-	67,020
Prepaid expenses and deposits	67,210	1,104	3,192	3,879	1,387	-	-	-	76,772
Total current assets	8,136,174	337,789	495,123	698,355	604,661	-	-	-	10,272,102
Long-term project receivables	555,036	-	-	-	-	-	-	-	555,036
Long-term partnership receivables	2,900,567	-	-	-	-	(474,969)	-	-	2,425,598
Long-term developer fees receivables, net	3,430,940	-	-	-	-	-	-	-	3,430,940
Notes, advances, and interest receivable, net	15,841,822	-	-	-	-	(4,094,895)	-	-	11,746,927
Investment in partnerships	4,056,101	-	-	-	-	(349,263)	-	-	3,706,838
Real estate in development	558,702	-	-	-	-	-	-	-	558,702
Property and equipment, net	3,487,958	783,145	1,771,901	1,631,095	1,678,132	(309,543)	-	-	9,042,688
Other long-term assets	10,000	823	-	-	-	-	-	-	10,823
Total assets	\$ 38,977,300	\$ 1,121,757	\$ 2,267,024	\$ 2,329,450	\$ 2,282,793	\$ (5,228,670)	\$	\$	41,749,654
LIABILITIES AND NET ASSETS									
Current liabilities									
Accounts payable and accrued expenses	\$ 1,165,816	\$ 35,092	\$ 351,591	\$ 223,277	\$ 58,432	\$ (474,969)	\$	\$	1,359,239
Current portion of notes and interest payable	330,625	-	-	-	-	-	-	-	330,625
Total current liabilities	1,496,441	35,092	351,591	223,277	58,432	(474,969)	-	-	1,689,864
Deficiency in partnership investments	4,393,868	-	-	-	-	(4,315,286)	-	-	78,582
Notes and interest payable, net of current portion	20,606,408	3,222,489	4,094,895	1,968,068	2,013,203	(4,094,895)	-	-	27,810,168
Total liabilities	26,496,717	3,257,581	4,446,486	2,191,345	2,071,635	(8,885,150)	-	-	29,578,614
Net assets									
Unrestricted	12,116,333	(2,135,824)	(2,179,462)	138,105	211,158	3,656,480	-	-	11,806,790
Temporarily restricted	194,250	-	-	-	-	-	-	-	194,250
Permanently restricted	170,000	-	-	-	-	-	-	-	170,000
Total net assets	12,480,583	(2,135,824)	(2,179,462)	138,105	211,158	3,656,480	-	-	12,171,040
Total liabilities and net assets	\$ 38,977,300	\$ 1,121,757	\$ 2,267,024	\$ 2,329,450	\$ 2,282,793	\$ (5,228,670)	\$	\$	41,749,654

See report of independent auditors.

**A Community of Friends and Subsidiary
Consolidating Schedule of Activities
Year ended June 30, 2016**

	Supportive Housing LLC					Eliminations	Consolidated
	A Community of Friends	Parker Hotel, L.P.	Las Palomas Hotel, L.P.	Gower Street Apartments, L.P.	39 West Apartments, L.P.		
Revenue and support							
Government grants and contracts	\$ 1,835,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,835,590
Foundation grants	643,785	-	-	-	-	-	643,785
Developer fees	4,719,283	-	-	-	-	-	4,719,283
Partnership and property management fees	1,323,488	-	-	-	-	(83,283)	1,240,205
Rental income	316,177	242,854	529,225	342,670	367,276	-	1,798,202
Administrative fees	91,245	-	-	-	-	-	91,245
Interest income from loans	393,837	-	-	-	-	(105,004)	288,833
Other interest income	1,669	-	-	-	-	-	1,669
Fundraising	250,922	-	-	-	-	-	250,922
Miscellaneous	62,923	-	-	-	-	-	62,923
Total revenue and support	<u>9,638,919</u>	<u>242,854</u>	<u>529,225</u>	<u>342,670</u>	<u>367,276</u>	<u>(188,287)</u>	<u>10,932,657</u>
Functional expenses							
Program services	5,559,262	367,108	850,078	595,204	530,391	(149,991)	7,752,052
Fund development	406,402	-	-	-	-	-	406,402
Administrative services	1,472,424	-	-	-	-	-	1,472,424
Total functional expenses	<u>7,438,088</u>	<u>367,108</u>	<u>850,078</u>	<u>595,204</u>	<u>530,391</u>	<u>(149,991)</u>	<u>9,630,878</u>
Change in net assets before income from of investment in partnership	2,200,831	(124,254)	(320,853)	(252,534)	(163,115)	(38,296)	1,301,779
Income from investment in partnerships	<u>(799,367)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>992,418</u>	<u>193,051</u>
Change in net assets	1,401,464	(124,254)	(320,853)	(252,534)	(163,115)	954,122	1,494,830
Net assets, beginning of year	11,079,119	(2,011,570)	(1,858,609)	390,639	374,273	2,702,358 *	10,676,210
Net assets, end of year	<u>\$ 12,480,583</u>	<u>\$ (2,135,824)</u>	<u>\$ (2,179,462)</u>	<u>\$ 138,105</u>	<u>\$ 211,158</u>	<u>\$ 3,656,480</u>	<u>\$ 12,171,040</u>

* 235 Berendo was sold to Berendos, L.P. in 2015 and its net asset balance of \$1,157,513 was eliminated and included in the Eliminations column in the 2015 audit report. This balance was deducted in the beginning net assets Eliminations column in the 2016 consolidated financial statements.

See report of independent auditors.

**A Community of Friends and Subsidiary
NeighborWorks America Grant
Schedule of Financial Position
June 30, 2016**

ASSETS			
Cash in bank		\$	97,347
Loans receivable from:			
Figueroa Court Apartments, L.P.			27,225
Fox Normandie Apartments, L.P.			22,953
Building - Selby			<u>22,475</u>
	Total assets		<u><u>170,000</u></u>
NET ASSETS			
Permanently restricted			<u>170,000</u>
	Total net assets	\$	<u><u>170,000</u></u>

See report of independent auditors.

**A Community of Friends and Subsidiary
NeighborWorks America Grant
Schedule of Activities
Year ended June 30, 2016**

Revenue, gains, other support and release of capital:

Capital Grant - NeighborWorks America , beginning of year	\$	100,000
Additions		<u>70,000</u>
Net assets, end of year	\$	<u><u>170,000</u></u>

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, 2016, 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 28, 2016.

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 28, 2016**



www.vasquezcpa.com

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