VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Financial Statements
(With Independent Auditors' Report)

December 31, 2012

LEVITT & ROSENBLUM
CERTIFIED PUBLIC ACCOUNTANTS
10801 National Blvd., Suite 604
Los Angeles, California 90064

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Venice Community Housing Corporation:

We have audited the accompanying consolidated financial statements of Venice Community Housing Corporation, a nonprofit California corporation, and Affiliates (collectively the Agency), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of operations and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Venice Community Housing Corporation and Affiliates as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements referred to in the first paragraph taken as a whole. The accompanying information in Schedules 1 and 2 are presented for the purposes of additional analysis and are not a required part of the above consolidated financial statements. Such information has been subjected to the procedures applied in the audit of the consolidated financial statements referred to above and, in our opinion is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Levitt & Rosenblum

Levitt & Rosenblum, CPAs
Los Angeles, California
July 20, 2013

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Financial Position

December 31, 2012

ASSETS

Cash	$	1,407,861
Restricted cash (note 12)		1,375,895
Investments (note 3)		147,955
Government contracts receivable (note 2)		118,981
Grants receivable		124,000
Accounts receivable		36,532
Prepaid expenses		11,297
Property, at cost (note 2):		
Land		6,446,784
Buildings and improvements		11,262,887
Equipment and furniture		414,851
Predevelopment costs (note 5)		35,851
Less: accumulated depreciation		(4,668,373)
Net Property		13,492,000
Capitalized costs, net of accumulated amortization (note 6)		277,443
Advances to project (note 7)		9,708
Deposits		13,195
Total Assets	$	17,014,867

LIABILITIES AND NET ASSETS

Accounts payable	$	79,567
Accrued vacation		61,718
Accrued payroll		31,981
Prepaid rent		1,532
Accrued interest payable		303,117
Mortgage notes payable (notes 8 and 13)		13,279,552
Tenant security deposits		127,934
Commitments (note 13)		
Total Liabilities		13,885,401
Net Assets:		
Unrestricted		3,017,914
Temporarily restricted (note 11)		111,552
Total Net Assets		3,129,466
Total Liabilities and Net Assets	$	17,014,867

See accompanying notes to financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Activities

Year ended December 31, 2012

Changes in unrestricted net assets:	
Revenues and Support:	
Contributions	$ 403,006
Government contracts	887,721
Rental income	1,893,601
Management fees	120,807
Other income	10,916
Interest income	2,385
Total unrestricted revenue	3,318,436
Net assets released from restrictions:	
Satisfaction of program restrictions	35,146
Total unrestricted revenue and other support	3,353,582
Expenses:	
Salaries	1,403,180
Payroll taxes	122,687
Employee benefits	86,158
Home repair and building contract services	8,652
Consultants	73,506
Job training and supplies	118,082
Education and after school programs	34,392
Rent	8,166
Legal and accounting	36,702
Office and administration	134,484
Conference, training & travel	47,000
Fundraising and outreach	13,421
Maintenance and repairs	289,588
Utilities	172,870
Insurance	248,801
Property tax and license	44,613
Interest	411,317
Depreciation and amortization	354,115
Total expenses	3,607,734
Decrease in unrestricted net assets	(254,152)
Changes in temporarily restricted net assets:	
Contributions	96,858
Net assets released from restrictions	(35,146)
Increase in temporarily restricted net assets	61,712
Total decrease in net assets	(192,440)
Net assets at beginning of year	3,321,906
Net Assets at end of year	$ 3,129,466

See accompanying notes to financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Cash Flows

Year ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ (192,440)
Adjustments to reconcile change in net assets to cash flow from operating activities:	
Depreciation and amortization expense	354,115
Decrease (Increase) in Operating Assets:	
Grant restricted for property reserves	(142,500)
Government contracts receivable	7,512
Accounts receivable	15,509
Grants receivable	(89,285)
Prepaid expenses	35,307
Deposits	1,474
Increase (Decrease) in Operating Liabilities:	
Accounts payable	(48,930)
Accrued expenses	13,693
Prepaid rent	(2,110)
Accrued interest payable	59,151
Tenant security deposits	30
Net cash provided by operating activities	11,526
CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in property reserves and deposits	(396,964)
Purchase of investments	(771)
Payment for land	(549,000)
Payments for building and improvements	(349,781)
Purchases of equipment and furniture	(48,917)
Payment for capitalized costs	(128,580)
Payment for predevelopment costs	(50,170)
Net cash used in investing activities	(1,524,183)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from notes payable	6,180,274
Repayment of notes payable	(3,589,662)
Net cash provided by financing activities	2,590,612
Net increase in cash	1,077,955
Cash, beginning	329,906
Cash, ending	$ 1,407,861

Supplemental schedule of noncash investing and financing activities:

Additional costs of rental property from capitalized interest accrual and predevelopment costs payable	$ -
Supplemental disclosure of cash flow information - cash paid for interest, net of amounts capitalized.	$ 352,190

See accompanying notes to financial statements.

(1) Purpose and Activities

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

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

Navy Blue Apartments Limited Partnership (Navy Blue) is a California limited partnership. The initial Partnership was formed in July, 1989, for the purpose of developing and operating a 14 unit low-income rental housing project located in Los Angeles, California. Development of the property was completed and rental operations began in November, 1992. Regulatory agreements entered into with the California Tax Credit Allocation Committee and the City of Los Angeles restrict the use of this property as low-income housing. The Partnership’s General Partner is VCHC, which owns a 30% interest, and the Limited Partner is WHC, which owns a 70% interest in the Partnership.

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

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

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

The accompanying consolidated financial statements include the accounts of VCHC, plus WHC, Navy Blue, Fourth Ave, Horizon, Pacific (collectively, the “Affiliates”), together referred to as the “Agency”. All significant inter-entity accounts and material transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The consolidating financial statements of the Agency have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Revenue Recognition

The Agency follows provisions of FASB *ASC 958-605-25*, *Revenue Recognition*. In accordance with this provision VCHC reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires because the stipulated time restriction ends or the purpose restriction is accomplished, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned.

Rental Income and Prepaid Rents

Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as liabilities until earned.

Contracts

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

Accounts Receivable

VCHC does not maintain an allowance for estimated uncollectible amounts because trade receivables primarily consist of government contract reimbursement requests and rent due from government agency subsidies. Management believes all receivables to be collectible at December 31, 2012.

Navy Blue Ground Lease

In December, 1992, Navy Blue leased the land underlying the project from the City of Los Angeles Community Redevelopment Agency for a term of fifty-five years. The lease provides for rent to be paid annually in an amount equal to the lesser of the fair market rent or 50% of the residual receipts of the Partnership for the year, as defined. The difference between the actual lease payment and the fair market rent will accumulate and be payable from the next available residual receipts. At the end of the lease term all unpaid rent will be due and payable, but only to the extent that the fair market value of the property improvements exceeds the outstanding amount of any loans and related accrued interest remaining on the property. Management considers the contingency remote, and accordingly, no amounts have been accrued in the consolidated financial statements.

As of December 31, 2012, no rent payments have been made under the Ground Lease as the project has not generated any residual receipts, as defined. Also, in accordance with residual receipts calculations, Management estimates that no rent payments will be made during the term of the Ground Lease.

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments are reported at their fair value in the statement of financial position in accordance with *Not-for-Profit Entities* topic of the FASB Accounting Standards Codification. Investment income or losses (including interest, dividends, realized and unrealized gains or losses on investments) are included in the statement of activities as increases or decreases in unrestricted assets unless the income or loss restricted by explicit donor stipulations or by law.

Statement of Cash Flows

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

Cash paid for the following as of December 31, 2012:

Income taxes: None

Depreciable and Amortizable Assets

Land, building and improvements are recorded at cost. Improvements are capitalized, while expenditures of $1,000 or less are charged to expense. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives.

	Estimated Life
Land	-
Building and improvements	30 to 40 years
Furniture and equipment	5 to 7 years

VCHC reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2012.

Amortization

Mortgage costs are being amortized over the term of the mortgage loan and land lease using the straight-line method. GAAP requires that the effective yield method be used to amortize the costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

(2) Summary of Significant Accounting Policies, Continued

Income taxes

VCHC is exempt from Federal and California income taxes under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. Accordingly, no provision for income taxes has been made in these financial statements. However, VCHC could be subject to Federal and California tax on unrelated business income, if any, as stipulated in IRC Section 511.

Management has determined that the application of FASB *Accounting Standards Codification (ASC) 740, Accounting for Uncertainty In Income Taxes*, does not impact the operations of the Organization, as under current Federal and state laws, VCHC is not subject to income taxes; therefore, no provision has been made for taxes in the accompanying financial statements. Management believes that VCHC has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities.

The Partnerships and LLC Affiliates' are not taxpaying entities as under current Federal and state laws, as these pass-through entities are generally not subject to income taxes; therefore, no provision has been made for taxes in the accompanying consolidated financial statements. For tax purposes, income or loss is includable in the tax returns of the individual members or partners.

WHC is a nonprofit California corporation that is not currently seeking an income tax exemption under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. For the year ended December 31, 2012, there was a federal and state tax loss that was not material to the consolidated financial statements as a whole. Therefore, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

Concentration of Business and Credit Risk

The Agency's cash and cash equivalents are maintained in several bank accounts which, at times, are in excess of federally insured amounts. Such cash balances vary throughout the year. VCHC is subject to credit risk to the extent that its cash and cash equivalents exceed federal deposit insurance limits. VCHC has not experienced any losses in such accounts. At December 31, 2012 the uninsured balances approximate $1,040,000 based on actual bank balances. Management believes that no significant concentration of credit risk exists with respect to these balances at December 31, 2012.

The Agency's revenues are derived from several sources. Approximately 15% of revenue is from contributions and grants from non-governmental sources, 26% from fees charged to government agencies, and 55% from rental operations. The Agency is subject to business risks associated with the level of charitable giving in both the private and public sectors, as well as the level of funding for particular government programs. VCHC operates in a heavily regulated environment. Most of the Agency's operations are subject to directives, rules and regulations of federal, state and local regulatory agencies. Such directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by such municipal agencies. The Partnership Affiliates' rent to people with qualifying levels of income who work primarily in the Los Angeles area. The Partnerships are subject to business risks associated with the economy and level of unemployment in Los Angeles, as well as available rental subsidies, which affects occupancy and the tenants' ability to make rental payments.

Property Tax Exemption

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

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurements

The accounting topic for Fair Value Measurements and disclosures provides a framework for the measuring the fair value of assets and liabilities under GAAP and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

- Level 1 – Fair value determined based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Fair value determined using significant observable inputs, such as quoted prices for similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data, by correlation or other means.
- Level 3 – Fair value determined using significant unobservable inputs such as pricing models, discounted cash flows, or similar techniques.

Assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The table below indicates the level of fair value inputs used in measuring investments on a recurring basis as of December 31, 2012:

	Fair Value	Level 1	Level 2	Level 3
Investments:				
Certificate of deposit	$ 147,955	$ 147,955	$ -	$ -

Accounting for Investments in Limited Partnership

The Partnership investment is recognized under the equity method, whereby VCHC's cost is increased for its share of profits and reduced by distributions and its share of losses. The equity method is discontinued if the carrying amount of the investment is reduced to zero.

Generally, if the rights and obligations of the general partner are such that the general partner controls the limited partnership, consolidation is required regardless of the ownership percentage. However, guidance provided by the Emerging Issues Task Force, Determining Whether a General Partner, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, requires the general partner apply the equity method of accounting to their interest if the presumption of control by the general partner is overcome by the rights of the limited partners.

Upon reviewing the Partnership Agreement, VCHC reached a conclusion that at December 31, 2012, it did not exert sufficient control on the partnership to consolidate the financial statements but rather is required to account for its interest in the limited partnership under the equity method.

Subsequent Events

VCHC has evaluated subsequent events that have occurred from December 31, 2012 through July 20, 2013, which is the date that the consolidated financial statements were issued, and determined that there were no subsequent events or transactions that required recognition in the consolidated financial statements other than those disclosed in notes to financial statements (see note 14).

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

(3) Investments

Navy Blue maintains a short-term investment totaling $84,590 in the form of a certificate of deposit. The certificate carries an interest rate of 0.45% and matures in June, 2013.

Fourth Ave maintains a short-term investment totaling $63,365 in the form of a certificate of deposit. The certificate carries an interest rate of 0.45% and matures in June, 2013.

The components of interest and investment income for 2012 is as follows:

Interest income	$ 2,385
Investment fees	-
Total	$ 2,385

(4) Investment in Partnerships

VCHC owns a 1% interest in an unconsolidated limited partnership organized for the purpose of acquiring, developing and maintaining low-income housing through the syndication of the project to limited partners. VCHC participates as a general partner in this partnership. As its ownership interest in the partnership is minimal, VCHC expenses partnership capital contributions in the first year the equity investor becomes a limited partner.

VCHC's participation in limited partnerships results in contingent liabilities. Pursuant to the terms of the partnership agreements, the limited partners are responsible only for initial capital contributions. As a result, VCHC may be required to arrange for additional funds related to any capital or operating needs of the partnerships. VCHC, as general partner, also receives revenue from the partnerships in the form of management and developer fees (see note 9).

The following is a summary of VCHC's general partner ownership interest in unconsolidated partnership investments as of December 31, 2012:

Partnership	Owner Interest	Total Assets	Total Liabilities	Partner's Equity	Partner's Net Inc.	VCHC Ptr.Equity
12525 Washington Place, LP	.01%	3,201,000	2,158,000	1,043,000	(26,000)	-

12525 Washington Place, L.P., is a California limited partnership. The initial Partnership was formed in May, 1996 for the purpose of developing and operating 30 units of low-income rental housing located in Venice, California. Development of the property was completed and rental operations began in November, 1997. A regulatory agreement entered into with the City of Los Angeles restricts the use of this property as low-income housing. The General Partner is VCHC; and the Limited Partner is the California Equity Fund 1995, a California limited partnership.

(5) Predevelopment Costs

Predevelopment costs are those that VCHC pays on behalf of particular affordable housing projects prior to construction that are currently owned by VCHC. The funding for such costs were provided by acquisition and predevelopment loans.

(6) Capitalized Costs

Costs incurred to obtain financing as well as certain other costs of Navy Blue have been capitalized and are being amortized as follows:

	Amortization Period	
Financing Costs	10 to 55 years	$ 257,927
Navy Blue Land Lease Costs	53 years	68,333
		326,260
Less: Accumulated Amortization		(48,817)
Net Capitalized Costs		$ 277,443

Estimated amortization expense for each of the next five years through December 31, 2017 is $8,772 per year.

(7) Advances to Projects

Advances to projects represent costs that VCHC pays on behalf of particular affordable housing projects, which are to be repaid to VCHC. These advances are for projects in which VCHC is a participating partner or member. Management believes all advances to be fully collectible at December 31, 2012.

(8) Mortgage Notes Payable

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

VCHC

650 Westminster Avenue: First trust deed - 3% residual receipts note payable to the County of Los Angeles, Housing Authority, in the original amount of $20,000, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due March, 2021. Subject to annual forgiveness provisions of annual principal over the note's twenty-eight year term, and forgiveness of accrued interest at note maturity.	$ 20,000
920 6th Avenue: First trust deed - bank note payable, in the original amount of $168,000, also secured by a replacement reserve account security interest, bearing interest at 8.21% per annum, payable in monthly installments of principal and interest of $1,257, due March, 2028.	131,012

(8) Mortgage Notes Payable, Continued

Note payable to the City of Los Angeles, in the original amount of $46,000, secured by a deed of trust, non-interest bearing, principal deferred for the twenty-year term, due August, 2018.	46,000
511 Brooks Avenue: First trust deed – 3.411% adjustable rate bank note payable, in the original amount of $195,000, calculated monthly in accordance with the 11th district cost of funds, maximum interest rate of 11.70%, currently payable in monthly installments of principal and interest of $950, due January, 2025.	111,501
Second trust deed non-interest bearing deferred bank note payable through the Federal Home Loan Bank of San Francisco - Affordable Housing Program, in the original amount of $28,000, subject to possible forgiveness provisions of the principal at the end of the notes ten-year term.	28,000
5032 South Slauson Avenue: Non-interest bearing deferred bank note payable through the Federal Home Loan Bank of San Francisco-Affordable Housing Program in the original amount of $56,000, subject to possible forgiveness provisions of the principal at the end of the notes ten-year term.	56,000
640 Westminster Avenue: 3% residual receipts note payable to the City of Los Angeles, Community Redevelopment Agency, in the original amount of $300,000, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due January, 2034. Interest incurred during 2012 was $9,000 and as of December 31, 2012, accrued interest totaled $133,128.	300,000
200 Lincoln Boulevard: First trust deed - 7.26% adjustable rate bank note payable, in the original amount of $600,000, interest rate fixed until April, 2020, then adjusting in accordance with the ten-year treasury constant maturity yield, maximum interest rate 12.26%, currently payable in monthly installments of principal and interest of $4,185, due April, 2030.	494,495
Note payable to Citibank, secured by a deed of trust on real property, in the original amount of $52,000, non-interest bearing, principal deferred for the fifteen-year term, due June, 2015, subject to forgiveness if the property remains affordable within the Federal Home Loan Bank's Affordable Housing program regulations.	52,000
4216 Centinela Avenue: First trust deed – 6.4% adjustable bank note payable, in the original amount of $800,000, also secured by a replacement reserve account security interest, fixed interest rate until September 2017, then adjusting semi-annually calculated in accordance with one-year treasury constant maturity yield plus 2.2%, maximum interest rate of 11.4%, currently payable in monthly installments of principal and interest of $5,004, due September, 2037.	749,532

(8) Mortgage Notes Payable, Continued

Second trust deed - note payable to Local Initiatives Support Corporation, in the original amount of $200,000, bearing interest at 7.25% per annum, payable in monthly installments of principal and interest of $1,581, balloon payment due August, 2017.	172,092
13368 Beach Avenue:	
Note payable to Ralenoma Investments, LLC, in the original amount of $850,000, secured by assignment of rents, bearing interest at 3.5% per annum, payable in monthly installments of interest only, balloon payment due October, 2013.	850,000
720 Rose Avenue:	
First trust deed - non-interest bearing note payable to the City of Los Angeles, in the original amount of $400,000, repaid with services to young adults, as defined in the loan agreement, over a ten-year period commencing August 1, 2011 and amortizing at a rate of $20,000 per year.	171,667
Second trust deed - non-interest bearing note payable to the City of Los Angeles, in the original amount of $175,370, repaid with services, as defined in the loan agreement.	57,486
Unsecured note payable to the Congregation of the Sisters of Charity of the Incarnate Word, in the original amount of $150,000, bearing interest at 1% per annum, payable in annual installments of principal and interest of $8,312, balloon payment of $122,339 due April, 2013.	122,339
Navy Blue:	
Deferred note payable to the State of California, Dept. of Housing and Community Development, in the original amount of $398,500, secured by first trust deed on real property, bearing interest at 3% per annum, interest only payable annually, principal and unpaid interest all due July, 2033. Interest incurred and paid during 2012 was $11,294.	376,480
Residual receipts note payable to the City of Los Angeles, Community Redevelopment Agency, in the original amount of $692,000, secured by second trust deed on real property, bearing interest at 3% per annum, payable in annual installments of principal and interest based on fifty percent of residual receipts, as defined, until all amounts have been paid in full, due July, 2024, subject to interest forgiveness provisions (see note 13).	692,000
Fourth Avenue:	
Note payable to Citibank, in the original amount of $361,400, secured by a deed of trust on real property, adjustable interest currently at 6.47% through December 1, 2016, thereafter variable interest at Community Investment Program Ten Year Market Rate Index, plus 1.50%; payable in monthly installments of principal and interest of $2,336, due December, 2026.	257,742

(8) Mortgage Notes Payable, Continued

Note payable to Citibank, in the original amount of $112,210, secured by a second trust deed on real property, bearing interest at 3% per annum, principal and interest deferred for the 30 year term, due December, 2026, subject to acceleration if the property does not remain affordable within the Federal Home Loan Bank's Affordable Housing Program regulations.	112,210
Residual receipts note payable to VCHC/City of Los Angeles, in the original amount of $1,250,000, secured by a third trust deed on real property, bearing interest at 5% per annum, payable in annual installments of principal and interest based on 50% of residual receipts, as defined, until all amounts have been paid in full, due August, 2036, subject to possible interest forgiveness (see note 13).	1,250,000
Horizon:	
First trust deed - residual receipts note payable to the California Housing Finance Agency, in the original amount of $1,261,632, bearing interest at 3% per annum. Annual installments of principal and accrued interest based on 31.68% of residual receipts, as defined, until all amounts have been paid in full, due January, 2066.	1,261,632
Note payable to the Department of Housing and Community Development of the State of California, in the original amount of $2,720,840, secured by deed of trust on real property, bearing interest at 3% per annum, payable from residual receipts, plus annual interest installments of $11,428, through December 31, 2042. Thereafter, annual payments will be the lesser of the full amount of interest accruing the outstanding principal balance or an amount determined by the Department for continued compliance with the requirements of the Multifamily Housing Program. All unpaid principal and interest will be due June, 2067.	2,720,840
Non-interest bearing note payable to the City of Los Angeles, in the original amount of $750,000. The note is repaid with supportive services, as defined in the loan agreement, over a twenty-year period commencing September 1, 2012 and amortizing at a rate of $37,500 per year, due September, 2034.	750,000
Pacific:	
Note payable to Sun West Bank, in the original amount of $2,500,000, insured by HUD under Section 207/223(f) of the National Housing Act. The note is secured by a first deed of trust on real property, bearing interest at 2.85% per annum, principal and interest payable in monthly installments of $9,413, due November 1, 2047.	2,496,524
Total	$ 13,279,552

(8) Mortgage Notes Payable, Continued

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

Year Ending December 31	VCHC	Affiliates	Total
2013	$ 1,017,837	54,061	$ 1,071,898
2014	48,550	56,064	104,614
2015	161,304	58,155	219,459
2016	55,186	60,337	115,523
2017	192,163	62,616	254,779
Thereafter	1,887,084	9,626,195	11,513,279
Total	$ 3,362,124	9,917,428	$ 13,279,552

In 1995, the City of Los Angeles loaned VCHC $1,250,000, at 5% per annum, in acquisition and predevelopment funds for the purpose of developing affordable housing. The City allowed VCHC to subsequently loan these funds to Fourth Avenue. Because the funds were part of a Government grant that required the loan to remain with VCHC, the security interests for the City Loan are cross collateralized against a deed of trust on real property owned by the Limited Partnership and against the Partnership promissory note to VCHC.

Concurrent with the execution of the City Loan, VCHC received a $1,250,000 promissory note from the Limited Partnership, the terms of which are identical to the loan payable to the City of Los Angeles. Proceeds due under the note receivable will be used to offset the identical payments due under the note payable. As such, VCHC has not reflected the notes, interest income and interest expense in the financial statements. In the event of default, although all notes are nonrecourse, VCHC could become liable for the remaining amount of indebtedness, if any, not satisfied by disposition of the Fourth Avenue collateralized property.

(9) Related Party Transactions

VCHC, as a general partner for the Limited Partnerships described above, (see note 4), receives management and tenant social service fees under various terms and provisions as defined in the partnership or other fee agreements. At December 31, 2012, VCHC earned $120,807 in such fees from the Limited Partnerships.

(10) Functional Expenses

Functional expenses for 2012 are allocated as follows:

Program Services	$ 2,963,144
Management and General	501,663
Fundraising	142,927
Total	$ 3,607,734

(11) Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2012 are available for the following purposes:

Community development programs	$ 28,219
General operating	83,333
Total	$ 111,552

(12) Restricted Cash

According to various loan and other regulatory agreements, VCHC and Affiliates are required to designate a portion of their cash as restricted for the following purposes:

	VCHC	Affiliates	Total
Operating Reserve	$ 47,696	363,940	$ 411,636
Supplement Operating Reserve	-	52,826	52,826
Transition Reserve	-	165,662	165,662
Replacement Reserve	166,934	426,880	593,814
Other	20,518	-	20,518
Security Deposits	56,002	75,437	131,439
Total	$ 291,150	1,084,745	$ 1,375,895

(13) Commitments and Contingent Liabilities

VCHC

VCHC leases storage space on a month-to-month basis at the rate of $890 per month. Rent expense for this operating lease totaled $8,166 for the year ended December 31, 2012.

VCHC, as general partner for the Limited Partnerships described, may be subject to other liabilities of the partnerships if the partnerships' assets should become insufficient to meet their obligations. In the opinion of management, the future revenues and the value of underlying assets of the Partnerships will be sufficient to meet their obligations.

Mortgage note payable - A development agreement between VCHC and the County of Los Angeles provides for forgiveness of principal and interest on the 650 Westminster Avenue residual receipts note payable (see note 8) if certain conditions are met. These include that the related property is operated and maintained as low-income housing over the term of the loan, and that VCHC complies with various other provisions of the agreement. In the event that the property is not maintained as low-income housing, or if there are other material violations of the development agreement, the mortgage note and accrued interest become immediately due and payable. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provisions of the development agreement. Accordingly, VCHC does not accrue interest on the note payable in the financial statements. At December 31, 2012, the cumulative amount of unpaid interest on the note that could be due if provisions were not met approximated $11,600.

(13) Commitments and Contingent Liabilities, Continued

Additionally, regulatory agreements between VCHC and the City of Los Angeles provide for the repayment of the original $400,000 and $175,370 mortgage notes payable on 718-20 Rose Avenue property based on VCHC furnishing services to young adults, as stipulated in each agreement, over the term of the loans. In the event there is a violation of an agreement and the services are not rendered, the balance of the loan becomes immediately due and payable at the option of the lender. During the year 2012, $20,000 of mortgage note principal was repaid from services provided.

Navy Blue

A regulatory agreement between Navy Blue and the City of Los Angeles Community Redevelopment Agency provides for possible forgiveness of interest on the mortgage note payable of $692,000. At the end of the note's thirty-year term, accrued interest will be due and payable only to the extent the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2012 Navy Blue is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $394,000, if the fair market value of the property is sufficient.

The deferral provisions as stipulated in the regulatory agreement remain in effect only as long as the property is operated and maintained as low-income housing and Navy Blue complies with various other provisions of the agreement. In the event that the property is not maintained as low-income housing, or if there are other material violations of the regulatory agreement the mortgage note becomes due and payable. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provision of the regulatory agreement.

Fourth Ave

A loan agreement between the Fourth Ave, VCHC, and the City of Los Angeles Housing Department provides for possible forgiveness of interest on the mortgage note payable of $1,250,000. At the end of the note's forty-year term, accrued interest will be due and payable only if the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2012, Fourth Ave is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $946,000, if the fair market value of the property is sufficient.

The deferral provisions as stipulated in the loan agreement remain in effect only as long as the property is operated and maintained as low-income housing and the Partnership complies with various other provisions of the agreement. In the event that the property is not maintained as low-income housing, or if there are other material violations of the loan agreement, the mortgage note becomes due and payable. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provisions of the loan agreement.

(13) Commitments and Contingent Liabilities, Continued

Horizon

VCHC was awarded a recoverable subsidy grant from the City of Los Angeles Housing Authority, under the Shelter Plus Care program, totaling $1,133,220 in connection with the rental operations at the Horizon housing project. The subsidy is disbursed over a five-year period that began in 2011. Under the terms of the contract, VCHC must provide tenants with supportive services in an amount equal to or greater than the amount of the rental subsidies received. Revenue from the subsidy is passed through to Horizon and is included in rental income in the accompanying consolidated financial statements.

During 2011 Horizon received a contingent grant in the amount of $250,000 from the County of Los Angeles CDC, under its Emergency Shelter Funds program, for costs associated with the rehabilitation of the Horizon housing project. The grant is repayable only if in default with the 15 year grant agreement. Although this is a possibility, management deems the contingency remote and plans to meet the conditions as set forth in the provisions of the grant agreement.

(14) Subsequent Events

In January, 2013, VCHC repaid the existing $122,339 unsecured note payable to the Congregation of the Sisters of Charity of the Incarnate Word, in the original amount of $150,000, which was due April, 2013. Additionally, in February, 2013, VCHC borrowed $200,000 for potential real estate predevelopment purposes from the Congregation of the Sisters of Charity of the Incarnate Word. The new loan is unsecured in the amount of $200,000, and bears interest at 1% per annum, payable in annual interest only installments with principal due at the end of three-years.

VCHC entered into a federal grant award contract with the Department of Labor for its Youthbuild Program. The contract is for a period of three-years commencing June, 2013, in the amount of $1,100.000

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Financial Position

December 31, 2012

Schedule 1

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
Assets				
Cash and equivalents	$ 1,275,038	132,823		$ 1,407,861
Restricted cash	291,150	1,084,745		1,375,895
Investments	-	147,955		147,955
Government contracts receivable	118,981	-		118,981
Grants receivable	124,000	-		124,000
Accounts receivable, net	22,031	14,501		36,532
Prepaid expenses	482	10,815		11,297
Property and equipment	7,877,076	10,347,446	(100,000)	18,124,522
Accumulated depreciation	(1,984,843)	(2,683,530)		(4,668,373)
Net Property	5,892,233	7,663,916	(100,000)	13,456,149
Predevelopment costs	35,851	-		35,851
Financing costs, net	19,430	258,013		277,443
Advances to project	9,708	-		9,708
Due from Affiliates	58,592	-	(58,592)	-
Deposits	4,214	8,981		13,195
Total assets	7,851,710	9,321,749	(158,592)	17,014,867
Liabilities and Net Assets				
Accounts payable	43,080	36,487		79,567
Accrued vacation	61,718	-		61,718
Accrued payroll	31,981	-		31,981
Prepaid rent	265	1,267		1,532
Accrued interest payable	146,005	157,112		303,117
Due to Affiliates	-	143,616	(143,616)	-
Notes payable	3,362,124	9,917,428		13,279,552
Tenant deposits	55,044	72,890		127,934
Total liabilities	3,700,217	10,328,800	(143,616)	13,885,401
Net Assets:				
Unrestricted	4,039,941	(1,007,051)	(14,976)	3,017,914
Temporarily restricted	111,552	-		111,552
Total Net Assets	4,151,493	(1,007,051)	(14,976)	3,129,466
Total Liabilities and Net Assets	$ 7,851,710	9,321,749	(158,592)	$ 17,014,867

See accompanying auditors' report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Activities

Year ended December 31, 2012

Schedule 2

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
Changes in unrestricted net assets:				
Revenue & Support:				
Contributions	$ 403,006	-		$ 403,006
Government grants	745,221	142,500		887,721
Rental income	1,164,655	728,946		1,893,601
Developer fee	100,000	-	(100,000)	-
Partnership mgmt and tenant svcs fees	244,672	-	(123,865)	120,807
Other income	9,956	960		10,916
Interest income	290	2,095		2,385
Total unrestricted revenue	2,667,800	874,501	(223,865)	3,318,436
Net assets released from restrictions:				
Satisfaction of program restrictions	35,146	-		35,146
Total unrestricted revenue and support	2,702,946	874,501	(223,865)	3,353,582
Expenses:				
Salaries, benefits, taxes	1,447,074	205,997	(41,046)	1,612,025
Home repair and building contract svcs	8,652	-		8,652
Consultants	73,506	-		73,506
Job training and supplies	118,082	-		118,082
Education and after school programs	34,392	-		34,392
Rent	8,166	-		8,166
Legal & accounting	18,860	31,122	(13,280)	36,702
Office and administration	110,113	32,860	(8,489)	134,484
Conference, training & travel	36,760	10,240		47,000
Management and tenant svcs fee	-	71,831	(71,831)	-
Fundraising & outreach	13,421	-		13,421
Maintenance & repairs	178,121	112,639	(1,172)	289,588
Utilities	109,738	63,132		172,870
Insurance	184,820	66,113	(2,132)	248,801
Property tax and license	32,602	12,011		44,613
Interest	210,849	200,468		411,317
Depreciation & amortization	200,409	153,706		354,115
Total expenses	2,785,565	960,119	(137,950)	3,607,734
Decrease in unrestricted net assets	(82,619)	(85,618)	(85,915)	(254,152)
Change in temp.restrict net assets:				
Contributions	96,858	-		96,858
Net assets released from restriction	(35,146)	-		(35,146)
Increase in temp. restricted net assets	61,712	-		61,712
Total decrease in net assets	(20,907)	(85,618)	(85,915)	(192,440)
Other changes in net assets:				
Transfer of net assets (to)/from affiliated organization - Pacific	(196,762)	196,762		-
Transfer of cash to/(from affiliated organization – Pacific	1,750,000	(1,750,000)		-
Net assets at beginning of year	2,619,162	631,805	70,939	3,321,906
Net assets at end of year	$ 4,151,493	(1,007,051)	(14,976)	$ 3,129,466

See accompanying auditors' report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Combining Statement of Financial Position by Affiliates

December 31, 2012

Schedule 3

	Navy Blue Apts., L.P.	Fourth Ave. Apts., L.P.	Horizon Apts., LLC	Pacific Apts., LLC	Westside Housing Corporation	Combining Adjustments	Affiliates Total
Assets							
Cash and equivalents	$ 9,274	77,435	9,138	30,253	6,723		$ 132,823
Restricted cash	262,474	410,794	297,068	114,409	-		1,084,745
Investments	84,590	63,365	-	-	-		147,955
Accounts receivable, net	1,524	3,031	6,297	3,649	-		14,501
Prepaid expenses	-	-	-	10,815	-		10,815
Property and equipment	1,266,955	3,501,443	4,769,603	809,445	-		10,347,446
Accumulated depreciation	(747,288)	(1,705,405)	(77,527)	(153,310)	-		(2,683,530)
Financing costs, net	44,774	6,755	46,711	159,773	-		258,013
Deposits	650	4,470	-	3,861	-		8,981
Total assets	922,953	2,361,888	5,051,290	978,895	6,723		9,321,749
Liabilities and Net Assets							
Accounts payable	27,528	4,966	1,272	2,721	-		36,487
Prepaid rent	-	142	1,125	-	-		1,267
Accrued interest payable	-	55,426	95,757	5,929	-		157,112
Due to Affiliates	64,655	38,252	33,997	6,712	-		143,616
Notes payable	1,068,480	1,619,952	4,732,472	2,496,524	-		9,917,428
Tenant deposits	8,421	16,751	18,590	29,128	-		72,890
Total liabilities	1,169,084	1,735,489	4,883,213	2,541,014	-		10,328,800
Net Assets:							
Unrestricted	(246,131)	626,399	168,077	(1,562,119)	6,723		(1,007,051)
Total Liabilities and Net Assets	$ 922,953	2,361,888	5,051,290	978,895	6,723		$ 9,321,749

See accompanying auditors' report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Combining Statement of Activities by Affiliates

Year ended December 31, 2012

Schedule 4

	Navy Blue Apts., L.P.	Fourth Ave. Apts., L.P.	Horizon Apts., LLC	Pacific Apts., LLC	Westside Housing Corporation	Combining Adjustments	Affiliates Total
Changes in unrestricted net assets:							
Revenue & Support:							
Government contract	$ -	-	142,500	-	-	-	$ 142,500
Rental income	149,088	290,937	227,432	61,489	-		728,946
Partnership mgmt and tenant svcs fees	-	-	-	-	5,275	(5,275)	-
Other income	176	440	344	-	-		960
Interest income	822	879	199	195	-		2,095
Total unrestricted revenue	150,086	292,256	370,475	61,684	5,275	(5,275)	874,501
Expenses:							
Salaries, benefits, taxes	18,687	78,155	98,522	10,633	-		205,997
Legal & accounting	12,865	13,865	3,532	-	860		31,122
Office and administration	6,615	16,424	6,499	1,446	1,876		32,860
Conference, training & travel	10,240	-	-	-	-		10,240
Management and tenant svcs fee	42,579	17,247	17,280	-	-	(5,275)	71,831
Maintenance & repairs	21,075	66,285	16,666	8,613	-		112,639
Utilities	11,074	35,185	12,969	3,904	-		63,132
Insurance	6,790	19,514	13,594	26,215	-		66,113
Property tax and license	979	4,476	3,333	3,223	-		12,011
Interest	11,294	20,376	156,914	11,884	-		200,468
Depreciation & amortization	26,918	69,465	52,676	4,647	-		153,706
Total expenses	169,116	340,992	381,985	70,565	2,736	(5,275)	960,119
Increase (decrease) in unrestricted net assets	(19,030)	(48,736)	(11,510)	(8,881)	2,539		(85,618)
Other changes in net assets:							
Transfer of net assets from affiliated organization				196,762			196,762
Transfer of cash to affiliated organization				(1,750,000)			(1,750,000)
Net assets at beginning of year	(227,101)	675,135	179,587		4,184		631,805
Net assets at end of year	$ (246,131)	626,399	168,077	(1,562,119)	6,723		$ (1,007,051)

See accompanying auditors' report.