VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

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

December 31, 2019

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

December 31, 2019

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Venice Community Housing Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Venice Community Housing Corporation and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of VCHC Pacific Apartments, LLC and VCHC Gateway, L.P., which statements reflect total assets of $11,271,918 as of December 31, 2019 and total revenue of $692,072 for the year ended December 31, 2019. Those statements were audited by other auditors, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for such entities controlled by Venice Community Housing Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Venice Community Housing Corporation and Affiliates as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT, CONTINUED

Report on Supplementary Information

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

Levitt & Rosenblum

Los Angeles, California
September 23, 2020

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Financial Position

December 31, 2019

ASSETS

Cash and cash equivalents	$ 2,037,899
Restricted property reserves and deposits (note 4)	4,015,772
Government contracts receivable (note 2)	314,488
Grants receivable	110,000
Accounts receivable	74,121
Prepaid expenses	20,551
Property, at cost (note 2):	
Land	9,044,758
Buildings and improvements	22,533,854
Equipment and furniture	741,446
Less: accumulated depreciation	9,727,044
Net Property	22,593,014
Real estate under development (note 3)	5,679,454
Capitalized costs, net of accumulated amortization (note 6)	62,158
Deposits	21,635
Total Assets	$ 34,929,092

LIABILITIES AND NET ASSETS

Accounts payable	$ 295,098
Construction costs payable	99,304
Accrued payroll and vacation	93,296
Prepaid rent	87,470
Grant payable	75,000
Accrued interest payable (note 5)	1,699,608
Mortgage notes payable (notes 5 and 15)	22,805,586
Tenant security deposits	175,096
Commitments and contingencies (note 15)	
Total Liabilities	25,330,458
Net Assets:	
Without donor restrictions	
Undesignated	1,725,207
Board designated fund (note 16)	20,000
Undesignated, Controlling interest in affiliates	1,730,365
Undesignated, Non-controlling interest in affiliates (note 2)	5,833,354
Total net assets without donor restrictions	9,308,926
With donor restrictions (notes 10 and 11)	289,708
Total Net Assets	9,598,634
Total Liabilities and Net Assets	$ 34,929,092

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Activities

Year ended December 31, 2019

Changes in net assets without donor restrictions:	
Revenues and Support:	
Contributions and grants	$ 995,120
Government contracts	1,924,714
Program service	60,000
Rental income	2,743,851
Cancellation of debt	57,486
Other income	4,683
Interest income	5,679
Total revenue without donor restrictions	5,791,533
Net assets released from restrictions:	
Satisfaction of program restrictions	283,875
Expiration of time restrictions	112,500
Total net assets released from restrictions	396,375
Total revenue and support without donor restrictions	6,187,908
Expenses:	
Program services	
Youth development program	1,104,390
Low income housing	3,430,887
Resident services	406,607
Supporting services	
Management and general	722,161
Fundraising	438,371
Total expenses	6,102,416
Increase in net assets without donor restrictions	85,492
Changes in net assets with donor restrictions:	
Contributions and grants	270,249
Net assets released from restrictions	(396,375)
Decrease in net assets with donor restrictions	(126,126)
Total Decrease in net assets	$ (40,634)
Change in net assets attributable to controlling interest	$ 282,686
Change in net assets attributable to non-controlling interest	(323,320)
	$ (40,634)

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Functional Expenses

Year ended December 31, 2019

	Program Activities				Supporting Activities			
	Youth Development Program	Low Income Housing	Resident Services	Program Subtotal	Management and General	Fundraising	Supporting Subtotal	Total Expenses
Expenses:								
Salaries	$ 491,519	836,239	268,623	1,596,381	255,160	229,308	484,468	$ 2,080,849
Payroll taxes	44,219	68,224	24,075	136,518	19,849	19,444	39,293	175,811
Employee benefits	41,402	97,164	29,631	168,197	17,892	15,720	33,612	201,809
Total salaries and related expense	577,140	1,001,627	322,329	1,901,096	292,901	264,472	557,373	2,458,469
Consultants	760	20,725	432	21,917	134,259	3,495	137,754	159,671
Job training and supplies	223,031	11,534	6,203	240,768	-	-	-	240,768
Education and after school programs	46,112	5,370	21,226	72,708	27,024	3,190	30,214	102,922
Rent	81,202	23,185	-	104,387	14,386	801	15,187	119,574
Legal and accounting	6,783	36,650	3,991	47,424	68,838	2,825	71,663	119,087
Office and administration	21,669	111,357	8,664	141,690	52,756	23,789	76,545	218,235
Conference, training and travel	25,113	20,997	4,669	50,779	6,731	5,814	12,545	63,324
Property management fee	-	-	-	-	27,928	-	27,928	27,928
Fundraising and outreach	155	1,220	30	1,405	9,595	109,433	119,028	120,433
Maintenance and repairs	36,554	557,845	-	594,399	32,539	-	32,539	626,938
Utilities	6,972	337,472	-	344,444	2,306	-	2,306	346,750
Insurance	70,308	172,867	38,956	282,131	21,699	24,091	45,790	327,921
Property tax, license and fees	1,344	75,213	107	76,664	469	461	930	77,594
Interest	-	467,372	-	467,372	-	-	-	467,372
Depreciation and amortization	7,247	587,453	-	594,700	30,730	-	30,730	625,430
Total expenses	$ 1,104,390	3,430,887	406,607	4,941,884	722,161	438,371	1,160,532	$ 6,102,416

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2019

<u>Changes in Net Assets:</u>	
Net assets, without donor restrictions at January 1, 2019	$ 8,720,934
Partner capital contributions	502,500
Changes in net assets without donor restrictions	85,492
Net assets, without donor restrictions at December 31, 2019	9,308,926
Net assets, with donor restrictions at January 1, 2019	415,834
Changes in net assets with donor restrictions	(126,126)
Net assets, with donor restrictions at December 31, 2019	289,708
Total net assets at December 31, 2019	$ 9,598,634

See notes to consolidated financial statements.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidated Statement of Cash Flows

Year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ (40,634)
Adjustments to reconcile change in net assets to cash flow from operating activities:	
Depreciation and amortization expense	625,430
Amortization of debt issuance costs	9,927
Government grant restricted for capital assets	(500,000)
Cancellation of debt	(94,986)
Decrease (Increase) in Operating Assets:	
Government contracts receivable	(118,122)
Accounts receivable	172,369
Grants receivable	(50,473)
Prepaid expenses	6,393
Deposits	(1,711)
Increase (Decrease) in Operating Liabilities:	
Accounts payable and accrued expenses	88,845
Grant payable	75,000
Prepaid rent and deferred revenue	(91,572)
Accrued interest payable	253,205
Tenant security deposits	(426)
Net cash provided by operating activities	333,245
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payment for building improvements	(509,693)
Payment for equipment and furniture	(24,595)
Payment for real estate under development	(3,401,938)
Net cash used in investing activities	(3,936,226)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Partner capital contributions	502,500
Proceeds from government grant restricted for capital assets	500,000
Proceeds from notes payable	3,088,505
Repayment of notes payable	(146,479)
Net cash provided by financing activities	3,944,526
Net increase in cash, cash equivalents, and restricted cash	341,545
Cash, cash equivalents, and restricted cash at beginning of year	5,712,126
Cash, cash equivalents, and restricted cash at end of year	$ 6,053,671
Supplemental noncash investing and financing activities:	
Additional costs of real estate under development from capitalized interest accrual and construction costs payable	$ 123,760
Additional costs of fixed assets included in accounts payable	$ 31,408
Supplemental disclosure of cash flow information:	
cash paid for interest, net of amounts capitalized	$ 204,240

See notes to consolidated financial statements.

(1) Purpose and Activities

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Change in Accounting Principle

Effective January 1, 2019 the Organization adopted Accounting Standards Update 2016-18, *Statement of Cash Flows-Restricted Cash* (ASU 2016-18). ASU 2016-18 requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling beginning and ending balances for periods shown on the statement of cash flows. With the inclusion of restricted cash reserves and security deposits the beginning cash and restricted cash was increased by $3,328,955.

Principles of Consolidation

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

(2) Summary of Significant Accounting Policies, Continued

Principles of Consolidation, Continued

The following is a summary of Affordable Housing Affiliates and the consolidated ownership information as of December 31, 2019.

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

Affordable Housing Affiliates, description:

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Affordable Housing Affiliates, description, Continued:

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

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

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

Non-Controlling Interest in Affiliates

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

Classification of Net Assets

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

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

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

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

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

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

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

The Organization receives conditional grants from government agencies for various purposes. Revenue from direct or pass-through governmental grants and contracts not yet received are accrued to the extent unreimbursed expenses have been incurred and invoiced for the purpose specified by an approved conditional grant. Grants received for services not yet earned are reported as with donor restrictions in the consolidated financial statements.

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

Accounts and Grants Receivable

VCHC does not maintain an allowance for uncollectible grant revenue because the receivables primarily consist of private foundation grants and contracted government reimbursement requests. If any amounts become uncollectible, they will be charged to operations when that determination is made. GAAP requires that an allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Accounts receivable are reported net of an allowance for uncollectible accounts. Management’s estimate of the allowance account is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management’s estimate of the allowance will change. As of December 31, 2019 the allowance account totaled $5,699. The Affordable Housing Affiliates report receivables net of an allowance for estimated uncollectible amounts.

Statement of Functional Expenses

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

Debt Issuance Costs

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

(2) Summary of Significant Accounting Policies, Continued

Navy Blue Ground Lease

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

As of December 31, 2019, no rental payments have been made under the Ground Lease as the project has not generated any residual receipts, as defined. Also, in accordance with residual receipts calculations, Management estimates that no rent payments will be made during the term of the Ground Lease.

Depreciable Assets

Land, building and improvements are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to expense as incurred, while major renewals and improvements are capitalized. 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	20 to 40 years
Furniture and equipment	5 to 7 years

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low-income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment losses recognized in 2019.

Fair Value Measurements

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

The Organization has certain loans with the City of Los Angeles in which the interest repayment is contingent on the fair value of the property, as defined in the loan agreement (see note 15). The fair value determines whether interest accrues on these loans. Information to develop unobservable inputs to determine fair value is not reasonably available without undue cost and effort. Since significant uncertainty exists with respect to the Organization’s cash flow availability to repay the loans, management has concluded that fair value of these loans cannot be determined.

(2) Summary of Significant Accounting Policies, Continued

Amortization

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

Advertising

Advertising costs are expensed as incurred.

Estimates

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

Income taxes

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

The Affordable Housing Affiliates are pass-through entities for income tax purposes and are not subject to income taxes. The Affordable Housing Affiliates federal tax status as a pass-through entity is based on their legal status as a partnership or LLC. The Affordable Housing Affiliates are required to file tax returns with the Internal Revenue Service and other taxing authorities. For tax purposes, income, loss and tax credits are includable in the tax returns of the individual partners and members. Accordingly, no provision has been made for taxes in the accompanying consolidated financial statements. Generally, income tax returns filed by the Affordable Housing Affiliates are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2016 remain open.

WHC is a nonprofit California corporation that is not currently seeking an income tax exemption under Section 501(c)(3) of the Internal Revenue code and corresponding California provisions. For the year ended December 31, 2019, there was a federal and state tax loss that was not material to the consolidated financial statements as a whole. Therefore, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

Property Tax Exemption

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

Statement of Cash Flows

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

(2) Summary of Significant Accounting Policies, Continued

Concentration of Business and Credit Risk

The Organization's cash and cash equivalents are maintained in several bank accounts which, at times, are in excess of federally insured amounts. Such cash balances vary throughout the year. The Organization is subject to credit risk to the extent that its cash and cash equivalents exceed federal deposit insurance limits. The Organization has not experienced any losses in such accounts. At December 31, 2019 the uninsured balances approximate $1,801,000 based on actual bank balances. Management believes this credit risk is not significant in regard to these cash balances at December 31, 2019.

The Organization’s revenues are derived from several sources. Approximately 21% of revenue is from contributions and grants from non-governmental sources; 32% from fees charged to government agencies; and 45% from rental operations.

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

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

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

Subsequent Events

The Organization has evaluated subsequent events that have occurred from December 31, 2019 through September 23, 2020, which is the date that the consolidated financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition in the consolidated financial statements other than those disclosed in notes to financial statements (Note 17).

(3) Real Estate Under Development

The Organization has four low-income housing projects in development as of December 31, 2019, that are located at 718-20 Rose Avenue, 116-302 N. Venice Boulevard, 2471 Lincoln Boulevard, and 2219 Marian Place. Development costs are those capitalized costs paid on behalf of particular affordable housing projects prior to their being placed in service. Such costs include predevelopment costs, direct and indirect costs of construction, as well as carrying costs during the construction period including supervision and management. The funding for such costs are provided by acquisition, predevelopment and construction loans. In the event that a project is discontinued the capitalized costs are expensed.

(4) Restricted Property Reserves and Deposits

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

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

	VCHC	Affiliates	Total
Predevelopment Funds	$ 640,867	-	$ 640,867
Operating Reserves	44,331	869,772	914,103
Replacement Reserves	157,722	1,111,712	1,269,434
Revenue Deficit Reserves	-	402,000	402,000
Transition Reserves	-	246,392	246,392
Other Reserves	60,812	278,717	339,529
Security Deposits	72,325	131,122	203,447
Total	$ 976,057	3,039,715	$ 4,015,772

(5) Mortgage Notes Payable

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

VCHC:

5032 South Slauson Avenue: Note payable through the Federal Home Loan Bank of San Francisco-Affordable Housing Program, in the original amount of $56,000, secured by a deed of trust on real property, non-interest bearing, principal deferred for the fifteen-year compliance period, subject to forgiveness if the property remains affordable within the Affordable Housing program regulations.	$ 56,000
511 Brooks Avenue: Note payable through the Federal Home Loan Bank of San Francisco-Affordable Housing Program, in the original amount of $28,000, secured by a deed of trust on real property, non-interest bearing, principal deferred for the fifteen-year compliance period, subject to forgiveness if the property remains affordable within the Affordable Housing program regulations.	28,000
640 Westminster Avenue: 3% residual receipts note payable to the City of Los Angeles, in the original amount of $300,000, secured by a deed of trust on real property, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due January, 2034. Interest incurred during 2019 was $9,000 and as of December 31, 2019, accrued interest totaled $148,005.	300,000

(5) Mortgage Notes Payable, Continued

650 Westminster Avenue:	
3% residual receipts note payable to the County of Los Angeles, Housing Authority, in the original amount of $20,000, secured by a deed of trust on real property, payable in annual installments of principal and interest based on residual receipts, as defined, until all amounts have been paid in full, due March, 2021. Subject to forgiveness provisions of principal and interest at end of the note's twenty-eight year term.	20,000
920 6th Avenue:	
Note payable to Chase, in the original amount of $168,000, secured by a deed of trust on real property and replacement reserve account, bearing interest at 8.21% per annum, payable in monthly installments of principal and interest of $1,257, due March, 2028.	90,210
Note payable to the City of Los Angeles, in the original amount of $46,000, secured by a deed of trust on real property, non-interest bearing, principal deferred for the twenty-year term, due August, 2018, loan extension currently in process with the City.	46,000
200 Lincoln Boulevard/4216 Centinela Avenue:	
Note payable to Local Initiatives Support Corporation, in the original amount of $1,710,279, secured by a deed of trust on real property, bearing interest at 5.25% per annum, with interest only paid monthly through March, 2019. Thereafter, monthly installment of principal and interest due beginning April 1, 2019, over a period of nineteen years, all outstanding principal and unpaid interest due March, 2038.	1,644,362
2471 Lincoln:	
Note payable to Local Initiatives Support Corporation, in the original amount of $4,424,994, secured by a deed of trust on real property, bearing interest at 5.25% per annum, with interest only paid monthly, all outstanding principal and unpaid interest due September, 2021.	3,086,016
720 Rose Avenue:	
Note payable to the Corporation for Supportive Housing, in the original amount of $1,345,000, secured by a deed of trust on real property, bearing interest at 6% per annum which is paid monthly from lender's interest holdback reserve. All Unpaid principal and accrued interest due December, 2020. Interest incurred during 2019 was $62,972.	1,267,177
116-302 N. Venice Blvd:	
Predevelopment note payable to the Corporation for Supportive Housing, in the original amount of $3,273,000, secured by a deed of trust on the real property, bearing interest at 6% per annum, paid monthly from lender's interest holdback reserve. All unpaid principal and accrued interest due the earlier of the receipt of construction financing or December, 2021.	1,052,431
Other:	
Note payable to the Congregation of the Sisters of Charity of the Incarnate Word, in the original amount of $250,000, unsecured, bearing interest at 1% per annum, payable in annual installments of interest only, principal and unpaid accrued interest due February, 2020.	250,000
	7,840,196
Less unamortized debt issuance costs	(41,728)
VCHC Total	$ 7,798,468

(5) Mortgage Notes Payable, Continued

Affordable Housing Affiliates:

Two amortizing notes payable to various lenders, secured by deeds of trust on real property, bearing interest ranging from 4.32% to 4.93% per annum, principal and interest due date ranging from December, 2026 to March, 2028.	$ 454,705
Note payable to Sun West Mortgage Company Inc., in the original amount of $2,500,000, insured by HUD under Section 207/223(f) of the National Housing Act. The note is secured by a Multifamily deed of trust on real property, Assignment of Rents and Security agreement, bearing interest at 2.85% per annum, principal and interest payable in monthly installments of $9,413, due November 1, 2047.	2,173,061
Note payable to the City of Los Angeles, in the original amount of $750,000, secured by deed of trust on real property, non-interest bearing. The note is repaid with supportive services, as defined in the loan agreement, over a twenty-year period commencing September 1, 2012 and amortizing at a rate of $37,500 per year, due September, 2034.	471,875
Ten non-amortizing notes payable to various lenders, secured by deeds of trust on real property, interest ranging from zero to 5% per annum, some payable based on residual receipts, as defined, until all amounts have been paid in full, due date ranging from July, 2024 to December, 2069. Some notes subject to interest forgiveness provisions (note 15).	12,121,858
	15,221,499
Less unamortized debt issuance costs	(214,381)
Affordable Housing Affiliates Total	15,007,118
Total VCHC and affiliates Notes Payable	$ 22,805,586

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

Year Ending December 31	VCHC	Affiliates
2020	$ 1,582,630	$ 138,728
2021	4,227,672	142,597
2022	73,220	146,623
2023	77,453	150,813
2024	81,941	847,176
Thereafter	1,797,280	13,795,562
Total	$ 7,840,196	$ 15,221,499

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

(5) Mortgage Notes Payable, Continued

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

An analysis of notes payable and accrued interest for 2019 is as follows:

	Current Portion	Non-Current Portion	Principal Balance as of 12/31/19	Accrued Interest as of 12/31/19
VCHC:				
Amortizing	$ 65,453	1,669,119	1,734,572	$ 7,811
Non-Amortizing	1,517,177	4,588,447	6,105,624	174,961
Subtotal VCHC	$ 1,582,630	6,257,566	7,840,196	$ 182,772
Less: Debt Issuance Costs			(41,728)	
Total VCHC			7,798,468	
Affordable Housing Affiliates:				
Amortizing	$ 101,228	2,526,538	2,627,766	$ 6,945
Non-Amortizing	37,500	12,556,233	12,593,733	1,509,891
Subtotal Affordable Housing Affiliates	$ 138,728	15,082,771	15,221,499	$ 1,516,836
Less: Debt Issuance Costs			(214,381)	
Total Affordable Housing Affiliates			15,007,118	

(6) Capitalized Costs

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

		Affiliates
Marketing and Tax Credit Fees	1 to 10 years	$ 51,936
Monitoring Fees	15 years	7,935
Land Lease Costs	53 years	68,333
		128,204
Less: Accumulated Amortization		(66,046)
Net Capitalized Costs		$ 62,158

Estimated amortization expense for the next five years through December 31, 2024 is $5,121 per year.

(7) Reconciliation of Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the consolidated statement of financial position that sum to the total of those same amounts shown in the consolidated statement of cash flows.

Cash and cash equivalents	$ 2,037,899
Restricted cash	4,015,772
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 6,053,671

Amounts included in restricted cash represent those required to be set aside by a contractual agreement for property reserves and tenant security deposits.

(8) Related Party Transactions

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

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

Partnership Management and Other Fees

All of the partnership management, asset management, bookkeeping, and resident service fee income earned by VCHC is related to services provided to the affiliated entities. In general, VCHC as general partner for the limited partnerships receives these fees under various terms and provisions as defined by each partnership. Such fees from the affiliated entities totaled $752,468 and are eliminated in consolidation.

(9) Due From Affiliates

Due from affiliates represent costs that VCHC pays on behalf of particular Affordable Housing Affiliates. VCHC is reimbursed for costs such as on-site managers, maintenance personnel, and certain other direct project costs paid by VCHC on behalf of the affiliates. The advances, in the amount of $195,508, are reported net of allowance for doubtful accounts. Management's estimate of the allowance is based on expected operating performance and other factors. It is possible that management's estimate of the allowance will change. Advances to projects are classified as due from affiliates on the consolidating financial statements and have been eliminated in consolidation. Such loans are unsecured and are due on demand.

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2019, are available for the following purposes:

Community development programs	$ 129,708
Resident services	100,000
General operating	60,000
Total	$ 289,708

(11) Net Assets By Designations

As of December 31, 2019, net assets with donor restrictions of $289,708 are restricted for specific purposes or time restrictions, as indicated below. During the year ended December 31, 2019, net assets with donor restrictions of $396,375 were released from the restrictions by incurring expenses related to the donation which satisfied the donor restricted purpose or time restriction. At December 31, 2019, net asset designations are as follows:

Without donor restrictions:	
Undesignated	$ 9,288,926
Designated by the Board for operations	20,000
	9,308,926
With donor restrictions:	
Purpose restriction	229,708
Time-restricted for future periods	60,000
	289,708
Total net assets	$ 9,598,634

(12) Liquidity and Availability

Financial assets available for general expenditure, without donor restrictions or low-income housing property reserves, limiting their use, within one-year of December 31, 2019, are comprised of the following:

Financial assets:	
Cash and cash equivalents	$ 2,037,899
Cash reserves for low-income housing operations	1,541,103
Government contracts receivable	314,488
Grants receivable	110,000
Accounts receivable	74,121
Total financial assets	4,077,611
Amounts not available for general expenditures:	
Current liabilities	(2,273,782)
Restricted by donor for community development programs	(129,708)
Restricted by donor for resident services	(100,000)
Board designated funds	(20,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,554,121

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

(13) Retirement Plan

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

(14) Guaranties

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

Operating Deficit Guaranty

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

Credit Recapture Guaranty

In the event of a recapture of tax credits received by an investor limited partner, VCHC shall be obligated to reimburse the investor limited partner for any recaptured credits plus any related penalties, interest or additional taxes due. VCHC is not obligated to reimburse if the recapture is due to a change in law or actions by the limited partners. As of December 31, 2019, no amounts were due under this guaranty.

(15) Commitments and Contingent Liabilities

VCHC:

During construction of its new facilities VCHC is temporarily leasing its offices through August, 2021, under an operating lease requiring monthly rent payment of $5,750. VCHC also leases additional program space through an operating lease which expires July 31, 2021. The program space lease agreement requires monthly rent payment of $6,000, increasing 6% per annum throughout the lease term. In addition, VCHC leases storage space on a month-to-month basis at the rate of $1,600 per month.

VCHC also leases office photocopying equipment under various operating lease agreements. Gross minimum monthly required lease payments are $334 through February, 2024 and then $229 through September, 2024.

Rent expense totaled $119,574 for the year ended December 31, 2019. The future minimum rental payments under the operating leases are summarized as follows:

Year ending December 31	Amount
2020	$ 150,176
2021	101,022
2022	4,008
2023	4,008
2024	2,160
Total	$ 261,374

(15) Commitments and Contingent Liabilities, Continued

Mortgage note payable - A development agreement between VCHC and the County of Los Angeles provides for forgiveness of principal and interest on the 650 Westminster Avenue residual receipts note payable (note 5) if certain conditions are met. These include that the related property is operated and maintained as low-income housing over the term of the loan, and that VCHC complies with various 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, 2019, the cumulative amount of unpaid interest on the note that could be due if provisions were not met approximated $16,000.

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

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

Affordable Housing Affiliates:

Forgivable Interest

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

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

Fourth Avenue Limited Partnership	$ 1,371,000
Navy Blue Apartments Limited Partnership	541,000
12525 Washington Place Limited Partnership	1,484,000
Total	$ 3,396,000

Fourth Avenue

A loan agreement between the Fourth Avenue, VCHC, and the City of Los Angeles provides for possible forgiveness of interest on the mortgage note payable of $1,250,000. At the end of the note's forty-year term, accrued interest will be due and payable only if the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2019, Fourth Avenue is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $1,371,000, if the fair market value of the property is sufficient.

(15) Commitments and Contingent Liabilities, Continued

Navy Blue

A regulatory agreement between Navy Blue and the City of Los Angeles provides for possible forgiveness of interest on the mortgage note payable of $692,000. At the end of the note's thirty-year term, accrued interest will be due and payable only to the extent the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2019 Navy Blue is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $541,000, if the fair market value of the property is sufficient.

Washington Place

A loan agreement between Washington Place, VCHC and the City of Los Angeles provides for possible forgiveness of interest on the mortgage note payable of $1,500,000. At the end of the note's thirty-year term, accrued interest will be due and payable only if the fair market value of the property (as defined) exceeds the principal balance of the note plus all superior indebtedness secured against the property. Due to this contingency, interest on the note has not been accrued in the financial statements because the future fair market value of the property at loan maturity is not expected to be sufficient. At December 31, 2019, the Organization is contingently liable for the cumulative amount of unpaid interest that could be due on the note, which approximated $1,484,000, if the fair market value of the property is sufficient.

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

Horizon

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

Horizon received a contingent grant in the amount of $250,000 from the Los Angeles County Development Authority, 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.

(16) Board Designated Net Assets

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

(17) Subsequent Events

In January, 2020, VCHC entered into a lease with The Chrysalis Center for additional office space. The operating lease term is on a month-to-month basis with monthly rent at $3,700.

In February, 2020, the $250,000 promissory note payable to the Congregation of the Sisters of Charity of the Incarnate Word was repaid. Subsequently, in July, 2020, a new unsecured promissory note payable to the Congregation of the Sisters of Charity of the Incarnate Word, in the amount of $250,000 was executed. The note bears interest at 1% per annum, payable in annual installments of interest only, principal and unpaid accrued interest due July, 2024.

In April, 2020, VCHC sold real property located at 720 Rose Avenue to 720 Rose, L.P., in which VCHC holds a general partner interest. In connection with this sale the Partnership entered into a $11,603,010 construction loan with Bank of America, and entered into construction/permanent loans of $6,888,468 with HCIDLA, $2,890,000 with LACDA, and $3,307,101 with CalHFA for the development of the property. Concurrent with this financing the $1,345,000 predevelopment loan with Corporation for Supportive Housing due January, 2021, was repaid.

In April, 2020, VCHC received an unsecured loan in the amount of $441,197 under the Paycheck Protection Program. The loan bears interest at 1% and is due April, 2022. The loan and interest are anticipated to be forgiven.

In June, 2020, VCHC executed a working capital line of credit with the Nonprofit Finance Fund. The maximum loan under the line is $500,000 with interest payable monthly at 5.50% per annum. Periodic payments of principal due upon closing of various project construction funding. The outstanding principal and any accrued interest all due June, 2023, subject to possible loan extension provisions.

Effects of the Coronavirus Outbreak As a result of the recent coronavirus outbreak in early 2020 (COVID-19), the economic environment in which the Organization operates has been significantly disrupted, including impacting the ability of the onsite staff and the Affordable Housing Affiliates’ tenants to perform their normal day-to-day duties and activities. VCHC’s management is in the process of gathering information, developing the appropriate responses to these events and the possible impact to the Affordable Housing Affiliates’ cash flow. VCHC’s management is currently unable to determine if COVID-19 will have a material impact on its operations.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Financial Position

December 31, 2019

Schedule 1

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
Assets				
Cash and cash equivalents	$ 1,523,413	406,772	107,714	$ 2,037,899
Restricted property reserves and deposits	976,057	3,039,715	-	4,015,772
Government contracts receivable	314,488	-	-	314,488
Grants receivable	110,000	-	-	110,000
Accounts receivable, net	28,453	45,668	-	74,121
Prepaid expenses	1,007	19,544	-	20,551
Land	2,664,269	6,380,489	-	9,044,758
Buildings and improvements	4,290,571	18,343,283	(100,000)	22,533,854
Equipment and furniture	299,158	442,288	-	741,446
Accumulated depreciation	(3,033,712)	(6,705,832)	12,500	(9,727,044)
Net Property	4,220,286	18,460,228	(87,500)	22,593,014
Real estate under development	5,679,454	-	-	5,679,454
Financing costs, net	-	62,158	-	62,158
Due from affiliates	195,508	-	(195,508)	-
Deposits	11,925	9,710	-	21,635
Total assets	$ 13,060,591	22,043,795	(175,294)	$ 34,929,092
Liabilities and Net Assets				
Accounts payable	$ 174,272	120,826	-	$ 295,098
Construction costs payable	99,304	-	-`	99,304
Accrued payroll and vacation	93,296	-	-	93,296
Prepaid rent	9,889	77,581	-	87,470
Grant payable	75,000	-	-	75,000
Due to VCHC	-	456,850	(456,850)	-
Accrued interest payable	182,772	1,516,836	-	1,699,608
Notes payable	7,798,468	15,007,118	-	22,805,586
Tenant deposits	57,200	117,896	-	175,096
Total liabilities	8,490,201	17,297,107	(456,850)	25,330,458
Net Assets:				
Without donor restriction	4,260,682	4,746,688	281,556	9,288,926
Without restriction, board designated	20,000	-	-	20,000
Total net assets without donor restriction	4,280,682	4,746,688	281,556	9,308,926
With donor restriction	289,708	-	-	289,708
Total Net Assets	4,570,390	4,746,688	281,556	9,598,634
Total Liabilities and Net Assets	$ 13,060,591	22,043,795	(175,294)	$ 34,929,092

See accompanying auditor’s report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Activities

Year ended December 31, 2019

Schedule 2

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
Changes in net assets without donor restrictions:				
Revenue and Support:				
Contributions and grants	$ 995,120	-	-	$ 995,120
Government grants	1,387,214	537,500	-	1,924,714
Program service	60,000	-	-	60,000
Rental income	927,370	1,816,481	-	2,743,851
Partnership mgmt and tenant service fees	752,468	-	(752,468)	-
Cancellation of debt	57,486	-	-	57,486
Other income	2,654	2,029	-	4,683
Interest income	2,048	3,631	-	5,679
Total revenue without donor restrictions	4,184,360	2,359,641	(752,468)	5,791,533
Net assets released from restrictions:				
Satisfaction of program restrictions	283,875	-	-	283,875
Expiration of time restrictions	112,500	-	-	112,500
Total net assets released from restrictions	396,375	-	-	396,375
Total revenue without donor restrictions	4,580,735	2,359,641	(752,468)	6,187,908
Expenses:				
Salaries, benefits, taxes	2,346,016	381,127	(268,674)	2,458,469
Consultants	159,159	545	(33)	159,671
Job training and supplies	240,768	-	-	240,768
Education and after school programs	102,922	-	-	102,922
Rent	119,574	-	-	119,574
Legal and accounting	27,080	118,791	(26,784)	119,087
Office and administration	161,278	71,399	(14,442)	218,235
Conference, training & travel	63,324	-	-	63,324
Management and tenant service fees	-	222,378	(194,450)	27,928
Fundraising and outreach	120,433	-	-	120,433
Maintenance and repairs	332,956	370,224	(76,242)	626,938
Utilities	138,396	208,424	(70)	346,750
Insurance	251,217	128,680	(51,976)	327,921
Property tax and license and fees	20,988	56,986	(380)	77,594
Interest	107,876	359,496	-	467,372
Depreciation and amortization	150,806	477,124	(2,500)	625,430
Total expenses	4,342,793	2,395,174	(635,551)	6,102,416
Increase (decrease) in net assets without donor restrictions	237,942	(35,533)	(116,917)	85,492
Change in net assets with donor restrictions:				
Contributions and grants	270,249	-	-	270,249
Net assets released from restriction	(396,375)	-	-	(396,375)
Decrease in net assets with donor restrictions	(126,126)	-	-	(126,126)
Total increase (decrease) in net assets	111,816	(35,533)	(116,917)	(40,634)
Other changes in net assets:				
Partner capital contributions, net	-	310,629	191,871	502,500
Net assets at beginning of year	4,458,574	4,471,592	206,602	9,136,768
Net assets at end of year	$ 4,570,390	4,746,688	281,556	$ 9,598,634

See accompanying auditor’s report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Consolidating Statement of Cash Flows

Year ended December 31, 2019

Schedule 3

	Venice Community Housing Corporation excluding Affiliates	Affiliates	Elimination Adjustments	Venice Community Housing Corporation
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in net assets	$ 111,816	(35,533)	(116,917)	$ (40,634)
Adjustments to reconcile change in net assets to cash flow from operating activities:				
Depreciation and amortization expense	150,806	477,124	(2,500)	625,430
Amortization of debt issuance costs	2,400	7,527	-	9,927
Government grant restricted for capital assets	-	(500,000)	-	(500,000)
Cancellation of debt	(57,486)	(37,500)	-	(94,986)
Decrease (Increase) in Operating Assets:				
Government contracts receivable	(118,122)	-	-	(118,122)
Accounts receivable	9,115	163,254	-	172,369
Grants receivable	(50,473)	-	-	(50,473)
Prepaid expenses	-	6,393	-	6,393
Deposits	(1,711)	-	-	(1,711)
Increase (Decrease) in Operating Liabilities:				
Due to/from affiliates	(107,203)	76,815	30,388	-
Accounts payable and accrued expenses	54,764	34,081	-	88,845
Grant payable	75,000	-	-	75,000
Prepaid rent and deferred revenue	(80,748)	(10,824)	-	(91,572)
Accrued interest payable	11,566	241,639	-	253,205
Tenant security deposits	(3,780)	3,354	-	(426)
Net cash provided by (used in) operating activities	(4,056)	426,330	(89,029)	333,245
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payment for building improvements	-	(509,693)	-	(509,693)
Payment for equipment and furniture	(8,262)	(16,333)	-	(24,595)
Payment for real estate under development	(3,400,560)	-	(1,378)	(3,401,938)
Net cash used in investing activities	(3,408,822)	(526,026)	(1,378)	(3,936,226)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Partner contribution	-	502,500	-	502,500
Partner distribution	-	(191,871)	191,871	-
Proceeds from gov't grant restricted for capital assets	-	500,000	-	500,000
Proceeds from notes payable	3,088,505	-	-	3,088,505
Repayment of notes payable	(48,958)	(97,521)	-	(146,479)
Net cash provided by financing activities	3,039,547	713,108	191,871	3,944,526
Net increase (decrease) in cash, cash equivalents and restricted cash	(373,331)	613,412	101,464	341,545
Cash, cash equivalents, and restricted cash, beginning	2,872,801	2,833,075	6,250	5,712,126
Cash, cash equivalents, and restricted cash, ending	$ 2,499,470	3,446,487	107,714	$ 6,053,671

Supplemental schedule of noncash investing and financing activities:

Supplemental noncash investing and financing activities: Additional costs of rental property from capitalized interest accrual and construction costs payable	$ 123,760	-	-	$ 123,760
Additional costs of fixed assets included in accounts payable.	$ -	31,408	-	$ 31,408
Supplemental disclosure of cash flow information: cash paid for interest, net of amounts capitalized	$ 93,910	110,330	-	$ 204,240

See accompanying auditor's report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Combining Statement of Financial Position by Affiliates

December 31, 2019

Schedule 4

	Fourth Ave. Apts., L.P.	Horizon Apts., LLC	Navy Blue Apts., L.P.	VCHC Gateway, L.P.	VCHC Pacific Apts., LLC	12525 Washington Place, L.P.	Westside Housing Corporation	Combining Adjustments	Affiliates Total
Assets									
Cash and cash equivalents	$ 15,603	7,824	73,774	168,444	30,087	109,126	1,914	-	$ 406,772
Low income housing reserves	474,302	442,021	331,410	1,076,935	198,305	516,742	-	-	3,039,715
Accounts receivable, net	6,195	3,656	10,574	3,815	15,837	5,591	-	-	45,668
Prepaid expenses	-	5,299	-	4,572	9,673	-	-	-	19,544
Property and equipment	3,520,049	4,790,718	1,783,170	9,978,488	847,909	4,245,726	-	-	25,166,060
Accumulated depreciation	(2,172,820)	(459,022)	(921,618)	(836,821)	(255,864)	(2,059,687)	-	-	(6,705,832)
Financing costs, net	-	-	35,820	26,338	-	-	-	-	62,158
Due from Affiliates	-	-	-	-	-	-	9,966	(9,966)	-
Deposits	4,470	-	650	4,200	-	390	-	-	9,710
Total assets	1,847,799	4,790,496	1,313,780	10,425,971	845,947	2,817,888	11,880	(9,966)	22,043,795
Liabilities and Net Assets									
Accounts payable	25,479	4,445	34,888	21,968	4,319	29,727	-	-	120,826
Prepaid rent	1,701	379	11,188	59,648	2,589	2,076	-	-	77,581
Due to VCHC	158,070	19,219	152,796	8,828	8,060	112,343	7,500	(9,966)	456,850
Accrued interest payable	546	857,761	11,935	640,195	5,161	1,238	-	-	1,516,836
Notes payable	1,512,098	4,413,704	1,067,915	4,034,387	2,045,480	1,933,534	-	-	15,007,118
Tenant deposits	18,352	17,383	10,212	21,565	29,576	20,808	-	-	117,896
Total liabilities	1,716,246	5,312,891	1,288,934	4,786,591	2,095,185	2,099,726	7,500	(9,966)	17,297,107
Net Assets:									
Without donor restrictions	131,553	(522,395)	24,846	5,639,380	(1,249,238)	718,162	4,380	-	4,746,688
Total Liabilities and Net Assets	$ 1,847,799	4,790,496	1,313,780	10,425,971	845,947	2,817,888	11,880	(9,966)	$ 22,043,795

See accompanying auditor's report.

VENICE COMMUNITY HOUSING CORPORATION
(A Nonprofit California Corporation)

Combining Statement of Activities by Affiliates

Year ended December 31, 2019

Schedule 5

	Fourth Ave. Apts., L.P.	Horizon Apts., LLC	Navy Blue Apts., L.P.	VCHC Gateway, L.P.	VCHC Pacific Apts., LLC	12525 Washington Place, L.P.	Westside Housing Corporation	Combining Adjustments	Affiliates Total
Changes in net assets without donor restrictions:									
Revenue & Support:									
Government grants	$ -	37,500	500,000	-	-	-	-	-	$ 537,500
Rental income	321,887	243,440	171,674	290,510	400,672	388,298	-	-	1,816,481
Partnership mgmt fees	-	-	-	-	-	-	9,966	(9,966)	-
Other income	-	2,029	-	-	-	-	-	-	2,029
Interest income	379	1,442	280	7	883	640	-		3,631
Total revenue without donor restrictions	322,266	284,411	671,954	290,517	401,555	388,938	9,966	(9,966)	2,359,641
Expenses:									
Salaries, benefits, taxes	66,681	57,696	31,039	58,777	70,209	96,725	-	-	381,127
Consultants	-	513	-	-	-	32	-	-	545
Legal & accounting	15,070	19,675	14,314	33,371	9,540	18,491	8,330	-	118,791
Office and administration	20,746	9,151	7,163	18,631	5,596	9,262	850	-	71,399
Management & tenant services	22,285	48,827	49,466	79,915	-	31,851	-	(9,966)	222,378
Maintenance & repairs	77,838	36,884	31,251	68,428	81,621	74,202	-	-	370,224
Utilities	43,571	22,416	12,357	32,057	51,686	46,337	-	-	208,424
Insurance	25,113	16,771	9,698	14,011	34,410	28,677	-	-	128,680
Property tax and license and fees	20,131	7,756	1,603	6,130	9,762	11,604	-	-	56,986
Interest	10,751	120,464	11,277	133,593	67,166	16,245	-	-	359,496
Depreciation & amortization	66,709	53,175	30,221	222,325	32,659	72,035	-	-	477,124
Total expenses	368,895	393,328	198,389	667,238	362,649	405,461	9,180	(9,966)	2,395,174
Increase (decrease) in net assets without donor restrictions	(46,629)	(108,917)	473,565	(376,721)	38,906	(16,523)	786	-	(35,533)
Other changes in net assets:									
Partner capital contribution	-	-	-	502,500	-	-	-	-	502,500
Partner capital distribution	-	-	-	-	(191,871)	-	-	-	(191,871)
Net assets at beginning of year	178,182	(413,478)	(448,719)	5,513,601	(1,096,273)	734,685	3,594	-	4,471,592
Net assets at end of year	$ 131,553	(522,395)	24,846	5,639,380	(1,249,238)	718,162	4,380	-	$ 4,746,688

See accompanying auditor’s report.