AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

dba INTEGRITY HOUSING

CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION, AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2016 AND 2015

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

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Dauby O'Connor & Zaleski, LLC
A Limited Liability Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Affordable Housing Alliance II, Inc.
(A Colorado Not-For-Profit Corporation)

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Affordable Housing Alliance II, Inc., which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 audit to obtain reasonable assurance about whether the 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 Affordable Housing Alliance II, Inc.'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 Affordable Housing Alliance II, Inc.'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.

501 Congressional Blvd., Suite 300, Carmel, Indiana 46032 | DOZ.net | OFFICE 317.848.5700 | FAX 317.815.6140

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Affordable Housing Alliance II, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating financial statements on pages 27 through 32 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dauby O'Connor & Zaleski, LLC

June 26, 2017
Carmel, Indiana

Dauby O'Connor & Zaleski, LLC
Certified Public Accountants

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	2016	2015
Current assets		
Cash - Corporation	$ 149,751	$ 1,176,323
Cash - Communities	283,073	228,771
Accounts receivable - residents	5,237	970
Accounts receivable - operations	6,562	118,177
Accounts receivable - interest	13,097	-
Prepaid expenses	41,793	39,128
Employee note receivable	-	16,218
Note receivable - Pomona	125,077	125,077
Note receivable - Trower	35,000	-
AHP subsidy receivable	1,200,000	-
Grant funds receivable	300,000	-
Pre-development costs receivable	-	215,617
Total current assets	**2,159,590**	**1,920,281**
Restricted deposits and funded reserves		
Resident security deposits	159,782	111,356
Escrow deposits	14,821	14,110
Replacement reserves	154,597	105,214
Bond reserves	336,119	331,120
Total restricted deposits and funded reserves	**665,319**	**561,800**
Fixed assets		
Land	3,874,391	3,874,391
Buildings and improvements	34,541,056	34,499,142
Furniture, fixtures, and equipment	262,499	197,723
Motor Vehicles	47,500	-
Construction in process	14,739,689	3,003,335
	53,465,135	**41,574,591**
Accumulated depreciation	(5,296,633)	(4,384,625)
Total fixed assets	**48,168,502**	**37,189,966**
Other assets		
Unamortized costs, net of accumulated amortization	150,342	171,203
Developer fee receivable	68,240	68,240
Pre-development costs receivable	880,321	832,338
Interest rate cap	1,726	4,142
Security deposit	4,014	4,014
Total other assets	**1,104,643**	**1,079,937**
	$ 52,098,054	**$ 40,751,984**

See notes to financial statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2016 AND 2015

LIABILITIES AND NET ASSETS

	2016	2015
Current liabilities		
Accounts payable and accrued expenses	$ 76,081	$ 92,513
Accounts payable - construction	2,831,730	161,912
Accrued real estate taxes	-	25,413
Prepaid revenue	1,620	1,667
Accrued interest - notes payable	143,451	21,654
Current maturities of notes payable	2,290,184	1,406,201
Total current liabilities	**5,343,066**	**1,709,360**
Deposit liabilities		
Resident security deposits	**155,650**	**145,426**
Long-term liabilities		
Notes payable, net of current maturities	42,365,351	33,022,120
Less: unamortized debt issuance costs	(489,451)	(507,897)
Deferred revenue	19,571	-
Developer fee payable	20,606	20,606
Investment in operating entities	19,191	19,240
Total long-term liabilities	**41,935,268**	**32,554,069**
Total liabilities	**47,433,984**	**34,408,855**
Net assets		
Unrestricted net assets		
Controlling interest	(1,344,302)	168,090
Noncontrolling interests	6,008,372	6,175,039
Total net assets	**4,664,070**	**6,343,129**
	$ 52,098,054	**$ 40,751,984**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Revenue		
Rental income	$ 3,105,708	$ 3,038,087
Tenant charges	140,590	123,980
Managing general partner fees	23,654	41,697
Developer fee revenue	11,000	-
Interest income	14,194	1,512
Distributions from operating entities	-	17,097
Miscellaneous revenue	36,393	51,763
Grant revenue	335,000	-
Total revenue	**3,666,539**	**3,274,136**
Expenses		
General and administrative	1,720,163	1,774,929
Operating and maintenance	459,526	438,749
Utilities	236,755	241,989
Taxes and insurance	372,000	385,516
Financial	1,434,848	1,190,551
Total expenses	**4,223,292**	**4,031,734**
Increase in net assets before depreciation, amortization, and other income and expenses	**(556,753)**	**(757,598)**
Depreciation	(912,008)	(896,440)
Amortization	(20,861)	(20,861)
Unrealized gain (loss) on interest rate cap	(2,416)	(7,570)
Passthrough loss	(51)	(217)
Other expenses	(28,465)	(56,283)
Change in net assets	**$ (1,520,554)**	**$ (1,738,969)**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Controlling Interest	Noncontrolling Interest	Total
Balance, January 1, 2015	**$ 1,827,759**	**$ 3,389,861**	**$ 5,217,620**
Contributions	-	2,903,978	2,903,978
Distributions	-	(39,500)	(39,500)
Change in net assets	(1,659,669)	(79,300)	(1,738,969)
Balance, December 31, 2015	**168,090**	**6,175,039**	**6,343,129**
Contributions	-	4,295	4,295
Distributions	-	(162,800)	(162,800)
Change in net assets	(1,512,392)	(8,162)	(1,520,554)
Balance, December 31, 2016	**$ (1,344,302)**	**$ 6,008,372**	**$ 4,664,070**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	Program Services		Supporting Services	Total
	Rental of Affordable Housing	Project Expenses	General and Admin	2016
General and administrative	$ 439,231	$ 1,216,435	$ 64,497	$ 1,720,163
Operating and maintenance	419,722	39,804	-	459,526
Utilities	236,755	-	-	236,755
Taxes and insurance	187,911	165,680	18,409	372,000
Financial	1,269,941	164,907	-	1,434,848
Depreciation	889,385	22,623	-	912,008
Amortization	20,861	-	-	20,861
Other expenses	19,520	8,945	-	28,465
	$ 3,483,326	**$ 1,618,394**	**$ 82,906**	**$ 5,184,626**

	Rental of Affordable Housing	Project Expenses	General and Admin	2015
General and administrative	$ 427,705	$ 1,279,863	$ 67,361	$ 1,774,929
Operating and maintenance	436,111	2,638	-	438,749
Utilities	241,989	-	-	241,989
Taxes and insurance	220,865	148,186	16,465	385,516
Financial	1,146,526	44,025	-	1,190,551
Depreciation	879,578	16,862	-	896,440
Amortization	20,861	-	-	20,861
Other expenses	42,993	13,290	-	56,283
	$ 3,416,628	**$ 1,504,864**	**$ 83,826**	**$ 5,005,318**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (1,520,554)	$ (1,738,969)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	912,008	896,440
Amortization	20,861	20,861
Amortization - debt issuance costs	18,446	18,572
Pre-development costs write-off	28,128	41,344
Unrealized (gain) loss on interest rate cap	2,416	7,570
Passthrough loss	51	217
Changes in:		
Accounts receivable - residents	(4,267)	13,002
Accounts receivable - operations	111,615	(91,319)
Accounts receivable - interest	(13,097)	-
Prepaid expenses	(2,665)	(19,561)
Employee note receivable	16,218	19,782
Developer fee receivable	-	19,190
Grant funds receivable	(300,000)	-
Resident security deposits - funded reserve	(48,426)	(111,366)
Accounts payable and accrued expenses	(16,432)	(44,837)
Accrued interest - notes payable	55,072	(41,223)
Accrued real estate taxes	(25,413)	25,413
Prepaid revenue	(47)	(2,485)
Deferred revenue	19,571	-
Resident security deposits - liability	10,224	13,076
Total adjustments	**784,263**	**764,676**
Net cash provided by (used in) operating activities	**(736,291)**	**(974,293)**
Cash flow from investing activities		
Purchase of property and equipment	(9,154,001)	(4,833,718)
Net change in investment in operating entities	(100)	350,800
Net change in escrow deposits	(711)	(769)
Net change in replacement reserves	(49,383)	(77,440)
Net change in bond reserves	(4,999)	(56,120)
Funding of note receivable - Pomona	-	(125,077)
Funding of note receivable - Trower	(35,000)	-
Funding of pre-development costs receivable	(319,462)	(862,460)
Repayment of pre-development costs receivable	458,968	329,580
Net cash provided by (used in) investing activities	**(9,104,688)**	**(5,275,204)**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flow from financing activities		
Proceeds from notes payable	$ 9,514,940	$ 3,601,752
Principal payments on notes payable	(487,726)	(63,244)
Contributions from noncontrolling interests	4,295	2,903,978
Distributions to noncontrolling interests	(162,800)	(39,500)
Net cash provided by (used in) financing activities	**8,868,709**	**6,402,986**
Net change in cash and cash equivalents	**(972,270)**	**153,489**
Cash and cash equivalents, beginning	**1,405,094**	**1,251,605**
Cash and cash equivalents, ending	**$ 432,824**	**$ 1,405,094**
Supplemental information		
Cash paid for interest	**$ 399,799**	**$ 825,321**

Cash flows from investing activities related to the purchase of property and equipment for the year ended December 31, 2016 excludes $2,898,455, which was included in accounts payable - construction and accrued interest - notes payable at December 31, 2016 and includes $161,912, which was included in accounts payable - construction at December 31, 2015.

Cash flows from investing activities related to the purchase of property and equipment for the year ended December 31, 2015 excludes $161,912, which was included in accounts payable - construction at December 31, 2015 and excludes $20,606, which was included in developer fee payable at December 31, 2015.

Cash flows from investing activities related to AHP subsidy recivable excludes $1,200,000, which was included in notes payable at December 31, 2016.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Affordable Housing Alliance II, Inc. dba Integrity Housing (the "Corporation"), incorporated in the state of Colorado as a non-profit corporation, was established in 1993 to acquire, develop, and promote affordable senior and multi-family housing. The Corporation's expressed purpose is to help ease the burden on state, county, and local housing authorities through the construction, acquisition, and operation of housing for moderate, low, and very low income individuals and families. The Corporation is dedicated to providing quality housing that serves the physical, recreational, and emotional needs of its residents.

The Corporation is responsible for project acquisition and financing involving federal and state low income tax credits and 501(c)(3) tax-exempt mortgage-backed revenue bonds, and the selection and supervision of the local professional property management company hired to handle on-site day-to-day management duties.

The Corporation builds and rehabilitates housing units for low income seniors and families. It secures construction and permanent financing, supervises architectural and general contractor selection, and manages the design and construction phases of the project, either by its director and staff or through contracting with outside consultants and service companies.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial reporting

The consolidated financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, and are in conformity with the provisions required by the Not-for-Profit Entities Presentation of Financial Statements topic of the FASB *Accounting Standards Codification* (“ASC”) 958-205. This topic established standards for external financial reporting for Not-for-Profit Organizations.

The Not-for-Profit Entities Presentation of Financial Statements topic primarily affects the display of the consolidated financial statements and requires that the amounts for each of the classes of net assets – unrestricted, temporarily restricted and permanently restricted – be displayed in the Consolidated Statements of Financial Position and the amounts of the change in each of those classes of net assets be displayed in a Consolidated Statements of Changes in Net Assets. Accordingly, assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted assets – Assets that are not subject to donor-imposed stipulations. These are available to support the Corporation’s activities and operations at the discretion of the Board of Directors.

Temporarily restricted assets – Assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Corporation and/or the passage of time.

Permanently restricted assets – Assets that are subject to donor-imposed stipulations that the corpus must be maintained permanently by the Corporation. The donors of these assets permit the Corporation to use all or part of the income or gains earned on the related investments for general (unrestricted) or specific purposes (temporarily restricted).

All assets of the Corporation as of December 31, 2016 and 2015 are classified as unrestricted.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation

In accordance with FASB ASC 810-10, the consolidated financial statements include the accounts of the Corporation, its wholly owned limited liability companies and various limited partnerships and limited liability companies for which the Corporation, as the general partner or managing member, has a controlling financial and legal interest (collectively, the "Operating Entities"). The portion of the equity of the Operating Entities that is not owned or controlled by the Corporation is shown as noncontrolling interest on the consolidated financial statements. All significant intercompany accounts, transactions, and profits have been eliminated in the consolidation.

The following entities are recorded in the consolidation:

Operating Entities	Units	Ownership %
Elizabeth Street Housing Investors, LP	50	0.1%
Fort Collins Senior Housing Investors, LP	72	0.1%
IHMDI Dudley Pomona, LP	84	0.0051%
IH Alhambra Davis, LLC	160	100%
IH Dudley Pomona, LLC	N/A	100%
IH Ortiz Santa Rosa, LLC	N/A	100%
IH Samoa, LLC (dissolved on December 31, 2015)	N/A	100%
IH Rocky Hill Vacaville, LLC	N/A	100%
IH Guest House Santa Ana, LLC	N/A	100%
IH Newport Veterans Newport Beach, LLC	N/A	100%

Equity investments

The Corporation uses the equity method of accounting for its investments in the entities listed below because the entities are considered Variable Interest Entities pursuant to FASB ASC 810-10, however the Corporation is not deemed to be the primary beneficiary of these entities. The equity investment is carried at cost and is adjusted for the Corporation’s share of net income or loss and by cash distributions received. Distributions received subsequent to the elimination of an equity investment balance will be recorded as other income. Advances and additional capital contributions will be recorded as additional equity investments if they occur. The Corporation assesses the carrying value of its equity investments whenever there are indications that a permanent impairment may have occurred. No impairment losses were recognized during the years ended December 31, 2016 and 2015.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity investments (continued)

The following entities are recorded under the equity method:

Entity	Units	Ownership %
Anaheim Affordable II, LP	135	0.0040%
Cypress Senior Living Investors, LP	17	0.0010%
El Rancho Affordable Housing, LP	66	0.0041%
Maroon Creek Apartments, LP	42	0.5100%
Ortiz Plaza, LP (pre-development at December 31, 2016 and 2015)	30	0.0010%
PC Cambridge, LLC (liquidated on December 31, 2015)	50	0.0001%
Samoa Avenue Housing, LP (liquidated on December 31, 2015)	64	0.0050%
Trower Housing Partners, LP (pre-development at December 31, 2016)	38	0.0080%
Guest House, LP (pre-development at December 31, 2016)	72	0.0049%
Newport Veterans Apartments, LP (pre-development at December 31, 2016)	12	0.0008%

Cash and cash equivalents

For the Consolidated Statements of Cash Flows, all unrestricted investments with original maturities of three months or less are cash equivalents. At December 31, 2016 and 2015, cash and cash equivalents consist of unrestricted checking accounts, savings accounts, and petty cash.

Resident receivable and bad debt policy

Resident rent charges for the current month are due on the first of the month. Residents who are evicted or move out are charged with damages or cleaning fees, if applicable. Resident receivables consist of amounts due for rents, damages and cleaning fees. The Corporation does not accrue interest on the resident receivable balances.

Resident receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not material to the consolidated financial statements for the years ended December 31, 2016 and 2015. Bad debts expensed for the years ended December 31, 2016 and 2015 totaled $912 and $7,047, respectively.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Developer fee receivable

Developer fee receivable consists of amounts earned in connection with the development of affordable housing facilities and are based on a percentage of development costs incurred. Amounts due from the housing facilities are stated at unpaid balances, less an allowance for doubtful accounts. As of December 31, 2016 and 2015, the allowance for doubtful accounts relating to the receivable was $-0-. The Corporation does not accrue interest on the receivable balance.

Pre-development costs receivable

Pre-development costs receivable consist of amounts advanced to fund entity formation and pre-development of affordable housing facilities. Amounts due from the housing facilities are stated at unpaid balances, less an allowance for doubtful accounts. As of December 31, 2016 and 2015, the allowance for doubtful accounts relating to the receivable was $-0-. Amounts are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. The Corporation does not accrue interest on the receivable balances. Bad debts expensed for the years ended December 31, 2016 and 2015 was $28,128 and $41,344, respectively.

Notes receivable

Notes receivable are carried at amounts contractually due, less an allowance for doubtful accounts. As of December 31, 2016 and 2015, the allowance for doubtful accounts relating to the receivable was $-0-. Amounts are changed to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. The Corporation accrues interest on the note receivable balances. There was no bad debt expense for the years ended December 31, 2016 and 2015.

Property and equipment

Land, buildings and improvements, and other fixed assets are recorded at cost. Building and improvement costs are depreciated under the straight-line method over an estimated useful life of 20-40 years. Furniture, equipment and other fixed assets are depreciated under the straight-line method over an estimated useful life of 3-12 years. Expenditures for maintenance and repairs are charged to expense as incurred.

The Corporation is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB ASC 360-10. Impairment or Disposal of Long-Lived Assets has no retroactive impact on the Corporation’s consolidated financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment losses were recognized during the years ended December 31, 2016 and 2015.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in accounting principle

During the year ended December 31, 2016, the Corporation adopted the Interest-Imputation of Interest topic of the FASB ASC 835-30 ("ASC 835-30") related to the presentation of debt issuance costs. In previous periods, debt issuance costs were presented as a deferred asset on the Consolidated Statements of Financial Position. Effective January 1, 2015, the provisions of ASC 835-30 require debt issuance costs to be presented as a reduction of the outstanding debt.

There has been no change to the recognition and measurement of the debt issuance costs after initial recognition, therefore these costs will continue to be amortized over the life of the respective mortgage using the straight-line method. However, the amortization of debt issuance costs is now required to be reported as a component of interest expense.

Generally accepted accounting principles require that the effective yield method be used to amortize debt issuance costs; however, the effect of using the straight-line method is not material to the financial statements for the years ended December 31, 2016 and 2015. The change in accounting principle resulted in the following changes in previously reported balances:

	Previously Reported	Adjustment	Restated 2015
Unamortized costs, net of accumulated amortization	$ 679,100	$ (507,897)	$ 171,203
Less: unamortized debt issuance costs	-	507,897	507,897
Financial expenses	1,171,979	18,572	1,190,551
Amortization	39,433	(18,572)	20,861

Unamortized costs

Letter of credit fees incurred by the Corporation are amortized over their useful life. Additionally, the Corporation incurred tax credit fees, which have been capitalized and are being amortized over 15 years, the compliance period, using the straight-line method.

Donated assets

Donations of property and equipment and other assets are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as unrestricted revenue unless the donor has restricted the donated asset to a specific purpose. Assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment and other assets are reported as restricted revenue. Absent donor stipulations regarding how long these donated assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Corporation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Revenue recognition

Rental income is recognized as it becomes due. Rental payments received in advance are deferred until earned. All leases between the Corporation and the residential residents are operating leases and will be for terms of no longer than one year.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Managing General Partner fees, asset management fees, developer fees, and other income fees are earned through the Corporation's management and development of various housing projects, consulting, and other miscellaneous activities. Such fees are recorded when earned by the Corporation.

Grant income

Grants that the Corporation receives from various government and nongovernmental agencies have long-term compliance requirements. The Corporation intends to fulfill the compliance requirements as part of their mission. The amounts received are recognized as revenue in the period that the award is received.

Contributions and donations

Contributions and donations, including unconditional promises to give, are recognized in the period received or made, in accordance with FASB ASC 958-605 under the Revenue Recognition of Contributions Receivable topic.

Advertising costs

Advertising costs are expensed as incurred and are included in general and administrative expenses in the Consolidated Statements of Activities.

Property taxes

Property taxes are expensed in the year of the lien on the property such that twelve months of expense are charged to operations each year.

Costs capitalized during construction

Interest expense, real estate taxes, and insurance related to the construction period at IHMDI Dudley Pomona, LP have been capitalized and are included in property and equipment.

Concentration of credit risk

The Corporation maintains various cash balances at one financial institution. The balances in the accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. From time to time during the period, the cash balances held at the institution exceeded the FDIC Insurance Limit. Management monitors the financial strength ratings for the institution on a periodic basis.

The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with accounting standards generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivatives

The Corporation accounts for the interest rate cap (the “Cap”) as a free standing derivative as allowed under the applicable accounting standard to appropriately reflect the prospective intentions of holding the Cap. The fair value of the Cap is reported on the Corporation’s Consolidated Statements of Financial Position. Changes in fair value are included as unrealized (gain) loss in the Corporation’s Consolidated Statements of Activities. The valuation technique is classified as Level 3 under the fair value measurements fair value hierarchy.

Fair value

The Corporation is subject to the provisions of the Fair Value Measurement topic of the FASB ASC 820-10 which provides guidance for assets and liabilities which are required to be measured at fair value and requires expanded disclosure for fair value measurement. The standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and establishes the following fair value hierarchy:

Level 1 - Inputs utilize quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access;
Level 2 - Inputs may include quoted prices for similar assets or liabilities in active markets; and
Level 3 - Unobservable inputs for the asset or liability based on the best available information.

Accounting for uncertainty in income taxes

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and state income tax and has been classified as other than a private foundation. Accordingly, no provision for federal and state taxes on revenue and income has been recognized in the accompanying financial statements.

Even though the Corporation is recognized as tax exempt, it still may be liable for tax on its unrelated business income (UBI). The Corporation evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2016 and 2015, the Corporation had no uncertain tax positions requiring accrual.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for uncertainty in income taxes (continued)

Several of the Properties have elected to be treated as pass-through entities for income tax purposes and, as such, are not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by their owners on their respective income tax returns. These entities' federal tax statuses as pass-through entities are based on their legal status as limited partnerships and limited liability companies. Accordingly, these entities are not required to take any tax positions in order to qualify as pass-through entities. These entities are required to file and do file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and these entities have no other tax positions which they must consider for disclosure. There has been no interest or penalties recognized in the Consolidated Statement of Activities or Consolidated Statements of Financial Position for the years ended December 31, 2016 and 2015. Generally, the federal and state returns are subject to examination for three years after the later of the original or extended due date or the date filed with the applicable tax authorities.

Functional expense allocation

The costs of providing program services and support services are summarized on a functional basis in the Consolidated Statements of Activities and Functional Expenses. The functional classifications are defined as follows:

- Program services - expenses consist of costs incurred in connection with providing services and conducting programs
- Support services - consist of costs incurred in connection with the overall activities of the Corporation, which are not allocable to another functional expense category

Subsequent events

Management performed an evaluation of the Corporation’s activity through June 26, 2017, the audit report date, and has concluded that there were no significant subsequent events requiring disclosure through the date these consolidated financial statements were available to be issued, except as disclosed in Note 9.

NOTE 2–RESTRICTED DEPOSITS AND FUNDED RESERVES

The Operating Entities have various cash balances which are required to be maintained by various operating, regulatory, or lending agreements. As of December 31, 2016 and 2015, the combined balance in the Corporation’s restricted cash accounts totaled $665,319 and $561,800, respectively.

NOTE 3-UNAMORTIZED COSTS

The Corporation's unamortized costs are comprised of the following at December 31, 2016:

Letter of credit fees - Operating Entities	$ 189,905
Tax credit fees - Operating Entities	28,060
	217,965
Less: accumulated amortization	(67,623)
	$ 150,342

For the years ended December 31, 2016 and 2015, amortization expense was $20,861.

Estimate amortized expenses for each of the next five years and thereafter is as follows:

	IH Alhambra Davis, LLC
2017	$ 18,991
2018	18,991
2019	18,991
2020	18,991
2021	18,991
Thereafter	55,387
	$ 150,342

NOTE 4-RELATED PARTY TRANSACTIONS

Managing general partner/asset management fees

The Corporation earns fees for services rendered in connection with its duties as managing general partner of various entities. The amount of these fees has been outlined in the respective entities organization documents. During the years ended December 31, 2016 and 2015, the Corporation earned fees of $92,454 and $109,313, of which $59,800 and $67,616 was eliminated in consolidation, all respectively. As of December 31, 2016 and 2015, $46,241 and $59,520 remains receivable, of which $39,816 and $21,416 has been eliminated in consolidation, and is included in accounts receivable operations on the Consolidated Statements of Financial Position, all respectively.

Employee note receivable

The Corporation issued a promissory note to an employee, in the original amount of $40,000. The note matured on April 23, 2017 and bore interest at 0.22% per annum. As of December 31, 2016 and 2015, $-0- and $16,218 remains receivable, respectively. The note was paid in full on October 5, 2016.

NOTE 4-RELATED PARTY TRANSACTIONS (CONTINUED)

Note receivable - Pomona

The Corporation has entered into a promissory note with Pomona Mission Villas, LLC in the original amount of $125,077. The note bears interest at 10% per annum and matures on June 30, 2017. During the years ended December 31, 2016 and 2015, the Corporation earned interest income of $13,097 and $-0- on the note and at December 31, 2016 and 2015, accrued interest is $13,097 and $-0-, all respectively.

Note receivable - Trower

The Corporation has entered into a promissory note with Trower Housing Partners, LP in the original amount of $35,000. The note does not bear interest and matures on December 1, 2072.

Developer fees

The Corporation earns developer fees in connection with the development of certain entities, when it serves as developer. During the years ended December 31, 2016 and 2015, the Corporation earned developer fees of $11,000 and $140,000, respectively. At December 31, 2016 and 2015 developer fees of $1,583,847 remain outstanding. Developer fees earned and outstanding are detailed as follows:

Developer fees earned	
Ortiz Plaza, LP	$ 7,500
Trower Housing Partners, LP	3,500
	11,000
Eliminated in consolidation	-
	$ 11,000
Developer fees outstanding	
IH Alhambra Davis, LLC	$ 1,495,000
El Rancho Affordable Housing, LP	68,240
IHMDI Dudley Pomona, LP	20,607
	1,583,847
Eliminated in consolidation	(1,515,607)
	$ 68,240

The developer fees related to IH Alhambra Davis, LLC and IHMDI Dudley Pomona, LP have been eliminated in consolidation.

Pre-development costs receivable

The Corporation has made advances to fund entity formation and pre-development of affordable housing facilities. The amounts due from the housing facilities are unsecured and do not accrue interest. These advances will be repaid upon closing of the potential development. The advances are considered fully collectible at December 31, 2016 and 2015. Outstanding pre-development costs receivable as of December 31, 2016 and 2015 totaled $1,078,799 and $1,211,788, of which $198,478 and $163,833 has been eliminated in consolidation, all respectively.

NOTE 5-FINANCING

Notes payable - Pacific Blue

The Corporation entered into a loan agreement in the original amount of $550,000, which was increased to $2,010,000. The loan is currently being serviced by Pacific Blue Investments, LLC and provides for, among other items:

1. Interest at a rate of 10% per annum;
2. Monthly payments of interest only through December 31, 2015;
3. Monthly principal and interest payments of $120,714.73 beginning February 1, 2016; and
4. A maturity date of July 1, 2017.

During the years ended December 31, 2016 and 2015, interest expense totaled $157,389 and $44,025, and interest paid totaled $115,424 and $44,025, all respectively. At December 31, 2016 and 2015, accrued interest was $53,515 and $-0-, and outstanding principal was $1,588,040 and $2,010,000, all respectively.

The Corporation has entered into discussions with Pacific Blue Investments, LLC to extend the maturity date of the loan agreement.

On April 3, 2016, the Corporation entered into a second loan agreement with Pacific Blue Investments, LLC, in the original amount of $490,000. The loan provides for, among other items:

1. Interest at a rate of 10% per annum; and
2. Balloon payment of outstanding principal and interest at the sale or refinance of IH Alhambra Davis, LLC.

During the year ended December 31, 2016, interest expense totaled $7,518 and interest paid totaled $-0-. At December 31, 2016, accrued interest was $7,518 and outstanding principal was $490,000.

Note payable - AHP

The Corporation has entered into a direct subsidy agreement with the Affordable Housing Program ("AHP") in the amount of $1,200,000. As of December 31, 2016, the Corporation has not received proceeds under the agreement. The proceeds are to be loaned to IHMDI Dudley Pomona, LP under the same terms as the AHP note agreement. The term of the note is 22 years and the debt obligation is non-interest bearing. The entire principal amount is deferred and forgivable, contingent on IHMDI Dudley Pomona, LP remaining in full tax credit compliance until year 22 of the compliance period.

NOTE 5-FINANCING (CONTINUED)

Elizabeth Street Housing Investors, L.P.

Elizabeth Street Housing Investors, L.P. entered into a loan agreement in the original amount of $1,440,000. The loan is currently being serviced by Berkadia Commercial Mortgage, LLC and provides for, among other items:

1. A maturity date of April 1, 2024;
2. Interest at a rate of 4.66% per annum; and
3. Monthly payments of principal and interest of $7,434.

During the years ended December 31, 2016 and 2015, interest expense totaled $65,901 and $66,794, and interest paid totaled $65,994 and $66,883, all respectively. At December 31, 2016 and 2015, accrued interest was $5,539 and $5,632, and outstanding principal was $1,380,284 and $1,403,495, all respectively.

The loan may be prepaid at any time, subject to a 1% prepayment premium.

The liability of the Corporation is limited to the real and personal property and amounts on deposit with the lender of the operating entity.

Fort Collins Senior Housing Investors, L.P.

Fort Collins Senior Housing Investors, L.P. entered into a loan agreement in the original amount of $2,640,000. The loan is currently being serviced by Berkadia Commercial Mortgage, LLC and provides for, among other items:

1. A maturity date of April 1, 2024;
2. Interest at a rate of 4.66% per annum; and
3. Monthly payments of principal and interest of $13,269.

During the years ended December 31, 2016 and 2015, interest expense totaled $120,818 and $122,457, and interest paid totaled $120,989 and $122,621, all respectively. At December 31, 2016 and 2015, accrued interest was $10,154 and $10,325, and outstanding principal was $2,530,519 and $2,573,074, all respectively.

The loan may be prepaid at any time, subject to a 1% prepayment premium.

The liability of the Corporation is limited to the real and personal property and amounts on deposit with the lender of the operating entity.

NOTE 5-FINANCING (CONTINUED)

IHMDI Dudley Pomona, LP

Construction/CCRC Loan

IHMDI Dudley Pomona, LP entered into a construction loan agreement dated December 2, 2015 with U.S. Bank National Association in the original amount of $15,433,899. The loan bears interest at a floating rate equal to LIBOR plus 1.90%. Monthly interest only payments are required commencing on January 1, 2016. The Partnership has entered into a Loan Purchase Agreement with California Community Reinvestment Corporation ("CCRC") upon satisfaction of the conditions to conversion set forth in the agreement but no later than April 1, 2018. Upon conversion, CCRC has agreed to purchase the loan in an amount not to exceed $4,810,000 and convert the loan to permanent financing. The permanent loan will bear interest at 5.3% per annum with an interest only payment on the first day of the calendar month following conversion and principal and interest payments each month thereafter based on a 35 year amortization schedule. The permanent loan will have a maturity date no later than February 1, 2034, at which time all unpaid principal and interest are due.

During the years ended December 31, 2016 and 2015, interest incurred was $116,420 and $2,197, respectively. At December 31, 2016 and 2015, accrued interest was $21,225 and $2,197 and outstanding principal was $10,191,692 and $1,191,752, all respectively.

Note payable - Pomona Mission Villas

In connection with the acquisition of the Property, IHMDI Dudley Pomona, LP entered into a promissory note payable with Pomona Mission Villas, LLC in the amount of $600,000. The note provides for, among other items:

1. A maturity date of December 15, 2036;
2. Simple interest rate of 7% per annum (but not less than the amount of interest which would be payable if the loan bore interest at 2.61% compounding annually); and
3. Payments annually on or before July 1st after the stabilized operations has been obtained, limited to Residual Receipts, as defined in the promissory note.

During the years ended December 31, 2016 and 2015, interest incurred was $42,000 and $3,500, respectively. At December 31, 2016 and 2015, accrued interest was $45,500 and $3,500 and outstanding principal was $600,000, all respectively.

The note may be prepaid at any time. The liability of the Corporation is limited to the real and personal property of the operating entity.

Note payable - MHC

IHMDI Dudley Pomona, LP received $25,000 from Mayans Housing Corporation ("MHC") to fund certain construction costs. The note has no specific repayment terms and will be paid out of permanent loan proceeds. At December 31, 2016, outstanding principal is $25,000.

NOTE 5-FINANCING (CONTINUED)

IH Alhambra Davis, LLC

CSCDA Senior bonds payable

On December 1, 2014, IH Alhambra Davis, LLC obtained a loan from California Statewide Communities Development Authority ("CSCDA") and Wilmington Trust, National Association (the “Trustee”) in the amount of $18,750,000 (the "CSCDA mortgage"). The CSCDA mortgage was funded on December 4, 2014 with proceeds from the issuance of $18,750,000 California Statewide Communities Development Authority Variable Rate Demand Multifamily Housing Revenue Bonds (The Alhambra at Mace Ranch) 2014 Series A (the “Bonds”). The CSCDA mortgage is secured by a deed of trust on the real property and currently bears interest at a weekly variable rate (0.72% and 0.01% at December 31, 2016 and 2015, respectively). IH Alhambra Davis, LLC has the option to select alternative rates of interest including a Reset Rate and a Fixed Rate, under terms and conditions defined in the Trust Indenture. Optional redemptions of the Bonds may be made once a calendar year in an amount not greater than the amount in the Sinking fund with all unpaid principal and accrued interest due on December 1, 2054. During the years ended December 31, 2016 and 2015, interest incurred was $70,262 and $6,534, and interest paid was $70,262 and $6,534, all respectively. As of December 31, 2016 and 2015, the outstanding principal is $18,750,000.

Anticipated deposits into the sinking fund over each of the next five years is as follows:

2017	$	154,563
2018		164,916
2019		175,960
2020		187,745
2021		200,318

The credit enhancement provided by East West Bank is in the form of a letter of credit equal to the outstanding bonds plus accrued interest as provided in the credit documents. The fee for this credit enhancement is equal to 2.06% of the letter of credit. The letter of credit expires on December 3, 2024.

IH Alhambra Davis, LLC entered into an interest rate cap agreement (the “Rate Cap”) with East West Bank as of December 4, 2014. Pursuant to the Rate Cap, the maximum interest rate on the Bonds is 5%. The Rate Cap was purchased for $35,000, and expires on December 1, 2019. The rate Cap is marked to market with the change in fair value charged to operations. The market value of the Rate Cap at December 31, 2016 and 2015 was $1,726 and $4,142, respectively. The decrease in fair value of $2,416 and $7,570 during the years ended December 31, 2016 and 2015 is included in unrealized gain (loss) on interest rate cap in the accompanying consolidated statements of activities, respectively.

NOTE 5-FINANCING (CONTINUED)

CSCDA Subordinate bonds payable

On December 1, 2014, IH Alhambra Davis, LLC obtained a subordinate loan from CSCDA and the Trustee in the amount of $7,900,000 (the "subordinate CSCDA mortgage"). The mortgage was funded on December 4, 2014 with proceeds from the issuance of $7,900,000 California Statewide Communities Development Authority Subordinate Multifamily Housing Revenue Bonds (The Alhambra at Mace Ranch) 2014 Series A-S (the “Subordinate Bonds”). The subordinate CSCDA mortgage is secured by a deed of trust on the real property and bears interest at 7% per annum. All unpaid principal and accrued interest is due on December 20, 2054. During the years ended December 31, 2016 and 2015, interest incurred was $560,681 and $538,591, and interest paid was $560,681 and $585,258, all respectively. As of December 31, 2016 and 2015, the outstanding principal is $7,900,000.

The mortgage agreements require the rental units comprising the Property to be rented to qualifying low-income residents. The restrictions are evidenced by a regulatory agreement which remains in effect until the later of the expiration of the Qualified Project Period, as defined in the agreement, or repayment of the Bonds and Subordinate Bonds.

Estimated principal payments for the next five years and thereafter are approximately as follows:

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Total
2017	$ 2,078,040	$ 25,463	$ 46,681	$ -	$ 140,000	$ 2,290,184
2018	-	26,675	48,904	5,381,692	155,000	5,612,271
2019	-	27,945	51,232	-	165,000	244,177
2020	-	29,275	53,671	-	180,000	262,946
2021	-	30,669	56,226	-	185,000	271,895
Thereafter	1,200,000	1,240,257	2,273,805	5,435,000	25,825,000	35,974,062
	$ 3,278,040	**$ 1,380,284**	**$ 2,530,519**	**$10,816,692**	**$26,650,000**	**44,655,535**
Debt issuance						(489,451)
						$44,166,084

Financing fees of $535,098 were incurred in connection with the financing of the Operating Entities. These fees are being amortized using the straight-line method over the term of the mortgage notes payable. Amortization expense for the years ended December 31, 2016 and 2015 was $18,446 and $18,572, respectively, and is included in financial expenses on the consolidated statements of activities. Accumulated amortization is $45,647 and $27,201 as of December 31, 2016 and 2015, respectively.

NOTE 5-FINANCING (CONTINUED)

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

	Elizabeth Street Housing Investors, LP	Fort Collins Street Housing Investors, LP	IH Alhambra Davis, LLC	Total
2017	$ 4,088	$ 3,204	$ 11,154	$ 18,446
2018	4,088	3,204	11,154	18,446
2019	4,088	3,204	11,154	18,446
2020	4,088	3,204	11,154	18,446
2021	4,088	3,204	11,154	18,446
Thereafter	8,176	21,896	367,149	397,221
	$ 28,616	**$ 37,916**	**$ 422,919**	**$ 489,451**

NOTE 6-LEASES

The Corporation leases office space under an operating type lease with Spectrum Business Center, LP. The lease expires May 31, 2017. Lease expense for the years ended December 31, 2016 and 2015 was $56,544 and $55,238, respectively, which is included in general and administrative on the Consolidated Statements of Activities.

Future minimum lease payments are due as follows:

2017	**$ 23,323**

NOTE 7-CONSTRUCTION CONTRACT

IHMDI Dudley Pomona, LP entered into a contract with Dreyfus Construction ("Dudley Contractor"), an unrelated party, to construct Dudley Street Apartments. The original amount of the construction contract was $11,937,621, which was increased by change orders to $12,627,007. For the years ended December 31, 2016 and 2015, Dudley Contractor earned $10,975,858 and $273,220, respectively, which has been capitalized into property and equipment. At December 31, 2016 and 2015, $2,776,833 and $58,002 remained payable, respectively.

NOTE 8-GRANTS

The Corporation received a grant award from The Home Depot Foundation in the amount of $300,000 in order to assist with the construction of Rocky Hill Veterans Housing. At December 31, 2016, grant funds in the amount of $300,000 remain receivable. The Corporation intends to fulfill the compliance requirements of the grant agreement and has recognized the grant award as revenue during the year ended December 31, 2016.

NOTE 8-GRANTS (CONTINUED)

The Corporation received a grant from the Citi Salute Grant program in the amount of $35,000 in order to assist with the construction of Rocky Hill Veterans Housing. The Corporation intends to fulfill the compliance requirements of the grant agreement and has recognized the grant award as revenue during the year ended December 31, 2016.

NOTE 9-SUBSEQUENT EVENT

On April 24, 2017, the IH Alhambra Davis, LLC entered into a purchase and sale agreement for the purchase of the property. The proposed sale includes the land, real and personal property, and certain other assets of IH Alhambra Davis, LLC. The sale is contingent on certain conditions being met. The proposed sale provides for the Corporation to maintain an ownership interest in the new operating entity of the property subsequent to the sale.

NOTE 10-COMMITMENTS AND CONTINGENCIES

Guarantees

As general partner or managing member of various entities, the Corporation or affiliates have made certain guarantees. Guarantees typically include the following:

- to ensure completion of construction;
- to remedy any reduction of the Limited Partner's tax benefits derived from the low income housing credits;
- to lend funds to the partnership to fund any operating deficits during the operating deficit guaranty periods, and
- to satisfy any deferred developer fee outstanding in accordance with the Limited Partnership Agreement.

Typically, the Corporation guarantees any operating deficits from the date the first apartment unit is available for intended use and ending three to five years following the achievement of three consecutive months of break-even operations. The deficit amount is typically limited to one year of operations or six months of operations plus debt service.

It is not feasible to estimate the maximum potential amount of future payments under the guarantees. As of December 31, 2016 and 2015, there were no known unfunded liabilities related to the aforementioned guarantees.

NOTE 10-COMMITMENTS AND CONTINGENCIES (CONTINUED)

Business risk and liquidity

The Corporation receives distributions, developer fees, and various asset management fees and uses those funds to carry out its mission and directives. The Corporation's receipt of those funds is dependent on the operations of the individual entities. Any operating shortfalls by the entities will have a direct impact on the Corporation. The Corporation has continued to experience negative cash flows from operations in part due to the timing of projects in the pre-development phase. Management believes these projects will close in 2017 or 2018 and the Corporation will receive cash inflows as a result of the projects. In 2016 and 2015, the Corporation's plan to increase revenue and remedy negative cash flow included participation in new partnerships, acquisitions and developments. Cash was advanced for some of these transactions and will be returned upon the close of each transaction in future years along with developer and managing general partner fees. As described in Note 9, the Corporation intends to sell the assets of IH Alhambra Davis, LLC, which is expected to generate excess sales proceeds for the Corporation's new developments currently in the pre-development phase with groundbreaking expected in the first quarter of 2018. Cash flow continues to be monitored closely and adjustments made in operations if deemed necessary to meet obligations of and covenants made by the Corporation.

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2016

ASSETS

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Eliminations	Total
Current assets							
Cash - Corporation	$ 149,751	$ -	$ -	$ -	$ -	$ -	$ 149,751
Cash - Communities	-	74,442	119,815	70,472	18,344	-	283,073
Accounts receivable - residents	-	-	4,295	-	942	-	5,237
Accounts receivable - operations	39,816	-	-	6,562	-	(39,816)	6,562
Accounts receivable - interest	13,097	-	-	-	-	-	13,097
Prepaid expenses	132	3,478	5,085	2,093	31,005	-	41,793
Note receivable - Pomona	125,077	-	-	-	-	-	125,077
Note receivable - Trower	35,000	-	-	-	-	-	35,000
AHP subsidy receivable	1,200,000	-	-	-	-	-	1,200,000
Grant funds receivable	300,000	-	-	-	-	-	300,000
Total current assets	**1,862,873**	**77,920**	**129,195**	**79,127**	**50,291**	**(39,816)**	**2,159,590**
Restricted deposits and funded reserves							
Resident security deposits	-	15,658	20,454	-	123,670	-	159,782
Escrow deposits	-	6,278	8,543	-	-	-	14,821
Replacement reserves	-	32,612	24,665	-	97,320	-	154,597
Bond reserves	-	-	-	-	336,119	-	336,119
Total restricted deposits and funded reserves	**-**	**54,548**	**53,662**	**-**	**557,109**	**-**	**665,319**
Fixed assets							
Land	-	750,714	417,727	1,900,000	805,950	-	3,874,391
Buildings and improvements	-	4,429,500	5,053,081	-	26,218,384	(1,159,909)	34,541,056
Furniture, fixtures, and equipment	101,077	-	-	-	161,422	-	262,499
Motor vehicles	47,500	-	-	-	-	-	47,500
Construction in process	-	-	-	14,879,689	-	(140,000)	14,739,689
	148,577	**5,180,214**	**5,470,808**	**16,779,689**	**27,185,756**	**(1,299,909)**	**53,465,135**
Accumulated depreciation	(77,153)	(1,727,996)	(2,167,374)	-	(1,384,251)	60,141	(5,296,633)
Total fixed assets	**71,424**	**3,452,218**	**3,303,434**	**16,779,689**	**25,801,505**	**(1,239,768)**	**48,168,502**
Other assets							
Unamortized costs, net of accumulated amortization	-	-	-	-	150,342	-	150,342
Developer fee receivable	1,583,847	-	-	-	-	(1,515,607)	68,240
Pre-development costs receivable	1,078,799	-	-	-	-	(198,478)	880,321
Interest rate cap	-	-	-	-	1,726	-	1,726
Security deposit	4,014	-	-	-	-	-	4,014
Total other assets	**2,666,660**	**-**	**-**	**-**	**152,068**	**(1,714,085)**	**1,104,643**
	$ 4,600,957	**$ 3,584,686**	**$ 3,486,291**	**$ 16,858,816**	**$ 26,560,973**	**$ (2,993,669)**	**$ 52,098,054**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION (CONTINUED)
YEAR ENDED DECEMBER 31, 2016

LIABILITIES AND NET ASSETS

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Eliminations	Total
Current liabilities							
Accounts payable and accrued expenses	$ 17,617	$ 25,229	$ 29,343	$ -	$ 43,708	$ (39,816)	$ 76,081
Accounts payable - construction	-	-	-	3,030,208	-	(198,478)	2,831,730
Prepaid revenue	-	2	777	-	841	-	1,620
Accrued interest - notes payable	61,033	5,539	10,154	66,725	-	-	143,451
Current maturities of notes payable	2,078,040	25,463	46,681	-	140,000	-	2,290,184
Total current liabilities	**2,156,690**	**56,233**	**86,955**	**3,096,933**	**184,549**	**(238,294)**	**5,343,066**
Deposit liabilities							
Resident security deposits	**-**	**15,637**	**18,346**	**-**	**121,667**	**-**	**155,650**
Long-term liabilities							
Notes payable, net of current maturities	1,200,000	1,354,821	2,483,838	10,816,692	26,510,000	-	42,365,351
Less: unamortized debt issuance costs	-	(28,616)	(37,916)	-	(422,919)	-	(489,451)
Deferred revenue	-	8,021	11,550	-	-	-	19,571
Developer fee payable	-	-	-	41,213	1,495,000	(1,515,607)	20,606
Investment in operating entities	21,331	-	-	-	-	(2,140)	19,191
Total long-term liabilities	**1,221,331**	**1,334,226**	**2,457,472**	**10,857,905**	**27,582,081**	**(1,517,747)**	**41,935,268**
Total liabilities	**3,378,021**	**1,406,096**	**2,562,773**	**13,954,838**	**27,888,297**	**(1,756,041)**	**47,433,984**
Net assets							
Unrestricted net assets							
Controlling interest	1,222,936	(99)	(2,187)	-	(1,327,324)	(1,237,628)	(1,344,302)
Non-controlling interests	-	2,178,689	925,705	2,903,978	-	-	6,008,372
Total net assets	**1,222,936**	**2,178,590**	**923,518**	**2,903,978**	**(1,327,324)**	**(1,237,628)**	**4,664,070**
	$ 4,600,957	**$ 3,584,686**	**$ 3,486,291**	**$ 16,858,816**	**$ 26,560,973**	**$ (2,993,669)**	**$ 52,098,054**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Eliminations	Total
Revenue							
Rental income	$ -	$ 350,603	$ 546,861	$ -	$ 2,208,244	$ -	$ 3,105,708
Tenant charges	-	7,819	8,724	-	124,047	-	140,590
Managing general partner fees	42,054	-	-	-	-	(18,400)	23,654
Asset management fees	50,400	-	-	-	-	(50,400)	-
Developer fee revenue	11,000	-	-	-	-	-	11,000
Interest income	13,894	23	28	-	249	-	14,194
Distributions from operating entities	280,000	-	-	-	-	(280,000)	-
Miscellaneous revenue	34,125	929	1,339	-	-	-	36,393
Grant revenue	335,000	-	-	-	-	-	335,000
Total revenue	**766,473**	**359,374**	**556,952**	**-**	**2,332,540**	**(348,800)**	**3,666,539**
Expenses							
General and administrative	1,289,932	83,835	93,811	-	261,585	(9,000)	1,720,163
Operating and maintenance	39,804	55,455	89,201	-	275,066	-	459,526
Utilities	-	28,612	44,678	-	163,465	-	236,755
Taxes and insurance	184,089	23,897	28,740	-	135,274	-	372,000
Financial	164,907	69,989	125,872	-	1,074,080	-	1,434,848
Total expenses	**1,678,732**	**261,788**	**382,302**	**-**	**1,909,470**	**(9,000)**	**4,223,292**
Increase in net assets before depreciation, amortization, and other income and expenses	**(912,259)**	**97,586**	**174,650**	**-**	**423,070**	**(339,800)**	**(556,753)**
Depreciation	(22,623)	(115,353)	(134,264)	-	(668,766)	28,998	(912,008)
Amortization	-	(766)	(1,104)	-	(18,991)	-	(20,861)
Unrealized gain (loss) on interest rate cap	-	-	-	-	(2,416)	-	(2,416)
Passthrough loss	(51)	-	-	-	-	-	(51)
Other expenses	(8,945)	(11,350)	(17,570)	-	(50,400)	59,800	(28,465)
Change in net assets	**$ (943,878)**	**$ (29,883)**	**$ 21,712**	**$ -**	**$ (317,503)**	**$ (251,002)**	**$ (1,520,554)**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2015

ASSETS

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Eliminations	Total
Current assets							
Cash - Corporation	$ 1,176,323	$ -	$ -	$ -	$ -	$ -	$ 1,176,323
Cash - Communities	-	77,592	99,384	25,050	26,745	-	228,771
Accounts receivable - residents	-	263	423	-	284	-	970
Accounts receivable - operations	59,520	-	-	-	80,073	(21,416)	118,177
Prepaid expenses	132	3,556	4,844	-	30,596	-	39,128
Employee note receivable	16,218	-	-	-	-	-	16,218
Note receivable - Pomona	125,077	-	-	-	-	-	125,077
Pre-development costs receivable	215,617	-	-	-	-	-	215,617
Total current assets	**1,592,887**	**81,411**	**104,651**	**25,050**	**137,698**	**(21,416)**	**1,920,281**
Restricted deposits and funded reserves							
Resident security deposits	-	-	-	-	111,356	-	111,356
Escrow deposits	-	5,974	8,136	-	-	-	14,110
Replacement reserves	-	31,420	25,724	-	48,070	-	105,214
Bond reserves	-	-	-	-	331,120	-	331,120
Total restricted deposits and funded reserves	**-**	**37,394**	**33,860**	**-**	**490,546**	**-**	**561,800**
Fixed assets							
Land	-	750,714	417,727	1,900,000	805,950	-	3,874,391
Buildings and improvements	-	4,429,500	5,053,081	-	26,176,470	(1,159,909)	34,499,142
Furniture, fixtures, and equipment	97,958	-	-	-	99,765	-	197,723
Construction in process	-	-	-	3,143,335	-	(140,000)	3,003,335
	97,958	**5,180,214**	**5,470,808**	**5,043,335**	**27,082,185**	**(1,299,909)**	**41,574,591**
Accumulated depreciation	(54,530)	(1,612,642)	(2,033,111)	-	(715,485)	31,143	(4,384,625)
Total fixed assets	**43,428**	**3,567,572**	**3,437,697**	**5,043,335**	**26,366,700**	**(1,268,766)**	**37,189,966**
Other assets							
Unamortized costs, net of accumulated amortization	-	767	1,104	-	169,332	-	171,203
Developer fee receivable	1,583,847	-	-	-	-	(1,515,607)	68,240
Pre-development costs receivable	996,171	-	-	-	-	(163,833)	832,338
Interest rate cap	-	-	-	-	4,142	-	4,142
Security deposit	4,014	-	-	-	-	-	4,014
Total other assets	**2,584,032**	**767**	**1,104**	**-**	**173,474**	**(1,679,440)**	**1,079,937**
	$ 4,220,347	**$ 3,687,144**	**$ 3,577,312**	**$ 5,068,385**	**$ 27,168,418**	**$ (2,969,622)**	**$ 40,751,984**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION (CONTINUED)
YEAR ENDED DECEMBER 31, 2015

LIABILITIES AND NET ASSETS

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Eliminations	Total
Current liabilities							
Accounts payable and accrued expenses	$ 22,152	$ 17,170	$ 24,015	$ -	$ 50,592	$ (21,416)	$ 92,513
Accounts payable - construction	-	-	-	325,745	-	(163,833)	161,912
Accrued real estate taxes	-	-	-	-	25,413	-	25,413
Prepaid revenue	-	167	183	-	1,317	-	1,667
Accrued interest - notes payable	-	5,632	10,325	5,697	-	-	21,654
Current maturities of notes payable	1,192,474	24,305	44,560	-	144,862	-	1,406,201
Total current liabilities	**1,214,626**	**47,274**	**79,083**	**331,442**	**222,184**	**(185,249)**	**1,709,360**
Deposit liabilities							
Resident security deposits	**-**	**15,410**	**20,026**	**-**	**109,990**	**-**	**145,426**
Long-term liabilities							
Notes payable, net of current maturities	817,526	1,379,190	2,528,514	1,791,752	26,505,138	-	33,022,120
Less: unamortized debt issuance costs	-	(32,704)	(41,120)	-	(434,073)	-	(507,897)
Developer fee payable	-	-	-	41,213	1,495,000	(1,515,607)	20,606
Investment in operating entities	21,380	-	-	-	-	(2,140)	19,240
Total long-term liabilities	**838,906**	**1,346,486**	**2,487,394**	**1,832,965**	**27,566,065**	**(1,517,747)**	**32,554,069**
Total liabilities	**2,053,532**	**1,409,170**	**2,586,503**	**2,164,407**	**27,898,239**	**(1,702,996)**	**34,408,855**
Net assets							
Unrestricted net assets							
Controlling interest	2,166,815	(69)	(2,209)	-	(729,821)	(1,266,626)	168,090
Non-controlling interests	-	2,278,043	993,018	2,903,978	-	-	6,175,039
Total net assets	**2,166,815**	**2,277,974**	**990,809**	**2,903,978**	**(729,821)**	**(1,266,626)**	**6,343,129**
	$ 4,220,347	**$ 3,687,144**	**$ 3,577,312**	**$ 5,068,385**	**$ 27,168,418**	**$ (2,969,622)**	**$ 40,751,984**

AFFORDABLE HOUSING ALLIANCE II, INC.
(A COLORADO NOT-FOR-PROFIT CORPORATION)

CONSOLIDATING STATEMENTS OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Affordable Housing Alliance II, Inc.	Elizabeth Street Housing Investors, LP	Fort Collins Senior Housing Investors, LP	IHMDI Dudley Pomona, LP	IH Alhambra Davis, LLC	Eliminations	Total
Revenue							
Rental income	$ -	$ 345,517	$ 538,813	$ -	$ 2,153,757	$ -	$ 3,038,087
Tenant charges	-	7,778	7,793	-	108,409	-	123,980
Managing general partner fees	58,913	-	-	-	-	(17,216)	41,697
Asset management fees	50,400	-	-	-	-	(50,400)	-
Developer fee revenue	140,000	-	-	-	-	(140,000)	-
Interest income	1,454	-	-	-	58	-	1,512
Distributions from operating entities	546,103	-	-	-	-	(529,006)	17,097
Miscellaneous revenue	51,395	125	243	-	-	-	51,763
Total revenue	**848,265**	**353,420**	**546,849**	**-**	**2,262,224**	**(736,622)**	**3,274,136**
Expenses							
General and administrative	1,347,224	74,015	96,445	-	257,245	-	1,774,929
Operating and maintenance	2,638	58,521	111,111	-	266,479	-	438,749
Utilities	-	28,712	48,494	-	164,783	-	241,989
Taxes and insurance	164,651	25,165	30,584	-	165,116	-	385,516
Financial	44,025	70,875	125,794	-	949,857	-	1,190,551
Total expenses	**1,558,538**	**257,288**	**412,428**	**-**	**1,803,480**	**-**	**4,031,734**
Increase in net assets before depreciation, amortization, and other income and expenses	**(710,273)**	**96,132**	**134,421**	**-**	**458,744**	**(736,622)**	**(757,598)**
Depreciation	(16,862)	(113,166)	(134,686)	-	(660,724)	28,998	(896,440)
Amortization	-	(767)	(1,104)	-	(18,990)	-	(20,861)
Unrealized gain (loss) on interest rate cap	-	-	-	-	(7,570)	-	(7,570)
Passthrough loss	(217)	-	-	-	-	-	(217)
Other expenses	(13,290)	(21,995)	(38,214)	-	(50,400)	67,616	(56,283)
Change in net assets	**$ (740,642)**	**$ (39,796)**	**$ (39,583)**	**$ -**	**$ (278,940)**	**$ (640,008)**	**$ (1,738,969)**