AFFORDABLE HOUSING CLEARINGHOUSE
AND AFFILIATE

(A CALIFORNIA NONPROFIT
PUBLIC BENEFIT CORPORATION)
CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE,
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2012

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
JUNE 30, 2012

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HCVT CERTIFIED PUBLIC ACCOUNTANTS
HOLTHOUSE CARLIN & VAN TRIGT LLP

Independent Auditor's Report

To the Board of Directors of
Affordable Housing Clearinghouse and Affiliate:

We have audited the accompanying consolidated statement of financial position of Affordable Housing Clearinghouse (the Organization) and Affiliate as of June 30, 2012, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization and Affiliate as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013 on our consideration of Affordable Housing Clearinghouse's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the Organization's consolidated financial statements as a whole. The accompanying supplementary schedules of expenditures of federal awards and of findings and questioned costs are presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations,* and are not a required part of the basic consolidated financial statements. That information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the consolidated financial statements as a whole.

Holthouse Carlin & Van Trigt LLP

Westlake Village, California
September 16, 2013

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AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

Assets

Current assets		
Cash and cash equivalents	$	338,497
Investments, at fair value		127,387
Prepaid expenses and other assets		9,379
Real estate inventory		1,092,398
Total current assets		1,567,661
Restricted cash		172,725
Property, at cost		
Building and improvements		240,100
Less: Accumulated depreciation		(69,028)
Net property		171,072
Deposits		834
Investment in limited liability companies		54,274
Notes receivable secured by deeds of trust, net (Note 5)		-
Total assets	$	1,966,566

See notes to consolidated financial statements.

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(CONTINUED)

Liabilities and Net Assets

Current liabilities	
Notes payable, current	$ 682,786
Accounts payable and accrued expenses	14,252
Accrued interest payable	2,605
Total current liabilities	699,643
Tenant security deposits	4,150
Notes payable, net of current portion	131,095
Total liabilities	834,888
Commitments and contingencies (Notes 3, 4, 7 and 8)	
Net assets	
Unrestricted assets	
Unrestricted assets, controlling interest	708,591
Unrestricted net assets, non-controlling interest	154,703
Total unrestricted	863,294
Temporarily restricted	268,384
Permanently restricted	-
Total net assets	1,131,678
Total liabilities and net assets	$ 1,966,566

See notes to consolidated financial statements.

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
Rental revenue and other support:			
Real estate sales - joint venture	$ 3,258,688	$ -	$ 3,258,688
Real estate sales - NSP	699,112		699,112
Gross potential rent, net of vacancies	57,389	-	57,389
Other rental revenue	1,026	-	1,026
Contributions	153,000	-	153,000
In-kind donations	105,000	-	105,000
Program revenue	47,203	143,175	190,378
Interest and dividend income	2,330	-	2,330
Net assets released from restrictions	241,882	(241,882)	-
Total rental revenue and other support	4,565,630	(98,707)	4,466,923
Expenses:			
Program services:			
Loan assistance program	166,870	-	166,870
Housing program	4,104,231	-	4,104,231
Supporting services:			
Management and general	89,615	-	89,615
Fundraising	4,329	-	4,329
Total expenses	4,365,045	-	4,365,045
Change in net assets	200,585	(98,707)	101,878
Net assets, July 1, 2011, as originally reported	569,806	-	569,806
Prior period adjustments (Note 9)	288,660	367,091	655,751
Net assets, July 1, 2011, as restated	858,466	367,091	1,225,557
Contributions	413,321	-	413,321
Distributions	(609,078)	-	(609,078)
Net assets, end of year	$ 863,294	$ 268,384	$ 1,131,678

See notes to consolidated financial statements.

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services		Supporting Services		
	Loan Assistance Program	Housing Program	Management and General	Fundraising	Total
Advertising	$ 751	$ -	$ -	$ -	$ 751
Automobile	773	1,988	-	-	2,761
Bank service charges	277	277	-	-	554
Daisy property expenses	-	42,566	-	-	42,566
Daisy property depreciation	-	7,618	-		7,618
Dues and subscriptions	-	-	1,000	-	1,000
Employee benefits	800	800	200	264	2,064
Equity in loss of investment in LLCs	-	9,007	-	-	9,007
Health insurance	-	-	17,623	-	17,623
Insurance	8,401	4,523			12,924
Licenses/permits	842	-	-	-	842
Loss on real estate	-	32,772	-	-	32,772
Meals/entertainment	31	-	412	-	443
Miscellaneous	-	-	2,944	-	2,944
Office expenses	156	-	-	-	156
Office supplies	3,525	1,085	813		5,423
Payroll taxes	6,010	6,010	3,500	2,004	17,524
Postage and delivery	252	252	1,179	-	1,683
Printing and reproduction	419	64	161		644
Professional fees - accounting	6,823	2,100	1,575	-	10,498
Professional fees - legal	-	-	5,000	-	5,000
Real estate cost of sales	-	3,908,435	-	-	3,908,435
Rent	1,662	1,662	7,755	-	11,079
Repairs and maintenance	822	822	3,833	-	5,477
Reserve - notes receivable	49,500	-	-	-	49,500
Salaries and wages	81,428	81,428	41,231	2,061	206,148
Seminars and education	839	839	-	-	1,678
Staff development	854	427	427		1,708
Telephone	1,758	879	879	-	3,516
Workers compensation	947	677	1,083	-	2,707
	$ 166,870	$ 4,104,231	$ 89,615	$ 4,329	$ 4,365,045

See notes to consolidated financial statements.

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:	
Change in net assets	$ 101,878
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Reserve for notes receivable, secured	49,500
Loss on real estate	32,772
Equity in loss of investment in LLCs	9,007
Unrealized gain on marketable securities	(1,414)
Depreciation	7,618
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	226
Tenant receivable	2,078
Real estate inventory	989,739
Note receivable	(49,500)
Accounts payable and accrued expenses	(11,292)
Accrued interest	2,605
Deferred rent	(5,958)
Tenant security deposits liability	475
Net cash provided by operating activities	1,127,734
Cash flows from investing activities:	
Contributions to investment in LLCs	(9,791)
Net change in restricted reserve	135,154
Net cash provided by investing activities	125,363
Cash flows from financing activities:	
Payments on notes payable	(1,015,387)
Contributions	413,321
Distributions	(609,078)
Net cash used in financing activities	(1,211,144)
Net change in cash and cash equivalents	41,953
Cash and cash equivalents, beginning of year	296,544
Cash and cash equivalents, end of year	$ 338,497
Cash paid for the following:	
Interest	$ 10,772
Income taxes	$ -
Supplemental disclosure of non-cash investing and financing activities:	
Write-off of fully depreciated property	$ 41,516

See notes to consolidated financial statements.

NOTE 1. ORGANIZATION AND NATURE OF ACTIVITIES

Affordable Housing Clearinghouse (the Organization or AHC) is a California not-for-profit organization, consisting of a network of lending institutions dedicated to providing affordable housing in Southern California, for low-to-moderate income individuals through (a) providing homebuyers education and credit counseling; (b) reviewing and compiling loan applications, as well as coordinating loan applicants with lenders; (c) acquiring, rehabilitating or constructing, and reselling affordable housing; and (d) owning and managing low-income permanent housing.

The Organization obtains membership contributions from its network of lending institutions on a voluntary basis.

On May 26, 2009, the Federal Housing Administration, U.S. Department of Housing and Urban Development approved the Organization’s request to become a Title II FHA lender. This approval allows the Organization to originate FHA insured single family mortgages.

The Organization and Clearinghouse Community Development Financial Institution (Clearinghouse CDFI or Affiliate) (collectively, Partners) have partnered, through a memo of understanding, to identify and acquire eligible distressed properties. The properties are acquired and rehabilitated and sold to low- or moderate-income families or to first-time home buyers. The Organization manages all stages of the process. In addition, the activities of this joint venture are maintained 100% by the Organization and are included in the accompanying consolidated financial statements (Note 3).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). All significant intercompany balances and transactions have been eliminated.

Revenues, expenses, gains, losses and net assets are classified in the consolidated financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization, and changes therein, are classified and reported as follows:

- <u>Unrestricted net assets</u> – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.

- <u>Temporarily restricted net assets</u> – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions. At June 30, 2012, there were temporarily restricted net assets of $268,384, which consist primarily of reuse funds received under the Neighborhood Stabilization Program (Note 4).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. As of June 30, 2012, The Organization had no permanently restricted net assets.

In addition, the Organization reports all of its expenses in the unrestricted fund, regardless of the source of the funds for the expenditures.

Non-controlling Interest in Joint Venture

The non-controlling interest represents the aggregate balance of Clearinghouse CDFI's interest in the joint venture with the Organization that are included in the consolidated financial statements (Note 3).

Statement of Cash Flows

The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

The Organization holds funds in connection with one of its federal grants in a restricted account to be reused for allowable activities (Note 4).

Investments

Investments are stated at fair value and consist of long-term certificate of deposits.

Investment in Limited Liability Companies

The Organization accounts for its interest in limited liability companies using the equity method of accounting.

Real Estate Inventory

Real estate inventory is stated at the lower of cost or net realizable value (estimated fair value, less selling costs) and include initial acquisition cost, direct rehabilitation/construction costs, real estate taxes and interest. Interest costs are capitalized until construction is substantially complete. For the year ended June 30, 2012, the Organization incurred and capitalized interest of $2,605. Selling expenses are expensed as incurred.

The Organization rehabilitates single family detached homes. As of June 30, 2012, 3 homes were under development. The total development costs, including cost of acquisition, were $551,988 as of June 30, 2012. Also, as of June 30, 2012, 2 homes were held-for-sale, and the total development costs, including acquisition for these homes were $540,410. The homes under development and unsold homes are included in real estate inventory in the accompanying consolidated statement of financial position.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property

Property includes real estate and equipment at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Buildings are depreciated over 40 years and furniture, equipment and minor improvements are depreciated over five to seven years.

The Organization capitalizes expenditures or betterments that materially increase asset lives and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations. Abandoned projects are expensed when management determines the project is not feasible.

Management reviews its property for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended June 30, 2012.

Revenue and Support

Revenues from contributions are recognized pursuant to the terms specified by the donor and are recognized at the earlier of the date of receipt of funds or the date of a formal, unconditional pledge from known donors. Revenues from program service fees are recognized as services are performed and collection is reasonably assured. Revenues from rental properties are reflected as gross potential rent, net of vacancies.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) under the California Revenue and Taxation Code. In addition, the Organization does not have any income which would be subject to unrelated business income taxes, as defined. The Organization is required to file tax returns with the Internal Revenue Service (IRS) and other taxing authorities. Accordingly, there is no provision for income taxes in these consolidated financial statements and the Organization has no other tax positions which must be considered for disclosure. With few exceptions, the Organization is no longer subject to income tax examinations by tax authorities for years before 2007.

Fair Value Measurements

The Organization accounts for their financial instruments using fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value measurement hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Organization's management uses the following methods and assumptions to estimate the fair value of their financial instruments:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2012, the Organization's investments in long-term certificate of deposits are stated at fair value using Level 1 inputs.

Concentrations of Business and Credit Risk

The Organization receives a significant amount of revenue from the development of affordable housing as well as from members of the network of lending institutions. These sources of funds are dependent upon the continued successful development of affordable housing as well as the availability of funds from housing programs.

The Organization has investments which are subject to increases or decreases in market value. The amounts are not guaranteed by the investment company which holds and invests the funds. The Organization does not believe there is a significant risk associated with its investment policy.

The Organization's cash and cash equivalents are maintained in various financial institutions. The Organization has exposure to credit risk to the extent cash and cash equivalents exceed amounts covered by federal deposit insurance. The Organization believes that its credit risk is not significant.

In addition, the Organization operates in a heavily regulated environment. The operations of the Projects are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, U.S. Department of Housing and Urban Development (HUD). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD and may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

The Organization is generally exempt from real property taxes with the County Assessor. In the event the County Assessor does not grant the exemption, the Organization's cash flow would be adversely impacted.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Functional Expenses

The costs of providing the Organization's programs and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated to direct program services or management and general and fundraising expense. The functional classifications are defined as follows:

- Program service expenses consist of costs incurred in connection with providing services and conducting programs for loan assistance and housing program.

- Management and general expenses consist of costs incurred in connection with the overall activities of the Organization, which are not allocable to another functional expense category.

- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate revenue.

NOTE 3. RELATED PARTY

Common Stock

The Organization received 1,000 shares of Class B common stock in Clearinghouse CDFI, which is limited to AHC. As the Class B holder, AHC is entitled to appoint six of eleven Clearinghouse CDFI directors. The structure is intended to assure accountability to AHC, as a community developer partner, and the low-income targeted population they serve. In addition, AHC has three common board members with Clearinghouse CDFI. Management has determined that the stock in Clearinghouse CDFI has no value as of June 30, 2012.

Joint Venture

In connection with the Organization’s memo of understanding agreement with Clearinghouse CDFI the Partners are required to fund 30% of the acquisition price, of which 1.5% and 28.5% will be funded by the Organization and Clearinghouse CDFI, respectively. Additionally, the Organization has received a line-of-credit from Clearinghouse CDFI which will be used for the balance (70%) of the purchase price (Note 7). Any profits or losses from the venture will be split 50-50 between the Organization and Clearinghouse CDFI. During the year ended June 30, 2012, 11 properties were sold for approximately $3,259,000 at a cost of approximately $3,177,000. The resultant net profit of approximately $81,000 was shared equally by the Organization and Clearinghouse CDFI.

NOTE 3. RELATED PARTY (Continued)

Joint Venture (continued)

The Organization is on a month-to-month lease with Clearinghouse CDFI for its office space. The monthly lease payments were $923 as of June 30, 2012. Rental expense incurred for the year ended June 30, 2012 amounted to $11,079. In addition, the Organization shares costs with Clearinghouse CDFI which include phone, utilities and supplies.

NOTE 4. GOVERNMENT GRANTS

Neighborhood Stabilization Program 1

The Organization was awarded an $880,000 contract by the County of Orange to administer a Community Development Block Grant project under the county's Neighborhood Stabilization Program (NSP1). The award was subsequently reduced to $575,912.

The terms of this contract require the Organization to purchase no less than 6 single-family abandoned and foreclosed homes for homeownership activities of which at least 25% of the total units will be set aside for 50% Area Median Income (AMI) households. AMI is defined by the Department of Housing and Urban Development.

Income generated from this agreement is authorized to be retained by the Organization and applied towards allowed program activity. The funds are held in a restricted account at June 30, 2012.

Neighborhood Stabilization Program 2

The Organization is part of a consortium that has been awarded $7.5 million in Neighborhood Stabilization Program 2 (NSP2) funds, funded through the American Recovery and Reinvestment Act of 2009 passed through Neighborhood Housing Services of Orange County (NHSOC). These funds will be used in target areas across 129 census tracts affected by high foreclosure and vacancy risks scores.

The consortium will acquire and rehabilitate 68 foreclosed or abandoned properties for resale and rental and provide financing mechanisms, in the form of homebuyer assistance for 45 households to purchase and rehabilitate foreclosed homes.

The award is received in form of a short-term loan which is repaid from the sale of the rehabilitated homes.

NOTE 5. NOTES RECEIVABLE SECURED BY DEEDS OF TRUST

The Organization holds second deeds of trust secured by real property from the sale of residential homes. The notes are secured by the residential property and will be forgiven if the purchaser keeps the property for 15 years, if the property is sold to another low-income family, or is sold back to the Organization for resale to another qualifying low-income family. Accordingly, the Organization has fully reserved these notes ($111,300), as it is unknown if they will be repaid.

	Balance 7/1/11	Additions	Reserve	Balance 6/30/12
Notes receivable	$ 61,800	$ 49,500	$ -	$ 111,300
Reserve	(61,800)	-	(49,500)	(111,300)
Notes receivable, net	$ -	$ 49,500	$ (49,500)	$ -

NOTE 6. INVESTMENT IN LIMITED LIABILITY COMPANIES

The Organization invested in two separate 50% interests in limited liability companies (LLCs) named Mustang Affordable Homes, LLC and Picadilly Anaheim Affordable Homes, LLC. Their purpose is to develop affordable housing. AHC accounts for its interest on the equity basis of accounting. A summary of the LLCs and the results of its operations as of and for the year ended June 30, 2012 are as follows:

	(unaudited) Mustang	*(unaudited)* Picadilly	Total
Assets			
Cash and other assets	$ 24,145	$ -	$ 24,145
Development costs	109,785	39,810	149,595
Property	681,000	10,000	691,000
Total assets	$ 814,930	$ 49,810	$ 864,740
Liabilities			
Accounts payable	$ 75,192	$ -	$ 75,192
Long-term debt	681,000	-	681,000
Total liabilities	756,192	-	756,192
Members' equity	58,738	49,810	108,548
Total liabilities and members' equity	$ 814,930	$ 49,810	$ 864,740
Revenues	$ -	$ -	$ -
Expenses	1,665	1,665	3,330
Net income (loss)	$ (1,665)	$ (1,665)	$ (3,330)

NOTE 7. NOTES PAYABLE AND LINE-OF-CREDIT

A summary of the Organization's notes payable (and collateral pledged thereon), and line-of-credit, consisted of the following at June 30, 2012:

Note payable to Clearinghouse CDFI in the original amount of $226,000, annual interest accrues at 7.335%, principal and interest due monthly at $1,799 and all unpaid principal and interest are due on August 1, 2021, collateralized by deed of trust on real estate. This property was converted from inventory to property used for the Organization's low-income housing program.	$	142,337
Revolving line-of-credit with Clearinghouse CDFI in the amount of $3,000,000, secured by real estate inventory of $549,057, interest accrues at 7.75% and matures September, 2014.		379,844
Short term note payable through the NSP2 / NHSOC for the Harle property ($296,230 historical cost), non-interest bearing, payable from proceeds of the sale of the property.	$	291,700
Total notes payable and line-of-credit		813,881
Less: current portion		(682,786)
Total notes payable	$	131,095

The aggregate annual maturities are as follows:

Year Ending June 30,		Total
2013	$	682,786
2014		12,290
2015		13,222
2016		14,214
2017		15,315
Thereafter		76,054
	$	813,881

An analysis of accrued interest for the year ended June 30, 2012 is as follows:

	7/1/11	Interest Expense	Interest Capitalized	Interest Paid	6/30/12
Clearinghouse CDFI Note Payable	$ -	$ 10,772	$ -	$ (10,772)	$ -
Clearinghouse CDFI Line-of-credit	-	-	2,605	-	2,605
	$ -	$ 10,722	$ 2,605	$ (10,772)	$ 2,605

Interest expense of $10,772 is included in Daisy property expenses in the accompanying consolidated statement of functional expenses.

NOTE 8. CONTINGENCIES

AHC receives significant financial assistance from the U.S. Government under the Neighborhood Stabilization Program. Entitlement to grant resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal and state regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits in accordance with grantor requirements. Any disallowances as a result of these audits become a liability of Affordable Housing Clearinghouse. Affordable Housing Clearinghouse estimates that no material liabilities will result from these audits.

NOTE 9. PRIOR PERIOD ADJUSTMENTS

Neighborhood Stabilization Program 1

The Organization receives funding through the NSP1 which allows the Organization to retain and reuse proceeds generated from the program for allowable program activities. The Organization accounted for the balance in this account as a note payable as of June 30, 2011.

During fiscal year-end June 30, 2012, the Organization determined that the balance in the NSP1 should be recognized as temporarily restricted revenue. The effect of the restatement as of July 1, 2011 was to increase temporarily restricted net assets by $367,091 and reduce notes payable by $367,091.

Clearinghouse CDFI Joint Venture

The Organization maintains 100% of the activities conducted under that certain memo of understanding dated March 25, 2010 entered into with Clearinghouse CDFI whereby the profits are split 50% per partner (Note 1 and 3). As of June 30, 2011, the Organization accounted for Clearinghouse CDFI’s equity interest in the venture as amount due to related party. During the fiscal year ended June 30, 2012, the Organization determined that the Clearinghouse CDFI joint venture should be consolidated and Clearinghouse CDFI’s interest should be presented as a non-controlling interest in the joint venture as required under GAAP. The effect of the restatement as of July 1, 2011 was to increase net assets by $350,460 and decrease due to related party by $350,460.

Reserve for Notes Receivable

As stated in Note 5, during 2012 the Organization determined that the notes receivable issued under the housing program should be reserved as it is unlikely these notes will be repaid. As two of the notes were issued during 2011, the Organization recorded a prior period adjustment to reserve the notes as of July 1, 2011. The effect of the restatement as of July 1, 2011 was to decrease receivables and net assets by $61,800.

NOTE 10. SUBSEQUENT EVENTS

Management has evaluated subsequent events that have occurred through September 16, 2013, 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 or disclosure in the consolidated financial statements.

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/ Pass-through Grantor's Number	Program or Award Amount	Federal Expenditures
MAJOR FEDERAL PROGRAMS				
U.S. Department of Housing and Urban Development				
Passed through the Neighborhood Housing Service of Orange County				
ARRA - Neighborhood Stabilization Program 2	14.256	n/a	$ 675,000	$ 341,200
Passed through the County of Orange Housing and Community Services				
Community Development Block Grants	14.218		575,912	241,882
TOTAL FEDERAL EXPENDITURES				$ 583,082

NOTE TO THE SCHEDULE

Basis of Presentation

The preceding Schedule of Expenditures of Federal Awards includes the federal grant activity of Affordable Housing Clearinghouse presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements.

See independent auditor's report.

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

To the Board of Directors of
Affordable Housing Clearinghouse and Affiliate:

We have audited the consolidated financial statements of Affordable Housing Clearinghouse and Affiliate (a nonprofit organization) (the Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 16, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal contro*l exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies which are described in the accompanying schedule of findings and questioned costs as items #2012-01 and #2012-02 to be a material weakness.

Compliance and Other Matters

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

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*
(Continued)

We noted certain matters that we reported to management of the Organization in a separate letter dated September 16, 2013.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holthouse Carlin & Van Trigt LLP

Westlake Village, California
September 16, 2013

HCVT CERTIFIED PUBLIC ACCOUNTANTS HOLTHOUSE CARLIN & VAN TRIGT LLP

Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance In Accordance with OMB Circular A-133

To the Board of Directors of
Affordable Housing Clearinghouse and Affiliate:

Compliance

We have audited Affordable Housing Clearinghouse and Affiliate's (a nonprofit organization) (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of L.A. Family Housing's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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100 Oceangate, Suite 800, Long Beach, CA 90802 ● 117 East Colorado Boulevard, 6th Floor, Pasadena, CA 91105
555 Anton Boulevard, Suite 700, Costa Mesa, CA 92626 ● 15760 Ventura Boulevard, Suite 1700, Encino, CA 91436
400 W. Ventura Boulevard, Suite 250, Camarillo, CA 93010 ● 115 West Second Street, Suite 204, Fort Worth, TX 76102

Independent Auditor's Report on Compliance with Requirements that Could Have a
Direct and Material Effect on Each Major Program and on Internal Control Over Compliance
In Accordance with OMB Circular A-133
(Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control on compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the Organization in a separate letter dated September 16, 2013.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holthouse Carlin & Van Trigt LLP

Westlake Village, California
September 16, 2013

AFFORDABLE HOUSING CLEARINGHOUSE AND AFFILIATE

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

Section I—Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	__X__ yes ______ no
Significant deficiency(ies) identified?	______ yes __X__ none reported
Noncompliance material to financial statements noted?	______ yes __X__ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	______ yes __X__ no
Significant deficiency(ies) identified not considered to be material weaknesses?	______ yes __X__ none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	______ yes __X__ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.256	Neighborhood Stabilization Program (ARRA)
14.218	Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	_____ yes __X__ no

Section II—Financial Statement Findings

Finding #2012-01 Material Weakness in Internal Control Over Financial Reporting

Statement of Condition
The Organization does not maintain its books in accordance with GAAP which resulted in a number of audit adjustments, including prior period adjustments affecting the net assets of the Organization which included, but were not limited to:

- GAAP adjustments proposed in a prior year were not recorded
- Method of accounting for investments
- Method of accounting for the joint venture
- Method of accounting for grant revenue

Criteria
The financial statements should be prepared in accordance with GAAP.

Effect
The financial statements were misstated as of July 1, 2011 resulting in current year and prior period adjustments.

Cause
In certain areas, the prior financial statements were not in accordance with GAAP.

Recommendation
We recommend that management identify and designate an individual(s) who is experienced in the accounting practices of the non-profit and real estate industries.

Views of Responsible Officials and Corrective Action Plan
We agree and will increase our network of contacts to include an experienced advisor to review the financials on a quarterly basis, receive input, and make improvements.

Finding #2012-02 Material Weakness in Internal Control Over Financial Reporting

Statement of Condition
The Organization does not reconcile certain accounts for its wholly owned property to the third party property management reports, including cash, prepaid expenses and accounts payable, resulting in audit adjustments to reconcile those accounts.

Criteria
The Organization should reconcile its accounts to the property management company reports on a monthly basis.

Finding #2012-02 Material Weakness in Internal Control Over Financial Reporting (Continued)

Effect
Various property related accounts were misstated during the year resulting in audit adjustments.

Cause
Administrative oversight.

Recommendation
In order to properly maintain the accounts and produce timely, complete and accurate interim financial statements, we recommend that management perform regular reconciliation of all the property accounts to the third party property management reports.

Views of Responsible Officials
We believe the addition of the experienced advisor mentioned in our response to #2012-01 will assist us in addressing this issue.

Section III — Federal Awards Findings

None