
**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED DECEMBER 31, 2018

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT 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
Decro Corporation and Affiliates
(A California Not-for-Profit Corporation)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Decro Corporation and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of 9 of the Operating Partnerships of which the activity on these Operating Partnerships represents 76% of the total assets of the Corporation at December 31, 2018, and 84% of the total changes in net assets of the Corporation for the year ended December 31, 2018. Those statements were audited by component auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those Operating Partnerships, is based solely on the reports of the component auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Decro Corporation and Affiliates' preparation and fair presentation of the consolidated 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 Decro Corporation and Affiliates' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Decro Corporation and Affiliates as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The consolidated financial statements as of December 31, 2017 were audited by other auditors whose opinion, dated July 19, 2018, on the consolidated financial statements expressed an unmodified opinion. As part of the audit of the consolidated financial statements for the year ended December 31, 2018, we also audited adjustments described in Note 14 that were applied to restate the consolidated financial statements as of and for the year ended December 31, 2017. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements as of and for the year ended December 31, 2017 of the Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as of and for the year ended December 31, 2017 as a whole.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and combining schedule of assets, liabilities and net assets (deficit) and consolidating and combining schedule of revenues, expense, and changes in net assets (deficit) are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Dauby O'Connor & Zaleski, LLC

October 31, 2019
Carmel, Indiana

Dauby O'Connor & Zaleski, LLC
Certified Public Accountants

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

Current assets

Cash and cash equivalents	\$ 1,658,704
Accounts receivable - residents, net	27,740
Prepaid expenses	83,929

Total current assets 1,770,373

Restricted cash

Resident security deposits	266,649
Reserves and escrows	1,324,724

Total restricted cash 1,591,373

Property and equipment

Land	14,309,506
Buildings and improvements	61,129,548
Furniture and equipment, leasehold improvements and website design	1,987,389
Construction in progress	1,714,283

79,140,726

Less: Accumulated depreciation (24,009,830)

Total property and equipment 55,130,896

Other assets

Office lease deposit	18,818
Investments in Operating Partnerships	23,290
Due from Decro Long Beach, L.P.	1,659,472
Predevelopment costs	150,000
Unamortized costs, net	6,627
Miscellaneous other assets	10,034

Total other assets 1,868,241

\$ 60,360,883

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2018**

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$	608,171
Accrued payroll		16,337
Accrued interest payable - current portion		62,152
Prepaid rent		6,949
Current maturities of long term debt		633,029

Total current liabilities 1,326,638

Resident security deposits 272,536

Long term liabilities

Accrued interest payable, net of current portion	8,886,842
Long term debt, net of current maturities	31,769,117
Less: unamortized debt issuance costs, net	(679,131)

Total long term liabilities 39,976,828

Net assets - without donor restrictions

Undesignated	22,364,469
Non-controlling interest in Affiliates	(3,579,588)

Total net assets - without donor restrictions 18,784,881

\$ 60,360,883

DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

Revenue

Residential rental income, net of vacancy and concessions	\$ 4,393,816
Management fees	12,500
Interest income	49,170
Other income	176,821

Total revenue 4,632,307

Operating expenses

Program expenses

Housing management	6,853,474
Housing development	260,633

Total program expenses 7,114,107

Supporting service expenses

Management and general	184,002
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Total operating expenses 7,298,109

Non-operating expenses

Loss on investments in Operating Partnerships	(73)
Loss on disposal of predevelopment costs	(82,590)

Total non-operating expenses (82,663)

Changes in net assets

(2,748,465)

Non-controlling interest in net losses of Affiliates	2,265,660
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**Changes in net assets excluding
non-controlling interest**

\$ (482,805)

DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Housing Management	Housing Development	Total Program Expenses	Management and General	Total
Operating expenses					
Administrative	\$ 331,550	\$ 53,122	\$ 384,672	\$ 84,591	\$ 469,263
Office lease	21,600	37,439	59,039	12,960	71,999
Bad debt	18,602	-	18,602	-	18,602
Professional fees	169,851	-	169,851	25,980	195,831
Utilities	516,987	819	517,806	283	518,089
Operating and maintenace	881,807	-	881,807	92	881,899
Property management fees	217,302	-	217,302	-	217,302
Payroll	687,421	125,969	813,390	43,605	856,995
Payroll taxes and benefits	495,952	36,877	532,829	13,565	546,394
Total operating expenses	3,341,072	254,226	3,595,298	181,076	3,776,374
Non-operating expenses					
Depreciation and amortization	1,788,858	6,407	1,795,265	2,218	1,797,483
Interest	1,683,747	-	1,683,747	708	1,684,455
Entity fees	39,797	-	39,797	-	39,797
Total non-operating expenses	3,512,402	6,407	3,518,809	2,926	3,521,735
Total operating and non-operating expenses	\$ 6,853,474	\$ 260,633	\$ 7,114,107	\$ 184,002	\$ 7,298,109

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018**

	<u>Without donor restrictions</u>		<u>Total</u>
	<u>Undesignated</u>	<u>Noncontrolling Interest</u>	
Net assets, January 1, 2018	\$ 8,582,169	\$ -	\$ 8,582,169
Prior period adjustments	14,265,105	(1,599,993)	12,665,112
Net assets, January 1, 2018, restated	22,847,274	(1,599,993)	21,247,281
Changes in net assets	(482,805)	(2,265,660)	(2,748,465)
Capital contributions from non-controlling interests	-	396,814	396,814
Distributions to non-controlling interests	-	(110,749)	(110,749)
Net assets, December 31, 2018	<u>\$22,364,469</u>	<u>\$ (3,579,588)</u>	<u>\$18,784,881</u>

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018**

Cash flow from operating activities	
Changes in net assets	<u>\$ (2,748,465)</u>
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	1,775,834
Amortization	21,649
Amortization - debt issuance costs	43,180
Loss on disposal of predevelopment costs	82,590
Loss on investments in Operating Partnerships	73
Changes in:	
Accounts receivable - residents, net	(12,819)
Prepaid expenses	31,022
Resident security deposits asset	(15,068)
Office lease deposit	(17,558)
Miscellaneous current assets	3,035
Accounts payable and accrued expenses	(75,967)
Accrued payroll	(5,418)
Accrued interest payable	957,597
Resident security deposits liability	10,414
Prepaid rent	1,758
Total adjustments	<u>2,800,322</u>
Net cash provided by (used in) operating activities	<u>51,857</u>
Cash flow from investing activities	
Purchase of property and equipment	(8,274,300)
Net change in reserves and escrows	(52,678)
Net cash provided by (used in) investing activities	<u>(8,326,978)</u>
Cash flow from financing activities	
Principal payments on long term debt	(616,291)
Proceeds from long term debt	3,939,694
Increase in unamortized debt issuance costs	(24,170)
Distributions to non-controlling interests in Affiliates	(110,749)
Capital contributions from non-controlling interests in Affiliates	396,814
Net cash provided by (used in) financing activities	<u>3,585,298</u>
Net changes in cash and cash equivalents	<u>(4,689,823)</u>
Cash and cash equivalents at beginning of year	<u>6,348,527</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,658,704</u></u>
Cash paid for interest (including capitalized interest paid)	<u><u>\$ 795,173</u></u>
Non-cash transactions	
Purchase of property and equipment	\$ (204,824)
Predevelopment costs	114,196
Accrued interest payable	(184,125)
Long term debt	274,753
	<u><u>\$ -</u></u>

See notes to consolidated financial statements

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018**

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Decro Corporation (A California Non-Profit Public Benefit Corporation) was founded in 1989 as a non-profit organization under California law and is qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Its primary objective is to preserve and expand the availability of affordable housing for families and senior citizens with low and very low incomes and persons with special needs through the ownership, development, construction, rehabilitation, financing, management and operation of multi-family housing properties.

As of December 31, 2018, Decro Corporation provides management services to six California Non-Profit Public Benefit Corporation's (the "Affiliated Corporations") that are the General Partner, Co-General Partner, Development General Partner or Limited Partner in entities which operate low-income housing properties. The Affiliated Corporations are as follows: Decro Alpha, Decro Beta, Decro Chi, Decro Epsilon, Decro Kappa and Decro Management. Collectively the Corporation and these entities are all controlled by a common board of directors.

Decro Corporation or the Affiliated Corporations have a 100% ownership interest in the following entities: Decro Orion, LLC; Decro Osborne, LLC; Brandywood Holdings, LLC; Decro Beta Dunwoodie, LLC; Decro Firmin, LLC; Decro Brine, LLC; Decro Brine Residential, LLC; Brine PSH, LLC; Decro Watts, LLC; and Watts PSH, LLC ("Ownership Entities").

Decro Corporation, Affiliated Corporations or Ownership Entities are the General Partner, Co-General Partner, Development General Partner and/or Limited Partner in sixteen entities which all operate low-income housing properties. (the "Operating Partnerships"). The Ownership Entities and twelve of the Operating Partnerships are controlled by the Corporation and as such are included in these consolidated financial statements. The twelve Operating Partnerships controlled by the Corporation are as follows:

<u>Operating Partnership</u>	<u>DBA Name</u>	<u>Ownership Interest %</u>	<u>Residential Units</u>
Decro Orion Apartments, L.P.	Orion Gardens Apartments	0.006%	32
Decro Osborne Apartments, L.P.	Osborne Gardens Apartments	0.006%	51
Peppertree of Banning, L.P.	Peppertree Apartments	0.05%	81
Barstow Suncrest Apartments, L.P.	Suncrest Apartments	0.05%	81
Valle Verde of Orange Cove, L.P.	Valle Verde Apartments	0.05%	73
Brandywood Holdings, L.L.L.P.	Brandywood Apartments	33.33%	90
Decro Nordhoff, L.P.	Nordhoff Apartments	100.00%	38
N/A	Saticoy Street Apartments	100.00%	18
Projects in development at December 31, 2018			
Firmin Court, L.P.	N/A	100%	N/A
The Brine, L.P.	N/A	100%	N/A
Brine Residential, L.P.	N/A	99.99755%	N/A
Neighborhood Works 9502 Purchasing, L.P.	N/A	0.005%	N/A

The Affiliated Corporations, Ownership Entities and controlled Operating Partnerships (collectively, the "Affiliates") are all controlled by Decro Corporation and are reported collectively as Decro Corporation and Affiliates (the "Corporation"). See Note 6 for Operating Partnerships not controlled by the Corporation.

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the consolidated financial statements

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

The accounts of the Corporation are maintained, and the consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred. In addition, the consolidated financial statements are in conformity with the provisions required by the Not-for-Profit Entities Presentation of Financial Statements topic of the FASB *Accounting Standards Codification* ("FASB ASC") 958-205. This statement established standards for external financial reporting for Not-for-Profit Organizations.

The Not-for-Profit Entities Presentation of Financial Statements topic of the FASB ASC primarily affects the display of the consolidated financial statements and requires that the amounts for each of two classes of net assets - with or without donor restrictions in aggregate consolidated statements of financial position and the amounts of change in each of those classes of net assets be displayed in a consolidated statements of changes in net assets. All assets held by the Corporation at December 31, 2018 are classified as without donor restrictions.

Consolidation

In accordance with FASB ASC 810-10 and FASB ASC 958-810, the consolidated financial statements include the accounts of the Corporation and Affiliated Corporations, after elimination of all material intercompany accounts, transactions, and profits.

The consolidated financial statements also consolidate the assets, liabilities, and activities of Operating Partnerships and Ownership Entities for which the Corporation or Affiliated Corporations, as the General Partner, Co-General Partner, Development General Partner or Limited Partner, has a controlling financial and legal interest (see Note 6). All significant intercompany transactions have been eliminated in the consolidation.

Change in accounting principle

During the year ended December 31, 2018, the Corporation adopted the Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The purpose of the ASU is to improve financial reporting by not-for-profit entities. The ASU, among other things, simplifies the classification of net assets and changes in net assets, requires not-for-profit entities to provide an analysis of expense by natural and functional classifications, and requires enhanced financial statement disclosures regarding a not-for-profit Corporation's liquidity and availability of resources, self-imposed or donor-imposed limits on the use of resources. The Corporation adopted the ASU effective January 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

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

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon direct expenditures incurred or based upon time spent in the activities. For the year ended December 31, 2018, fundraising costs were insignificant to the consolidated financial statements as a whole.

Cash and cash equivalents

For the consolidated statement of cash flows, all unrestricted investments with the original maturities of three months or less are cash equivalents. As of December 31, 2018, cash and cash equivalents consist of checking, savings and petty cash accounts.

Investments in Operating Partnerships

The Corporation accounts for its investments in Operating Partnerships in accordance with the equity method of accounting, under which the investment is carried at cost and is adjusted for the Corporation's share of each Operating Partnership's net income or loss and by cash distributions received. Equity in loss of each investment in Operating Partnership allocated to the Corporation is recognized to the extent of the Corporation's investment balance in each Operating Partnership unless the Corporation has guaranteed obligations of the Operating Partnership or is otherwise committed to provide further financial support. As of December 31, 2018, the Corporation has guaranteed obligations and committed further financial support of the Operating Partnerships. Previously unrecognized equity in loss of any Operating Partnership is recognized in the year in which equity in income is earned by such Operating Partnership or additional investment is made by the Corporation. Distributions received subsequent to the elimination of an investment balance for any such Operating Partnership are recorded as other income from Operating Partnerships.

The Corporation assesses the carrying value of its investment in Operating Partnerships at least annually in the fourth quarter or whenever there are indications that a permanent impairment may have occurred. If the carrying value of an investment in an Operating Partnership exceeds the estimated value derived by management, the Corporation reduces its investment in any such Operating Partnership (unless the impairment is considered to be temporary) and includes such reduction in impairment losses.

The Corporation does not consolidate the accounts and activities of the Operating Partnerships, in which they do not have substantial participatory rights under FASB *Accounting Standards Codification* ("ASC") 810-10 and 958-810 Consolidation, because the Corporation considers the other members to have substantial participatory rights.

Additional advances and capital contributions that are not required under the terms of the Operating Partnerships' partnership agreements, but which are made to the Operating Partnerships, are recorded as investment in Operating Partnerships. Certain advances during the construction phase are considered by the Corporation to be voluntary short-term advances to the respective Operating Partnerships.

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

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

Resident tenant receivable and bad debt policy

Resident tenant rent charges for the current month are due on the first of the month. Resident tenants who are evicted or move out are charged with damages or cleaning fees, if applicable. Resident tenant 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 monthly 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 year ended December 31, 2018. Bad debts expensed for the year ended December 31, 2018, totaled \$18,602.

Predevelopment costs

Predevelopment costs represent costs incurred on behalf of to be formed Operating Partnerships which will operate low-income housing properties. These costs are capitalized until the point the project is deemed feasible and an Operating Partnership is formed. In the event a proposed project is abandoned, the costs are expensed.

Property and equipment

Land, buildings and improvements, furniture and equipment, leasehold improvements, and website design are recorded at cost. Building and improvement costs are depreciated under the straight-line method over an estimated useful life of 3 - 40 years. Furniture and equipment are depreciated under the straight-line method over an estimated useful life of 5-15 years. Lease hold improvement costs are depreciated under the straight-line method over the estimated lease period of 3 years. Website design costs are depreciated under the straight-line method over an estimated useful life of 3 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. There were no impairment losses recognized during the year ended December 31, 2018.

Rent revenue

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

**DECRO CORPORATION AND AFFILIATES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

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

Management fee revenue

The Corporation earns management fee revenue for services rendered in connection with the management of operations for the Operating Partnerships or Affiliated Organizations. These fees are earned on an annual or monthly basis. The Operating Partnership fees are specified in the respective Partnership Agreements.

Advertising costs

Advertising costs related to rental properties are expensed as incurred and are included in housing management in the consolidated statement of activities.

Unamortized costs

The Operating Partnerships incurred costs in connection with obtaining the tax credits. These costs have been capitalized and are being amortized over the credit or compliance period.

Debt issuance costs

The Corporation is subject to the provisions of the Interest-Imputation of Interest topic of the FASB ASC 835-30 which requires unamortized debt issuance costs to be presented as a reduction of the outstanding debt and the amortization of the debt issuance costs to be presented 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 consolidated financial statements for the year ended December 31, 2018.

Property taxes

The Corporation is exempt from some, but not all, real property taxes. For those properties that are required to pay property taxes, such taxes are expensed in the year of the lien on the property such that twelve months of expense are charged to operations each year.

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.

**DECRO CORPORATION AND AFFILIATES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

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

Concentration of credit risk

The Corporation maintains various cash balances with various regional and national financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At times, the account balances may exceed the FDIC insurance limits. The Corporation has not experienced any losses in such accounts. Management believes that the Corporation is not exposed to any significant credit risk on cash and cash equivalents.

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. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the respective agency. 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.

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 applies whenever other standards require or permit assets or liabilities to be measured at fair value and does not require any new fair value measurements. The Fair Value Measurement did not have a material impact on the Corporation's consolidated financial statements for the year ended December 31, 2018.

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 an other than private foundation. Accordingly, no provision for federal and state taxes on revenue and income has been recognized in the accompanying financial statements. Generally, the Federal and State tax returns were subject to examinations from the three years after the later of the original or extended due date, or the date filed with the applicable tax authorities.

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, 2018, the Corporation had no uncertain tax positions requiring accrual.

**DECRO CORPORATION AND AFFILIATES
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

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

Accounting for uncertainty in income taxes (continued)

The Affiliates are 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 year ended December 31, 2018. Generally, the federal 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 authority.

Subsequent events

Management performed an evaluation of the Corporation's activity through October 31, 2019, the audit report date, and has concluded that there are no subsequent events requiring disclosure through the date these consolidated financial statements were available to be issued, except as disclosed in Note 12.

NOTE 2-RESERVES AND ESCROWS

The Corporation maintains externally restricted reserves and escrows due to various operating agreements, regulatory agreements and/or loan documents requiring the establishment of funded reserves and escrows mostly for the replacement of property and equipment, unusual operating costs, property taxes and insurance. The reserves and escrows must be maintained in separate accounts. Certain lenders require prior authorization for withdrawals from the reserve and escrow accounts. Reserves and escrows consist of the following at December 31:

Externally restricted	
Escrow reserve	\$ 50,000
Reserve for replacements	806,411
Operating reserves	<u>468,313</u>
	<u>\$ 1,324,724</u>

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 3-UNAMORTIZED COSTS

Tax credit compliance and monitoring fees of \$295,506 were incurred in connection with obtaining the Operating Partnerships' low-income housing tax credits. These costs are being amortized over the term of fifteen year term of the compliance period or the ten year tax credit period using the straight-line method. For the year ended December 31, 2018, amortization expense was \$21,649, and is included in housing management on the consolidated statement of activities. At December 31, 2018, accumulated amortization is \$288,879.

Estimated amortization expense for the remaining useful life of the tax credit fees is as follows:

2019	<u>\$ 6,627</u>
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NOTE 4-CONSTRUCTION IN PROGRESS

At December 31, 2018, the Corporation has four properties in development. The estimated costs to complete the properties in development is approximately \$151,577,244.

As of December 31, 2018, property development costs had been incurred on the following properties:

Firmin Court, L.P.	\$ 1,345,167
The Brine, L.P.	331,489
Brine Residential, L.P.	8,705
Neighborhood Works 9502 Purchasing, L.P.	<u>28,922</u>
	<u>\$ 1,714,283</u>

NOTE 5-PREDEVELOPMENT COSTS

The Corporation has incurred costs related to the predevelopment of to be formed Operating Partnerships. As of December 31, 2018, \$150,000 has been incurred. Additionally, during the year ended December 31, 2018, \$82,590 of previously incurred predevelopment costs related to projects which are no longer feasible were expensed and \$114,197 of predevelopment costs were transferred to the property and equipment of newly formed Operating Partnerships.

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 6-INVESTMENTS IN OPERATING PARTNERSHIPS

The Corporation owns the Co-General Partner or Development General Partner interest in the following entities, which were formed to acquire, rehabilitate, construct, own, and operate low-income residential rental housing properties.

<u>Operating Partnership</u>	<u>DBA Name</u>	<u>Ownership Interest %</u>	<u>Residential Units</u>
St. Anne's Transitional Housing and Childcare Center, L.P.	St. Anne's Maternity Home	0.005%	40
Pico New Hampshire United Methodist Housing, L.P.	Casa Shalom	0.51%	30
JW Apartments, L.P.	James Woods Apartments	0.0034%	61
LDK Senior Apartments, L.P.	LDK Senior Apartments	0.0024%	67

FASB ASC 958-810 requires consolidation of the Operating Partnerships unless other partners in these Operating Partnerships have substantive participating rights. The Corporation has determined that the Co-General Partner has substantive participating rights and therefor has not consolidated these entities.

The Corporation's investments in Operating Partnerships after elimination of investments in which the Corporation exhibits substantive participating rights is as follows:

Investment at January 1, 2018	\$ 23,363
Corporation's share of losses for the year	<u>(73)</u>
Investment at December 31, 2018	<u>\$ 23,290</u>

The summarized Combined Balance Sheets of the Operating Partnerships and the summarized Combined Statement of Operations are as follows:

ASSETS	
Property and equipment, net	\$ 50,939,071
Cash	1,051,290
Restricted cash and reserves	1,505,158
Other assets	<u>336,749</u>
Total assets	<u>\$53,832,268</u>
LIABILITIES AND PARTNERS' EQUITY (DEFICIT)	
Mortgage notes payable and accrued interest	\$ 45,154,295
Accounts payable and accrued expenses	1,084,330
Resident security deposits	<u>156,009</u>
Total liabilities	<u>46,394,634</u>
Partners' equity (deficit)	<u>7,437,634</u>
Total liabilities and Partners' equity (deficit)	<u>\$53,832,268</u>

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 6-INVESTMENTS IN OPERATING PARTNERSHIPS (CONTINUED)

COMBINED STATEMENTS OF OPERATIONS

Revenue	
Rents	\$ 1,921,147
Interest	1,015
Other	<u>16,921</u>
Total revenue	<u>1,939,083</u>
Expenses	
Administrative	542,444
Operating and maintenance	744,847
Taxes and insurance	294,013
Interest	764,246
Depreciation and amortization	<u>1,506,965</u>
Total expenses	<u>3,852,515</u>
Net income (loss)	<u>\$(1,913,432)</u>

The Operating Partnerships have mortgage notes and loans payable with various lenders. The property and equipment of the various Operating Partnerships are pledged as collateral on the mortgage notes and loans payable. The various Operating Partnerships hold reserves required under their respective loan agreements or Partnership Agreements.

NOTE 7-LONG TERM DEBT

The Corporation and Affiliates have entered into debt agreements with various financial institutions and governmental agencies to fund acquisitions, pre-development costs, construction, and normal operations. Outstanding balances and terms of long term debt as of December 31, 2018 are as follows:

Decro Epsilon

Mortgage note payable to First Bridge Lending in the amount of \$1,500,000; interest at 8.50% per annum; secured by a deed of trust; monthly payments of \$5,312.50; matures January 1, 2020.

\$ 750,000

Mortgage note payable to the City of Los Angeles in the amount of \$477,542; interest at 0.00%; secured by a deed of trust; payments from available cash flow; matures January 1, 2025 or upon sale or refinance. This loan was refinanced during the year ended December 31, 2018 from proceeds of the First Bridge Lending mortgage note above.

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**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 7-LONG TERM DEBT (CONTINUED)

Decro Epsilon (continued)

Mortgage note payable to JP Morgan Chase, N.A. in the amount of \$1,500,000; interest at 3.4075%; secured by a deed of trust; monthly payments of \$3,607.19; matured April 10, 2018. This loan was paid in full during the year ended December 31, 2018

\$ -

Decro Orion Apartments, L.P.

Mortgage note payable to US Bank, N.A in the amount of \$5,700,000; interest at 7.00% per annum; secured by a deed of trust; monthly payments of \$1,663.26; matures November 1, 2019.

221,787

Note payable to the City of Los Angeles in the amount of \$2,300,000; simple interest at 3.00% per annum; secured by a deed of trust; payments from available cash flow; matures May 13, 2064.

2,300,000

Note payable to Los Angeles Housing and Community Investment Department in the amount of \$3,125,520; simple interest at 5.00% per annum; secured by a deed of trust; payments of from available cash flow; matures October 25, 2062.

3,125,520

Decro Osborne Apartments, L.P.

Mortgage note payable to US Bank, N.A in the amount of \$1,050,000; interest at 6.12% per annum; secured by a deed of trust; monthly payments of \$6,467.59; matures April 1, 2024.

867,925

Note payable to the California Department of Housing and Community Development in the amount of \$3,318,059; simple interest at 3.00% per annum; secured by a deed of trust; payments from available cash flow; matures September 9, 2063.

3,318,059

Note payable to the Los Angeles Housing and Community Investment Department in the amount of \$2,400,000; simple interest at 3.00% per annum; secured by a deed of trust; principal and interest due at maturity; matures May 30, 2063.

2,400,000

Note payable to the Los Angeles Housing and Community Investment Department in the amount of \$2,754,000; simple interest at 5.00% per annum; secured by a deed of trust; principal and interest due at maturity; matures October 3, 2061.

2,754,000

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 7-LONG TERM DEBT (CONTINUED)

Peppertree of Banning, L.P.

Mortgage note payable to the California Community Reinvestment Corporation in the amount of \$2,030,000; interest at 7.15% per annum; secured by a deed of trust; monthly payments of \$13,711; matures April 1, 2023.

\$ 1,582,884

Note payable to Alexis M. Gevorgian in the amount of \$400,000; compounding interest at 10.00% per annum; secured by a deed of trust; payments from available cash flow; matures April 1, 2034.

400,000

Note payable to HC Housing, LLC, an affiliate of the Limited Partner of Peppertree of Banning, L.P., in the amount of \$1,115,000; compounding interest at 8.00% per annum; payments from available cash flow; matured December 31, 2018. During the year ended December 31, 2018, this loan was refinanced from the proceeds of the note payable to Multi Housing Tax Credit Partners XXXVI.

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Note payable to Multi Housing Tax Credit Partners XXXVI, the Limited Partner of Peppertree of Banning, L.P., in the amount of \$1,011,909; compounding interest at 8.00% per annum; payments from available cash flow; matures December 31, 2048.

1,011,910

Barstow Suncrest Apartments, L.P.

Mortgage note payable to California Community Reinvestment Corporation in the amount of \$2,400,000; interest at 7.15% per annum; secured by a deed of trust; monthly payments of \$16,209; matures June 1, 2023.

1,881,421

Note payable to South Shore Construction, Inc in the amount of \$160,000; compounding interest at 6.00% per annum; payments from available cash flow; matures December 1, 2034.

160,000

Note payable to Multi Housing Tax Credit Partners XXXVI, the Limited Partner of Barstow Suncrest Apartments, L.P., in the amount of \$898,000; simple interest at 10.00% per annum; payments from available cash flow.

898,000

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 7-LONG TERM DEBT (CONTINUED)

Barstow Suncrest Apartments, L.P. (continued)

Note payable to Multi Housing Tax Credit Partners XXXVI, the Limited Partner of Barstow Suncrest Apartments, L.P., in the amount of \$286,027; interest at 0.00%; payments from available cash flow; matures March 1, 2046.

\$ 286,027

Valle Verde of Orange Cove, L.P.

Mortgage note payable to Chase Commercial Term Lending in the amount of \$1,968,000; interest at 6.96% per annum; secured by a deed of trust; monthly payments of \$13,040; matures December 1, 2022.

1,507,657

Note payable to South Shore Construction, Inc in the amount of \$285,000; compounding interest at 10.00% per annum; payments from available cash flow; matures December 15, 2034.

285,000

Note payable to SHS Guaranteed II, L.P., the Limited Partner of Valle Verde of Orange Cove, L.P., in the amount of \$898,000; simple interest at 8.00% per annum; payments from available cash flow; matures December 1, 2041.

975,730

Note payable to SHS Guaranteed II, L.P., the Limited Partner of Valle Verde of Orange Cove, L.P., in the amount of \$208,630; interest at 0.00%; payments from available cash flow.

208,630

Firmin Court, L.P.

Mortgage note payable to New Generation Fund, LLC in the amount of \$3,156,000; interest at 5.19% per annum for the first year and the greater of 4.87 or 2.42% plus LIBOR for the remaining term; secured by a deed of trust; monthly interest payments; matures April 25, 2020 or upon closing of permanent financing.

2,897,071

Brine Residential, L.P.

Note payable to FJM Private Mortgage Fund, LLC in the amount of \$330,000; simple interest at 8.50%; secured by a deed of trust; monthly interest payments of \$2,338; matures April 1, 2019.

330,000

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 7-LONG TERM DEBT (CONTINUED)

Brandywood Holdings, L.L.L.P.

Mortgage note payable to Centerline Mortgage Capital, Inc. in the amount of \$2,780,000; interest at 4.05%; secured by a deed of trust; monthly payments of \$13,352; matures July 1, 2025.

\$ 2,611,972

Decro Nordhoff, L.P.

Mortgage note payable to the City of Los Angeles in the amount of \$1,330,000; interest at 0.00%; secured by a deed of trust; payments from available cash flow; matures December 6, 2025.

1,185,382

Mortgage note payable to the JP Morgan Chase Bank, N.A. in the amount of \$660,000; interest at 6.40%; secured by a deed of trust; monthly payments of \$6,579; matures November 30, 2025.

443,171

Total debt

32,402,146

Less current maturities

(633,029)

Long term debt

\$31,769,117

Principal payments of long term debt for the next five years and thereafter are approximately as follows:

2019	\$ 633,029
2020	3,969,503
2021	344,137
2022	1,637,668
2023	3,118,905
Thereafter	<u>22,698,904</u>

32,402,146

Less: Unamortized debt issuance costs, net

(679,131)

\$31,723,013

Debt issuance costs were incurred in connection with the long-term debt. These costs are being amortized using the straight-line method over the term of the long-term debt. Amortization expense for the year ended December 31, was \$43,180, and is included in housing management on the consolidated statement of activities. Debt issuance costs net of accumulated amortization is \$679,131 as of December 31, 2018.

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 7-LONG TERM DEBT (CONTINUED)

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

2019	\$	67,351
2020		43,181
2021		43,181
2022		43,181
2023		43,181
Thereafter		<u>439,056</u>
		<u>\$ 679,131</u>

Interest has not been imputed on any of the above mortgages that carry below-market rates as they are payable to governmental entities and carry legal restrictions. The restrictions require the Corporation to use the property for low income housing, as defined by the mortgages' regulatory agreements or other restriction agreements. Certain mortgages provide for the deferral of interest payments. Deferred interest and accrued interest on long term debt totaled \$8,948,994 at December 31, 2018. For the year ended December 31, 2018, Corporation has incurred interest of \$1,752,791, of which \$111,516 is capitalized into construction in progress. For the year ended December 31, 2018, interest of \$1,641,275 was expensed, \$274,753 was capitalized into long term debt, and \$795,173 was paid.

NOTE 8-LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Corporation manages its liquidity by completing annual operating budgets that provide sufficient funds for general expenditures in meeting liabilities and other obligations as they become due and maintains cash and cash equivalents that may be drawn upon as needed during the year to manage cash flow and make necessary expenditures. The Corporation's cash and cash equivalents is available within one year of the consolidated statement of financial position date to meet cash needs for general expenditures.

There are funds (resident security deposits, reserves and escrows) established by the lenders and the Corporation that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 8-LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

The following reflects the organizations financial assets as of December 31, 2018, reduced by amounts not available for general use within one year because of internal or external designations. Amounts not available include amounts set aside as required by the various lenders. Some of these amounts could be drawn upon if needed with approval from the various lenders or Board of Directors.

Cash and cash equivalents	\$ 1,658,704
Accounts receivable - residents, net	27,740
Prepaid expenses	83,929
Resident security deposits	266,649
Reserves and escrows	<u>1,324,724</u>
Total financial assets	3,361,746
Externally-imposed restrictions	
Reserves and escrows	(1,324,724)
Internal designations	
Resident security deposits	<u>(266,649)</u>
	<u>\$ 1,770,373</u>

NOTE 10-DUE FROM DECRO LONG BEACH, L.P.

In prior years, the Corporation, as the guarantor of Decro Long Beach, L.P. (a former related party), advanced funds for the construction of the property owned by Decro Long Beach, L.P. At December 31, 2018, \$1,659,472 remains receivable from annual cash flow of the property. As of the audit report date, the Corporation is in dispute with Decro Long Beach, L.P. regarding the repayment of this receivable. Management anticipates the dispute will be settled and has estimated that all amounts will be received. As such, no allowance for doubtful accounts has been recorded.

NOTE 11-OPERATING LEASES

The Corporation leases office space under various operating leases. Rent expense was \$71,999 for the year ended December 31, 2018. Future minimum lease payments under the non-cancellable operating leases are as follows:

2019	\$ 89,475
2020	92,156
2021	<u>31,020</u>
	<u>\$ 212,651</u>

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 12-CONSTRUCTION CONTRACTS

The Corporation executed an architect contract with an unrelated party to provide architect services at Firmin Court, L.P. dated November 29, 2018 in the original amount of \$572,828. As of December 31, 2018, \$562,721 has been incurred and included in construction in progress. At December 31, 2018, \$123,745 remains payable.

The Corporation executed an architect contract with an unrelated party to provide architect services at Brine, L.P. dated September 3, 2019 in the original amount of \$1,052,000. As of December 31, 2018, no amounts had been incurred.

NOTE 13-COMMITMENTS AND CONTINGENCIES

The Corporation has provided guarantees in the normal course of business in its role as general partner and other business activities. These guarantees relate to, but are not limited to, construction completion, delivery of tax credits to the limited partner, funding operating deficits, and maintaining compliance with various regulatory agreements and/or Section 42 of the Internal Revenue Code. The amount and length of the guarantees vary by each respective agreement.

In connection with the development of the Operating Partnerships, The Corporation has the option to purchase the properties at the close of the properties' 15-year compliance periods.

NOTE 14-PRIOR PERIOD ADJUSTMENT

The prior period financial statements have been restated effective January 1, 2018, to consolidate Affiliates in which the Corporation exhibits significant control, to correct cash and cash equivalents and accounts payable for an entry booked in error, to correct amounts due from the Operating Partnerships to agree to the Operating Partnerships' records, to correct the investments in Operating Partnership to agree to Corporation's equity interest, to correct accumulated depreciation of property and equipment and accumulated amortization of debt issuance costs for errors in depreciation and amortization lives and methods, and to record the 2017 audit fees in the correct period. Amounts previously reported and the restated statement of financial position are summarized as follows:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>Restated 2017</u>
Assets			
Cash and cash equivalents	\$ 5,649,526	\$ 699,001	\$ 6,348,527
Accounts receivable			
- residents, net	-	14,921	14,921
Accounts receivable			
- related parties	137,005	(137,005)	-
Prepaid expenses	19,010	95,941	114,951
Resident security deposits	-	251,581	251,281
Reserves and escrows	-	1,272,046	1,272,046
Property and equipment, net	17,601	48,410,004	48,427,605

**DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

NOTE 14-PRIOR PERIOD ADJUSTMENT (CONTINUED)

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>Restated 2017</u>
Assets (continued)			
Investments in Operating Partnerships	\$ 1,111,396	\$(1,088,033)	\$ 23,363
Unamortized costs, net	-	28,276	28,276
Miscellaneous other assets	-	13,069	13,069
Liabilities			
Accounts payable and accrued expenses	347,000	222,851	569,901
Accrued payroll	12,838	8,917	21,755
Accounts payable - related parties	-	114,237	114,237
Accrued interest payable	-	8,266,150	8,266,150
Resident security deposits	-	262,122	262,122
Prepaid rent	-	5,191	5,191
Long term debt	-	28,713,362	28,713,362
Unamortized debt issuance costs, net	-	(698,141)	(698,141)
Net assets	8,582,169	12,665,112	21,247,281

Net assets - without donor restriction was understated by \$12,665,112 for the year ended December 31, 2017.

Amounts previously reported and the restated statement of activities are summarized as follows:

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>Restated 2017</u>
Revenue			
Residential rental income, net of vacancy and concessions	\$ 356,847	\$ 5,167,149	\$ 5,523,996
Management fees	120,652	(108,152)	12,500
Interest income	21,312	1,069	22,381
Other income	2,621,240	229,048	2,850,228
Operating expenses	582,216	2,659,662	3,241,878
Loss on investments in Operating Partnerships	21,252	(21,179)	73

Changes in net assets was understated by \$2,608,273 for the year ended December 31, 2017.

DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATING AND COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS (DEFICIT)
YEAR ENDED DECEMBER 31, 2018

ASSETS	Decro Corporation	Decro Alpha	Decro Beta	Decro Chi	Decro Epsilon	Decro Kappa	Decro Management	Decro Beta Dunwoodie, LLC	Decro Orion Apartments, L.P.	Decro Osborne Apartments, L.P.	Peppertree of Banning, L.P.	Barstow Suncrest Apartments, L.P.
Current assets												
Cash and cash equivalents	\$ 141,932	\$ 34,918	\$ 115,884	\$ 11,802	\$ 488,704	\$ 10,341	\$ 3,016	\$ 34,536	\$ 230,101	\$ 75,040	\$ 149,245	\$ 3,543
Accounts receivable - residents, net	-	-	-	-	-	-	-	-	50	693	10,463	7,172
Accounts receivable - related parties	5,433,221	890,000	3,624,160	27,521	259,587	15,840	-	-	-	-	-	-
Prepaid expenses	18,598	-	-	-	-	-	-	-	4,667	6,693	5,045	4,995
Total current assets	5,593,751	924,918	3,740,044	39,323	748,291	26,181	3,016	34,536	234,818	82,426	164,753	15,710
Restricted cash												
Resident security deposits	-	-	-	-	-	-	-	-	37,136	43,678	51,527	38,876
Reserves and escrows	-	-	-	-	-	-	-	-	205,145	440,541	118,033	4,266
Total restricted cash	-	-	-	-	-	-	-	-	242,281	484,219	169,560	43,142
Property and equipment, net	45,549	-	-	-	-	-	-	-	10,324,190	12,524,159	6,788,039	6,544,447
Other assets												
Office lease deposit	18,818	-	-	-	-	-	-	-	-	-	-	-
Investments in Operating Partnerships	189,248	23,979	(598,876)	(120,722)	709,265	896,595	-	-	-	-	-	-
Due from Decro Long Beach, L.P.	-	1,659,472	-	-	-	-	-	-	-	-	-	-
Predevelopment costs	150,000	-	-	-	-	-	-	-	-	-	-	-
Unamortized costs, net	-	-	-	-	-	-	-	-	3,641	-	569	336
Miscellaneous other assets	-	-	-	-	-	-	-	-	-	-	-	920
Total other assets	358,066	1,683,451	(598,876)	(120,722)	709,265	896,595	-	-	3,641	-	569	1,256
Total assets	\$ 5,997,366	\$ 2,608,369	\$ 3,141,168	\$ (81,399)	\$ 1,457,556	\$ 922,776	\$ 3,016	\$ 34,536	\$ 10,804,930	\$ 13,090,804	\$ 7,122,921	\$ 6,604,555
LIABILITIES AND NET ASSETS (DEFICIT)												
Accounts payable and accrued expenses	\$ 76,983	\$ -	\$ 900	\$ 900	\$ -	\$ 901	\$ -	\$ 10,031	\$ 20,130	\$ 105,199	\$ 48,467	\$ 118,570
Accounts payable - related parties	4,514,160	-	-	-	10,000	-	-	-	7,500	138,081	172,642	237,381
Accrued payroll	7,353	-	-	-	-	-	-	-	-	-	3,051	5,933
Accrued interest payable - current	-	-	-	-	-	-	-	-	1,337	4,574	9,457	11,210
Resident security deposits	-	-	-	-	-	-	-	4,550	34,734	41,583	51,527	38,875
Prepaid rent	-	-	-	-	-	-	-	-	105	-	1,673	2,007
Current maturities of long term debt	-	-	-	-	-	-	-	-	4,362	24,455	53,070	62,001
Total current liabilities	4,598,496	-	900	900	10,000	901	-	14,581	68,168	313,892	339,887	475,977
Accrued interest payable, net of current portion	-	-	-	-	-	-	-	-	2,085,261	3,432,436	1,232,503	609,065
Long term debt, net of current maturities	-	-	-	-	750,000	-	-	-	5,642,945	9,315,529	2,941,724	3,163,447
Less: unamortized debt issuance costs, net	-	-	-	-	(24,170)	-	-	-	(88,808)	(244,255)	(90,718)	(94,771)
Total liabilities	4,598,496	-	900	900	735,830	901	-	14,581	7,707,566	12,817,602	4,423,396	4,153,718
Net assets - without donor restrictions	1,398,870	2,608,369	3,140,268	(82,299)	721,726	921,875	3,016	19,955	3,097,364	273,202	2,699,525	2,450,837
	\$ 5,997,366	\$ 2,608,369	\$ 3,141,168	\$ (81,399)	\$ 1,457,556	\$ 922,776	\$ 3,016	\$ 34,536	\$ 10,804,930	\$ 13,090,804	\$ 7,122,921	\$ 6,604,555

DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPOR

CONSOLIDATING AND COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS (DEFICIT)
YEAR ENDED DECEMBER 31, 2018

ASSETS	Valle Verde of Orange Cove, L.P.	Brandywood Holdings, L.L.L.P.	Decro Nordhoff, L.P.	Saticoy Apartments	Decro Firmin, LLC	Firmin Court, L.P.	The Brine, L.P.	Brine Residential, L.P.	Neighborhood Works 9502, L.P.	Eliminations	Total
Current assets											
Cash and cash equivalents	\$ 71,694	\$ 72,744	\$ 53,481	\$ 131,136	\$ -	\$ 29,032	\$ -	\$ -	\$ 1,555	\$ -	\$ 1,658,704
Accounts receivable - residents, net	6,551	1,736	-	195	-	-	-	880	-	-	27,740
Accounts receivable - related parties	-	-	-	-	-	-	-	-	-	(10,250,329)	-
Prepaid expenses	11,877	17,568	11,312	3,174	-	-	-	-	-	-	83,929
Total current assets	90,122	92,048	64,793	134,505	-	29,032	-	-	2,435	(10,250,329)	1,770,373
Restricted cash											
Resident security deposits	34,084	17,208	27,684	16,456	-	-	-	-	-	-	266,649
Reserves and escrows	19,852	50,001	302,385	184,501	-	-	-	-	-	-	1,324,724
Total restricted cash	53,936	67,209	330,069	200,957	-	-	-	-	-	-	1,591,373
Property and equipment, net	6,387,586	1,359,901	2,107,325	655,594	300,611	4,110,262	2,563,607	1,042,061	377,565	-	55,130,896
Other assets											
Office lease deposit	-	-	-	-	-	-	-	-	-	-	18,818
Investments in Operating Partnerships	-	-	-	-	-	-	-	-	-	(1,076,199)	23,290
Due from Decro Long Beach, L.P.	-	-	-	-	-	-	-	-	-	-	1,659,472
Predevelopment costs	-	-	-	-	-	-	-	-	-	-	150,000
Unamortized costs, net	2,081	-	-	-	-	-	-	-	-	-	6,627
Miscellaneous other assets	1,480	7,634	-	-	-	-	-	-	-	-	10,034
Total other assets	3,561	7,634	-	-	-	-	-	-	-	(1,076,199)	1,868,241
Total assets	\$ 6,535,205	\$ 1,526,792	\$ 2,502,187	\$ 991,056	\$ 300,611	\$ 4,139,294	\$ 2,563,607	\$ 1,042,061	\$ 380,000	\$ (11,326,528)	\$ 60,360,883
LIABILITIES AND NET ASSETS (DEFICIT)											
Accounts payable and accrued expenses	\$ 30,693	\$ 17,401	\$ 31,533	\$ 6,071	\$ -	\$ 142,150	\$ -	\$ -	\$ -	\$ (1,758)	\$ 608,171
Accounts payable - related parties	220,475	-	20,000	259,587	300,511	1,071,087	2,564,063	709,723	-	(10,225,210)	-
Accrued payroll	-	-	-	-	-	-	-	-	-	-	16,337
Accrued interest payable - current	8,744	9,109	2,442	-	-	12,941	-	2,338	-	-	62,152
Resident security deposits	33,933	24,181	27,020	16,133	-	-	-	-	-	-	272,536
Prepaid rent	995	1,169	1,000	-	-	-	-	-	-	-	6,949
Current maturities of long term debt	53,228	53,812	52,101	-	-	-	-	330,000	-	-	633,029
Total current liabilities	348,068	105,672	134,096	281,791	300,511	1,226,178	2,564,063	1,042,061	-	(10,226,968)	1,599,174
Accrued interest payable, net of current portion	1,527,577	-	-	-	-	-	-	-	-	-	8,886,842
Long term debt, net of current maturities	2,923,789	2,558,159	1,576,452	-	-	2,897,072	-	-	-	-	31,769,117
Less: unamortized debt issuance costs, net	(61,997)	(66,818)	(7,594)	-	-	-	-	-	-	-	(679,131)
Total liabilities	4,737,437	2,597,013	1,702,954	281,791	300,511	4,123,250	2,564,063	1,042,061	-	(10,226,968)	41,576,002
Net assets - without donor restrictions	1,797,768	(1,070,221)	799,233	709,265	100	16,044	(456)	-	380,000	(1,099,560)	18,784,881
	\$ 6,535,205	\$ 1,526,792	\$ 2,502,187	\$ 991,056	\$ 300,611	\$ 4,139,294	\$ 2,563,607	\$ 1,042,061	\$ 380,000	\$ (11,326,528)	\$ 60,360,883

DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATING AND COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED DECEMBER 31, 2018

	Decro Corporation	Decro Alpha	Decro Beta	Decro Chi	Decro Epsilon	Decro Kappa	Decro Management	Decro Beta Dunwoodie, LLC	Decro Orion Apartments, L.P.	Decro Osborne Apartments, L.P.	Peppertree of Banning, L.P.	Barstow Suncrest Apartments, L.P.
Revenue												
Residential rental income, net of vacancy and concessions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,365	\$ 358,637	\$ 552,854	\$ 710,402	\$ 592,370
Management fees	469,868	-	-	5,000	23	5,000	-	-	-	-	-	-
Interest income	8,567	12,120	25,540	466	779	359	-	35	116	75	41	36
Other income	-	-	-	-	-	-	-	4,227	4,908	10,125	35,970	29,187
Total revenue	478,435	12,120	25,540	5,466	802	5,359	-	6,627	363,661	563,054	746,413	621,593
Operating expenses												
Program expenses												
Housing management	207,143	-	-	-	-	-	-	40,492	892,012	1,169,354	1,097,284	1,063,388
Housing development	258,926	-	-	-	-	-	-	-	-	-	-	-
Total program expenses	466,069	-	-	-	-	-	-	40,492	892,012	1,169,354	1,097,284	1,063,388
Supporting service expenses												
Management and general	176,357	75,111	134,225	82,070	82,623	20,231	1,385	-	-	-	-	-
Total operating expenses	642,426	75,111	134,225	82,070	82,623	20,231	1,385	40,492	892,012	1,169,354	1,097,284	1,063,388
Non-operating expenses												
Loss on investments in Operating Partnerships	(1,954)	(17)	22,470	(1)	101,117	(11,479)	-	-	-	-	-	-
Loss on disposal of predevelopment costs	(82,590)	-	-	-	-	-	-	-	-	-	-	-
Total non-operating expenses	(84,544)	(17)	22,470	(1)	101,117	(11,479)	-	-	-	-	-	-
Changes in net assets from operating and non-operating activities	(248,535)	(63,008)	(86,215)	(76,605)	19,296	(26,351)	(1,385)	(33,865)	(528,351)	(606,300)	(350,871)	(441,795)
Non-controlling interest in net losses of Affiliates	-	-	-	-	-	-	-	-	528,336	606,264	350,696	441,574
Changes in net assets excluding non-controlling interest	\$ (248,535)	\$ (63,008)	\$ (86,215)	\$ (76,605)	\$ 19,296	\$ (26,351)	\$ (1,385)	\$ (33,865)	\$ (15)	\$ (36)	\$ (175)	\$ (221)
Net assets, January 1, 2018	\$ 945,549	\$ 2,671,377	\$ 3,320,281	\$ (5,694)	\$ 702,430	\$ 948,226	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prior period adjustments	701,856	-	(93,798)	-	-	-	4,401	291,140	3,626,464	879,502	3,050,396	2,892,632
Net assets, January 1, 2018, restated	1,647,405	2,671,377	3,226,483	(5,694)	702,430	948,226	4,401	291,140	3,626,464	879,502	3,050,396	2,892,632
Changes in net assets	(248,535)	(63,008)	(86,215)	(76,605)	19,296	(26,351)	(1,385)	(33,865)	(528,351)	(606,300)	(350,871)	(441,795)
Capital contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	(237,320)	(749)	-	-	-
Net assets, December 31, 2018	\$1,398,870	\$2,608,369	\$3,140,268	\$ (82,299)	\$ 721,726	\$ 921,875	\$ 3,016	\$ 19,955	\$3,097,364	\$ 273,202	\$ 2,699,525	\$ 2,450,837

DECRO CORPORATION AND AFFILIATES
(A CALIFORNIA NON-PROFIT PUBLIC BENEFIT CORPC)

CONSOLIDATING AND COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)
YEAR ENDED DECEMBER 31, 2018

	Valle Verde of Orange Cove, L.P.	Brandywood Holdings, L.L.L.P.	Decro Nordhoff, L.P.	Saticoy Apartments	Decro Firmin, LLC	Firmin Court, L.P.	The Brine, L.P.	Brine Residential, L.P.	Neighborhood Works 9502, L.P.	Eliminations	Total
Revenue											
Residential rental income, net of vacancy and concessions	\$ 589,168	\$ 905,307	\$ 423,211	\$ 259,502	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,393,816
Management fees	-	-	-	-	-	-	-	-	-	(467,391)	12,500
Interest income	50	101	307	97	-	481	-	-	-	-	49,170
Other income	25,619	55,304	6,726	4,755	-	-	-	-	-	-	176,821
Total revenue	614,837	960,712	430,244	264,354	-	481	-	-	-	(467,391)	4,632,307
Operating expenses											
Program expenses											
Housing management	1,066,524	791,706	441,725	163,237	-	-	-	-	-	(79,391)	6,853,474
Housing development	-	-	-	-	-	1,251	456	-	-	-	260,633
Total program expenses	1,066,524	791,706	441,725	163,237	-	1,251	456	-	-	(79,391)	7,114,107
Supporting service expenses											
Management and general	-	-	-	-	-	-	-	-	-	(388,000)	184,002
Total operating expenses	1,066,524	791,706	441,725	163,237	-	1,251	456	-	-	(467,391)	7,298,109
Non-operating expenses											
Loss on investments in Operating Partnerships	-	-	-	-	-	-	-	-	-	(110,209)	(73)
Loss on disposal of predevelopment costs	-	-	-	-	-	-	-	-	-	-	(82,590)
Total non-operating expenses	-	-	-	-	-	-	-	-	-	(110,209)	(82,663)
Changes in net assets from operating and non-operating activities	(451,687)	169,006	(11,481)	101,117	-	(770)	(456)	-	-	(110,209)	(2,748,465)
Non-controlling interest in net losses of Affiliates	451,461	(112,671)	-	-	-	-	-	-	-	-	2,265,660
Changes in net assets excluding non-controlling interest	\$ (226)	\$ 56,335	\$ (11,481)	\$ 101,117	\$ -	\$ (770)	\$ (456)	\$ -	\$ -	\$ (110,209)	\$ (482,805)
Net assets, January 1, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,582,169
Prior period adjustments	2,249,455	(1,074,227)	787,314	642,541	-	-	-	-	-	(1,292,564)	12,665,112
Net assets, January 1, 2018, restated	2,249,455	(1,074,227)	787,314	642,541	-	-	-	-	-	(1,292,564)	\$21,247,281
Changes in net assets	(451,687)	169,006	(11,481)	101,117	-	(770)	(456)	-	-	(110,209)	(2,748,465)
Capital contributions from non-controlling interests	-	-	23,400	-	100	16,814	-	-	380,000	(23,500)	396,814
Distributions to non-controlling interests	-	(165,000)	-	(34,393)	-	-	-	-	-	326,713	(110,749)
Net assets, December 31, 2018	\$ 1,797,768	\$ (1,070,221)	\$ 799,233	\$ 709,265	\$ 100	\$ 16,044	\$ (456)	\$ -	\$ 380,000	\$ (1,099,560)	\$18,784,881