ISLAND CITY DEVELOPMENT
AND SUBSIDIARIES

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED FINANCIAL STATEMENTS,
AND
SUPPLEMENTARY INFORMATION,
WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016

HCVT
HOLTHOUSE | CARLIN | VAN TRIGT LLP

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
TABLE OF CONTENTS

	Page(s)
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-11
Supplementary Information	
Consolidating Balance Sheet (Schedule I)	12-13
Consolidating Statement of Operations (Schedule II)	14

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Island City Development:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Island City Development (a California nonprofit public benefit corporation) and its Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and 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 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 the entity's 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion on Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Island City Development and its Subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in Schedules I and II is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is 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.

Holthouse Carlin & Van Trigt LLP

Westlake Village, California
August 24, 2017

ISLAND CITY DEVELOPMENT AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31,		**2016**
ASSETS		
Property, at cost		
Construction-in-progress	$	903,200
Total property		903,200
Cash		3,998,841
Accounts receivable		3,910
Prepaid ground lease		3,410,000
Preaquistion costs		1,221,567
Deposits		32,855
Deferred costs - TCAC fees		34,855
Total assets	$	9,605,228
LIABILITIES AND NET ASSETS		
Notes payable, net	$	9,756,863
Accounts payable and accrued expenses		41,875
Due to affiliate		900
Accrued interest payable		8,623
Developer fee payable		160,000
Total liabilities		9,968,261
Net assets		
Unrestricted		
Controlling interest in subsidiaries		(245,121)
Noncontrolling interest in subsidiaries		(117,912)
Total net assets		(363,033)
Total liabilities and net assets	$	9,605,228

See notes to consolidated financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31,		**2016**
Revenue:		
Other	$	1,193
Total revenue		1,193
Expenses:		
Program Services		90,224
Supporting services		22,550
Total operating expenses		112,774
Operating loss		(111,581)
Other income (expenses)		
Organization and other costs		(523)
Total other expenses		(523)
Change in net assets from operations		(112,104)
Contributions - noncontrolling interests		200
Syndication - non-controlling interests		(117,419)
Total change in net assets		(229,323)
Net assets, beginning of the year		(133,710)
Net assets, end of the year	$	(363,033)

See notes to consolidated financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECMEBER 31,		**2016**
Cash flow from operating activities:		
Change in net assets from operations	$	(112,104)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in operating assets and liabilities:		
Accounts receivable		(2,783)
Deposits		(32,855)
Accounts payable and accrued expenses		21,824
Due to affiliate		900
Net cash used in operating activities		(125,018)
Cash flows from investing activities:		
Expenditures for property		(734,577)
Expenditures for preaquistion costs		(968,057)
Cash used in investing activities		(1,702,634)
Cash flows from financing activities:		
Proceeds from notes payable		4,900,000
Expenditures for deferred loan costs		(253,137)
Expenditures for deferred costs - TCAC fees		(34,855)
Capital contributions from noncontrolling interests		200
Payment of syndication costs		(117,419)
Net cash provided by financing activities		4,494,789
Net change in cash		2,667,137
Cash at beginning of year		1,331,704
Cash at end of year	$	3,998,841

Supplemental disclosure of non-cash activities:

During 2016, Sherman and Buena Vista, LP recorded a prepaid ground rent asset and a corresponding note payable to AHA in the the amount of $3,410,000.

During 2016, Sherman and Buena Vista, LP capitalized $8,623 of accrued interest to expenditures for properties.

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Island City Development is a California nonprofit public benefit corporation (the Company or ICD) exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Company was formed in 2014 primarily to engage in acquiring, developing, rehabilitating, owning, and managing affordable housing (the Project(s)) for low and moderate income individuals and families in the City of Alameda, California. In connection with the development of the Projects, the Company, or its affiliates, intend to enter into regulatory agreements with the California Tax Credit Allocation Committee (TCAC) which govern the ownership, occupancy, management, maintenance and operations of the Project.

The Company is a discrete component unit of the City of Alameda Housing Authority (AHA) and its Board of Directors is made up of three directors appointed by the AHA Executive Director.

As of December 31, 2016, the Company's consolidated financial statements include California limited partnerships and California limited liability companies (LLC), (the Partnership(s) or the Subsidiary(ies)) organized primarily to acquire, develop/rehabilitate, and manage multi-family affordable housing projects. As of December 31, 2016, the Company, through its Subsidiary, owns the following Project:

Project Name	City, State	Acquisition Date	Units
Del Monte Senior Housing	Alameda, California	2016	31

*As of December 31, 2016, the Project is under construction.

Allocation of profit and losses of the Partnership that owns the above project, Sherman and Buena Vista, LP, are allocated as follows:

Company	0.01%
Limited Partner (non-controlling)	99.99%

In addition, the Company has established the following Subsidiaries:

Del Monte Senior LLC**
2437 Eagle Avenue LLC**
Everett and Eagle L.P. **

**During 2016, these entities had no activity.

Principles of Consolidation and Accounting for Investments in a Limited Partnership
Accounting standards generally accepted in the United States of America establishes the presumption that the general partner(s) in a limited partnership controls that limited partnership (or similar entity) regardless of ownership percentage. The presumption of control by the general partner is overcome when the limited partners have either (a) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without cause or (b) substantive participating rights. If the presumption of control cannot be overcome, then the general partner is required to consolidate the limited partnership. As of and for the year ended December 31, 2016, ICD or it's wholly owned Subsidiaries, as a controlling general partner, conformed their accounting to this presumption and determined the presumption of control for the limited partnerships had not been overcome.

Due to shared control with other entities, ICD records its investments in limited partnerships for which ICD serves as limited partner under the equity method of accounting. Under the equity method of accounting, ICD records its acquisition of the initial investment at cost and thereafter, records its portion of the entities income or loss on an annual basis. In the event its investment goes negative, based on management's assessments, the recording of further loss may be suspended until profitability returns.

ICD serves as a limited partner in the following limited partnership and records its investment under the equity method of accounting:

Project Name	City, State	Acquisition Date	Units
Stargell Commons	Alameda, California	2015	32*

*As of December 31, 2016, the Project is under construction.

The portion of the equity of the Subsidiaries that is not owned or controlled by ICD is shown as non-controlling interests within unrestricted net assets and all material intercompany transactions between consolidated entities have been eliminated.

Method of Accounting These consolidated financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America, have been prepared to focus on the Company as a whole and to present balances and transactions according to the existence or absence of donor imposed restrictions. This has been accomplished by the classification of transactions into three classes of net assets as follows:

- Unrestricted net assets represent funds, which are fully available or have been fully reserved, at the discretion of management and the Board of Directors to utilize for any of its programs or supporting services.

- Unrestricted net assets-non-controlling limited partner interests represent the balance of the limited partners' equity interest in the non-wholly owned limited partnerships that are included in the consolidated financial statements.

- Temporarily restricted net assets are comprised of funds, which are restricted by donors for specific purposes or time periods. 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. There were no such net assets as of December 31, 2016.

- Permanently restricted net assets include contributions, which donors have specified must be maintained in perpetuity. The related income may be expended for such purposes as specified by the donor, or if none, then for any purpose of the Company. There were no such net assets as of December 31, 2016.

Tax-Exempt Status The Company has received a determination letter from the Internal Revenue Service stating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for federal income taxes is recorded in the accompanying consolidated financial statements. In addition, the Company does not have any income which it believes would subject it to unrelated business income taxes. Accordingly, there is no provision for income taxes in the accompanying consolidated financial statements.

Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents For purposes of the statements of cash flows, the Company considers all highly liquid unrestricted investments with an original maturity of three months or less to be cash equivalents.

Property Property is stated at cost. Upon completion, depreciation expense will be provided primarily using the straight-line method over the following estimated useful lives:

Description	Life
Buildings and improvements	40 years
Land improvements	15 years
Furniture and equipment	5 - 7 years

The Company capitalizes expenditures or betterments that materially increase asset lives, charging to depreciation expense the estimated net book value of the improvement cost being replaced, and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related reserves are removed from the accounts, and any resulting gain or loss is included in operations.

The Company reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. When evaluating recoverability, management considers future undiscounted cash flows estimated to be generated by the property including the low-income housing tax credits and any estimated proceeds from the eventual disposition. In the event these accumulated cash flows are less than the carrying amount of the property, the Company recognizes an impairment loss equal to the excess of the carrying amount over the estimated fair value of the property. No impairment losses were recognized during the year ended December 31, 2016.

Concentration of Credit and Business Risk The Company's cash and cash equivalents are maintained in various banks. The Company has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance. The Company believes that its credit risk is not significant.

ICD, either as a direct owner, advisor or general partner, has an economic interest in the Projects that are subject to business risks associated with the economy and level of unemployment in California, which affects occupancy as well as the tenants' ability to make rental payments. In addition, these Projects operate in a heavily regulated environment and the operations of these Projects will be subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the 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.

Recent Accounting Pronouncement On April 7, 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest with the intention of simplifying the presentation of debt issuance costs*. It requires companies to present debt issuance costs the same way they currently present debt discounts, as a direct deduction from the carrying value of that debt liability. ASU No. 2015-03 was adopted as of January 1, 2016.

In August 2016, the FASB issued ASU No.2016-14, Not-for-Profit Entities (Topic 958) ("ASU 2016-14"). These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, creditors, and other users. These include qualitative and quantitative requirements in the following areas:

- Net Asset Classes;
- Investment;
- Expenses;
- Liquidity and Availability of Resources; and
- Presentation of Operating Cash Flows

The guidance in ASU 2016-14 is effective for the Company beginning on January 1, 2018, with early adoption permitted. The Company has not yet determined the impact the adoption of ASU 2016-14 will have on its consolidated financial statements.

2. PREPAID GROUND LEASE

The Partnership entered into a ground lease agreement with AHA commencing December, 2016 for a period of 99 years. In accordance with the ground lease agreement, $3,410,000 was recorded as a prepaid ground lease with a corresponding ground lease payable, see Note 5. During the term of the lease, the Subsidiary will annually amortize prepaid ground lease of $34,444. As of December 31, 2016, the prepaid ground lease balance was $3,410,000, and for the year then ended, no ground lease amortization was recorded.

3. PREAQUISITION COSTS

In connection with the Company's development efforts, ICD incurrs preaquistion costs, which are capitalized until management determines the proposed development is not feasable. As of December 31, 2016, preacquistion costs for future Projects of $1,221,567 have been incurred and are recorded in the consolidated statement of financial position.

4. DEFERRED COSTS – TCAC FEES

Deferred costs consist of fees paid to TCAC that will be be amortized over a 15-year period, beginning in the year the applicable Project is placed in service. As of December 31, 2016, deferred costs paid to TCAC were $34,855.

5. NOTES PAYABLE

A summary of ICD's financing arrangements as of December 31, 2016 is as follows:

AHA preacquisition loans Various unsecured promissory notes payable to AHA for the purpose of funding preacquisition efforts with principal amounts ranging from $300,000 to $1,000,000. Interest on the notes shall accrue at a simple rate of 3.00% beginning on January 1, 2018. The notes have various maturity dates ranging from 2047 to 2073.	$	3,000,000
Total ICD notes payable		3,000,000

A summary of the Subsidiaries' financing arrangements as of December 31, 2016 is as follows:

Construction loan Note payable to Compass Bank up to $10,322,328, secured by a deed of trust, with interest at LIBOR (1.69% December 31, 2016) plus 1.80%, with interest only payments due monthly through December 14, 2018, the estimated conversion date. Thereafter, the construction loan is expected to be paid down to $2,552,000, interest accruing at 5.39% with monthly payments of principal and interest of $20,703. All unpaid principal and interest are due on December 31, 2033.		-
City Home Loan-residual receipts Note payable to the City of Alameda up to $195,740, secured by a deed of trust, simple interest accrues at 3.00% with interest and principal payments due annually from Residual Receipts, as defined. All unpaid principal and interest are due on April 1, 2073.		-
AHA property loan – residual receipts Note payable to AHA, secured by a deed of trust, interest accrues at 2.26%, with interest and principal payments due annually from Residual Receipts, as defined. All unpaid principal and interest are due on December 31, 2073.		3,600,000
Ground lease Ground lease payable to AHA, secured by a deed of trust, interest accrues at 2.26%, with interest and principal payments due annually from Residual Receipts, as defined. All unpaid principal and interest are due on December 31, 2073.		3,410,000
Total Subsidiaries notes payable		7,010,000
Total notes payable		10,010,000
Less: deferred loan costs		(253,137)
Total notes payable, net	$	9,756,863

Principal payments on notes payable are required as follows:

Year		**Amount**
2017	$	-
2018		-
2019		-
2020		-
2021		-
Thereafter		10,010,000
	$	10,010,000

6. RELATED PARTY TRANSACTIONS

Consulting Services ICD entered into an agreement with AHA, commencing on April 15, 2015, in which AHA shall provide professional project management services for a term of three years. For these services, ICD will annually compensate AHA $100,000, not to exceed $300,000 in total. During 2016, AHA charged $100,171 for consulting services, and from inception of the agreement to December 31, 2016 was charged $200,221 for consulting services.

Developer Fee Payable A Subsidiary entered into an agreement with AHA to provide development services for $800,000. As of December 31, 2016, the Subsidiary accrued $160,000 of developer fees, all of which is unpaid, in connection with this agreement.

7. COMMITMENTS

In connection with the development and operations of a Project, the Company as guarantor made certain guaranties regarding the Project's operations and tax benefits. In addition, the Company has entered into an $11,148,028 cost plus guaranteed maximum construction contract. As of December 31, 2016, the contractor had not commenced work.

8. SUBSEQUENT EVENTS

Management evaluated all activity of the Company through August 24, 2017 and concluded that no subsequent events have occurred that would require recognition in the financial statements of disclosure in the notes to the financial statements other than following disclosed below.

Effective January 1, 2017, the Company entered into a joint development agreement with AHA for the development of Sherman and Buena Vista, LP. This agreement specifies that upon receipt of each Developer Fee installment, AHA will pay the Company 90% of the total Developer Fee.

ISLAND CITY DEVELOPMENT AND SUBSIDIARY
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2016

ASSETS

	Island City Development	Real Estate (a)	GAAP Consolidated
Property, at cost:			
Construction-in-progress	$ -	$ 903,200	$ 903,200
Property	-	903,200	903,200
Cash	1,571,177	2,427,664	3,998,841
Accounts receivable	3,910	-	3,910
Preacquisition costs	1,221,567	-	1,221,567
Deposits	-	32,855	32,855
Prepaid ground lease	-	3,410,000	3,410,000
Deferred costs - TCAC fees	-	34,855	34,855
Total assets	$ 2,796,654	$ 6,808,574	$ 9,605,228

(a) Sherman and Buena Vista, LP

LIABILITIES AND NET ASSETS

	Island City Development	Real Estate (a)	Consolidated
Notes payable, net	$ 3,000,000	$ 6,756,863	$ 9,756,863
Accounts payable and accrued expenses	41,875	-	41,875
Accrued interest payable	-	8,623	8,623
Due to affiliates	-	900	900
Developer fee payable	-	160,000	160,000
Total liabilities	3,041,875	6,926,386	9,968,261
Net assets			
Unrestricted			
Controlling interest in subsidiaries	(245,221)	100	(245,121)
Noncontrolling interest in subsidiaries	-	(117,912)	(117,912)
Total net assets	(245,221)	(117,812)	(363,033)
Total liabilities and net assets	$ 2,796,654	$ 6,808,574	$ 9,605,228

(a) Sherman and Buena Vista, LP

See independent auditor's report.

ISLAND CITY DEVELOPMENT AND SUBSIDIARY

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

DECEMBER 31, 2016

	Island City Development	Real Estate (a)	Consolidated
Revenue:			
Other revenue	$ 1,193	$ -	$ 1,193
Total other revenue	1,193	-	1,193
Total revenue	1,193	-	1,193
Expenses:			
Program Services	90,154	70	90,224
Supporting services	22,550	-	22,550
Total operating expenses	112,704	70	112,774
Operating loss	(111,511)	(70)	(111,581)
Other income (expenses)			
Organization and other costs	-	(523)	(523)
Total other income (expenses)	-	(523)	(523)
Change in net assets from operations	(111,511)	(593)	(112,104)
Contributions - noncontrolling interests	-	200	200
Syndication costs-noncontrolling interests	-	(117,419)	(117,419)
Total change in net assets	(111,511)	(117,812)	(229,323)
Net assets, beginning of the year	(133,710)	-	(133,710)
Net assets, end of the year	$ (245,221)	$ (117,812)	$ (363,033)

(a) Sherman and Buena Vista, LP

See independent auditor's report.