ISLAND CITY DEVELOPMENT
AND SUBSIDIARIES

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019 AND 2018

HCVT
HOLTHOUSE | CARLIN | VAN TRIGT LLP

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
DECEMBER 31, 2019 AND 2018
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, changes in net assets, and cash flows, for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 audits 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
October 23, 2020

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES

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

DECEMBER 31,		**2019**		**2018**
ASSETS				
Property, at cost				
Land improvements	$	2,170,596	$	2,170,596
Buildings and improvements		26,161,709		26,136,686
Furniture and equipment		512,067		512,067
Total property		28,844,372		28,819,349
Less: accumulated depreciation		(1,020,974)		(183,946)
Net property		27,823,398		28,635,403
Cash and cash equivalents		1,571,493		725,048
Other receivables		99,819		255,081
Due from affiliates		-		29,437
Restricted funds:				
Reserves		326,006		-
Tenant security deposits		41,500		22,924
Prepaid ground lease		3,316,468		3,351,012
Preacquisition costs		2,178,339		627,621
Other prepaids		28,472		18,495
Deposits		221,184		64,487
Deferred costs - TCAC fees		83,157		89,717
Total assets	$	35,689,836	$	33,819,225
LIABILITIES AND NET ASSETS (DEFICIT)				
Notes payable, net	$	20,675,495	$	30,537,441
Accounts payable and accrued expenses		57,917		21,499
Accrued construction and development costs		-		2,157,399
Accrued interest payable		858,796		610,469
Developer fee payable		167,500		167,500
Accrued Asset Management Fee payable		7,233		2,083
Prepaid rents		11,499		997
Tenant security deposits		41,500		22,924
Total liabilities		21,819,940		33,520,312
Commitments and contingencies				
Net assets (deficit)				
Without donor restrictions				
Controlling interests		(190,767)		(370,473)
Noncontrolling interests		14,060,663		669,386
Total net assets (deficit)		13,869,896		298,913
Total liabilities and net assets (deficit)	$	35,689,836	$	33,819,225

See notes to consolidated financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31,		2019		2018
Revenue:				
Residential rent	$	224,748	$	47,546
Tenant subsidies		810,664		156,185
Development fee		-		82,900
Grant and other revenue		271,553		41
Total revenue		1,306,965		286,672
Expenses:				
Program services-housing		2,148,073		621,858
Supporting services		225,806		169,700
Total expenses		2,373,879		791,558
Changes in net assets	$	(1,066,914)	$	(504,886)

See notes to consolidated financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31,						2019
	Program Services			Supporting Services		
	Island City Development	Housing (a)	Total	Island City Development	Housing (a)	Total
Administrative						
Manager's salaries	$ -	$ 53,012	$ 53,012	$ -	$ -	$ 53,012
Office expense	-	78,796	78,796	11,105	-	89,901
Professional fees - accounting	-	-	-	41,759	58,547	100,306
Professional fees - legal	-	8,051	8,051	800	-	8,851
Property management fees	-	33,660	33,660	-	-	33,660
Total administrative expenses	-	173,519	173,519	53,664	58,547	285,730
Utilities						
Electricity	-	16,159	16,159	-	-	16,159
Water and sewer	-	15,196	15,196	-	-	15,196
Gas	-	102	102	-	-	102
Total utilities	-	31,457	31,457	-	-	31,457
Operating and maintenance						
Maintenance salaries	-	42,830	42,830	-	-	42,830
Repairs and maintenance	-	35,064	35,064	-	-	35,064
Trash removal	-	15,183	15,183	-	-	15,183
Total operating and maintenance	-	93,077	93,077	-	-	93,077
Taxes and insurance						
Payroll taxes	-	8,368	8,368	-	-	8,368
Property and liability insurance	-	28,467	28,467	-	-	28,467
Employee benefits	-	21,495	21,495	-	-	21,495
Property taxes		359	359	-	-	359
State taxes	-	3,200	3,200	148	-	3,348
Total taxes and insurance	-	61,889	61,889	148	-	62,037
Other expenses						
Depreciation	-	837,028	837,028	-	-	837,028
Amortization	-	6,500	6,500	-	-	6,500
Advertising and lease-up	-	33,169	33,169	-	-	33,169
Interest expense	-	822,918	822,918	2,730	-	825,648
Asset Management Fee	-	-	-	-	10,717	10,717
Development consulting	-	-	-	100,000	-	100,000
Ground lease	-	34,604	34,604	-	-	34,604
Miscellaneous financial expenses	-	44,606	44,606	-	-	44,606
Organization costs	-	9,306	9,306	-	-	9,306
Total other expenses	-	1,788,131	1,788,131	102,730	10,717	1,901,578
Total functional expenses	$ -	$ 2,148,073	$ 2,148,073	$ 156,542	$ 69,264	$ 2,373,879

(a) Sherman and Buena Vista LP and Everett and Eagle L.P.

See notes to financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31,						**2018**
	Program Services			**Supporting Services**		
	Island City Development	**Housing (a)**	**Total**	**Island City Development**	**Housing (a)**	**Total**
Administrative						
Manager's salaries	$ -	$ 9,983	$ 9,983	$ 8	$ -	$ 9,991
Office expense	-	7,156	7,156	8,386	-	15,542
Professional fees - accounting	-	-	-	23,336	34,541	57,877
Professional fees - legal	-	160	160	-	-	160
Property management fees	-	7,998	7,998	-	-	7,998
Total administrative expenses	-	25,297	25,297	31,730	34,541	91,568
Utilities						
Electricity	-	2,305	2,305	-	-	2,305
Water and sewer	-	2,648	2,648	2,635	-	5,283
Gas	-	122	122	-	-	122
Total utilities	-	5,075	5,075	2,635	-	7,710
Operating and maintenance						
Maintenance salaries	-	9,564	9,564	-	-	9,564
Repairs and maintenance	-	3,346	3,346	-	-	3,346
Trash removal	-	3,659	3,659	-	-	3,659
Total operating and maintenance	-	16,569	- 16,569	-	-	16,569
Taxes and insurance						
Payroll taxes	-	1,773	1,773	-	-	1,773
Property and liability insurance	-	3,016	3,016	-	-	3,016
Employee benefits	-	2,504	2,504	-	-	2,504
State taxes	-	2,437	2,437	75	-	2,512
Total taxes and insurance	-	9,730	9,730	75	-	9,805
Other expenses						
Depreciation	-	183,946	183,946	-	-	183,946
Amortization	-	1,179	1,179	-	-	1,179
Advertising and lease-up	-	149,739	149,739	-	-	149,739
Interest expense	-	189,969	189,969	15,625	-	205,594
Asset Management Fee	-	-	-	-	2,083	2,083
Development fee - AHA	-	-	-	82,900	-	82,900
Development consulting	26,105	-	26,105	-	-	26,105
Ground lease	-	14,249	14,249	-	-	14,249
Organization costs	-	-	-	-	111	111
Total other expenses	26,105	539,082	565,187	98,525	2,194	665,906
Total functional expenses	$ 26,105	$ 595,753	$ 621,858	$ 132,965	$ 36,735	$ 791,558

(a) Sherman and Buena Vista LP and Everett and Eagle L.P.

See notes to financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)

	Controlling Interests	Noncontrolling Interests	Total
Balance, December 31, 2017	$ (302,641)	$ 1,113,664	$ 811,023
Syndication costs	-	(7,224)	(7,224)
Net loss	(67,832)	(437,054)	(504,886)
Balance, December 31, 2018	(370,473)	669,386	298,913
Contributions	-	14,637,897	14,637,897
Net income (loss)	179,706	(1,246,620)	(1,066,914)
Balance, December 31, 2019	$ (190,767)	$ 14,060,663	$ 13,869,896

See notes to consolidated financial statements.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECMEBER 31,	2019	2018
Cash flow from operating activities:		
Change in net assets from operations	$ (1,066,914)	$ (504,886)
Adjustments to reconcile change in net assets from operations to net cash provided by (used in) operating activities:		
Depreciation	837,028	183,946
Amortization of deferred costs	6,500	1,179
Amortization of debt issuance costs	62,392	32,698
Ground lease expense	34,604	14,249
Changes in operating assets and liabilities:		
Deposits	(56,697)	-
Other prepaids	(9,977)	-
Accounts payable and accrued expenses	36,418	-
Accrued interest payable	265,827	96,667
Accrued Asset Management Fee payable	5,150	2,083
Prepaid rents	10,502	(4,936)
Tenant security deposits - liability	18,576	22,924
Net cash provided by (used in) operating activities	143,409	(156,076)
Cash flows from investing activities:		
Expenditures for property	(2,152,985)	(14,131,985)
Expenditures for preacquisition costs, net	(1,412,956)	(374,653)
Net cash used in investing activities	(3,565,941)	(14,506,638)
Cash flows from financing activities:		
Proceeds from notes payable	6,996,073	12,365,647
Repayments on notes payable	(16,865,224)	-
Expenditures for debt issuance costs	(55,187)	(38,457)
Expenditures for deferred costs - TCAC fees	-	(20,090)
Lender deposit	(100,000)	-
Capital contributions	14,637,897	-
Expenditures for syndication costs	-	(7,224)
Net cash provided by financing activities	4,613,559	12,299,876
Net change in cash, cash equivalents, and restricted cash	1,191,027	(2,362,838)
Cash, cash equivalents, and restricted cash at beginning of year	747,972	3,110,810
Cash, cash equivalents, and restricted cash at end of year	$ 1,938,999	$ 747,972
Supplemental disclosure of cash activities:		
Cash paid for interest, net of capitalized interest	$ 484,929	$ 37,345
Supplemental disclosure of non-cash activities:		
Accrued property costs	$ -	$ 2,157,399
Unpaid capitalized interest	$ -	$ 560,995

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization 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. In addition, the Company is dependent on AHA's financial and personnel assistance.

As of December 31, 2019 and 2018, the Company's consolidated financial statements include California limited partnerships and single member 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, 2019 and 2018, the Company, through its Subsidiaries, owns the following Projects:

Partnership Name	Project Name	City, State	Units
Sherman and Buena Vista LP	Littlejohn Commons	Alameda, California	31
Everett and Eagle L.P.	Everett Commons	Alameda, California	20

Allocation of profit and losses of the Partnerships that owns the above projects are allocated as follows:

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

In addition, the Company has established the following wholly owned Subsidiaries:

Del Monte Senior LLC
2437 Eagle Avenue LLC
Rosefield LLC
Constitution and Eagle LP

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 years ended December 31, 2019 and 2018, ICD or its 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*

*The project was placed in service in June 2017 and ICD's investment is $0.

Basis of Accounting The consolidated financial statements have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of ICD and all of its wholly owned and controlled affiliates. These entities are included in the consolidation in accordance with U.S. GAAP, which require that the partnership or company accounts be consolidated for all entities controlled by ICD. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenues, expenses, gains, losses and net assets are classified in the consolidated financial statements based on the existence or absence of donor-imposed restrictions. As of December 31, 2019 and 2018, there were no donor-imposed restrictions on net assets. Accordingly, the net assets of the Company and changes therein are classified and reported as follows:

> ***Controlling interest*** is the net assets not restricted by donor-imposed stipulations. The only limits on net assets are broad limits resulting from the nature of the Company and the purposes specified in its articles of incorporation or bylaws and, perhaps, limits resulting from contractual agreements. Net assets without donor restriction - controlling interest, consist of undesignated and board designated net assets.
>
> ***Non-controlling interest*** is the net assets that represent the limited partners' equity interest in the Projects, generally up to 99.99%, that are included in the consolidated financial statements.

Revenues Revenues include tenant rents from operating leases (generally one year), recognized as revenue, including tenant subsidies, when they become due. Revenues also include income from grants, developer fees, to the extent it is a reimbursement of development costs, and miscellaneous income.

Functional Allocation of Expenses The costs of providing ICD's programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. The functional classifications are defined as follows:

> ***Program services*** are expenses that consist of costs incurred in connection with providing housing services.
>
> ***Supporting services*** are expenses that consist of costs incurred in connection with the overall activities of ICD, which are not allocable to another functional expense category.

Income Taxes 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.

Income taxes on limited partnership and LLC income are included in the tax returns of the partners or members. The federal tax status as a pass-through entity is based on the entity's legal status as a partnership or LLC and is required to file tax returns with the IRS and other taxing authorities.

Accordingly, these consolidated financial statements do not reflect a provision for income taxes. However, the limited partnerships and the LLCs are required to pay an $800 fee to the California Franchise Tax Board. The Company determined there are no tax positions, which must be considered for disclosure. There are no current tax examinations pending.

Estimates The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial reporting period. Management believes actual results will not differ significantly from those estimates.

Cash, Cash Equivalents, and Restricted Cash For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash and highly liquid unrestricted investments with an original maturity of three months or less when purchased. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the accompanying consolidated balance sheets, to the cash, cash equivalents, and restricted cash reported in the accompanying consolidated statements of cash flows:

As of December 31,		**2019**		**2018**
Cash and cash equivalents	$	1,571,493	$	725,048
Reserves (Note 3)		326,006		-
Tenant security deposits		41,500		22,924
Cash, cash equivalents, and restricted cash	$	1,938,999	$	747,972

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	20 years
Furniture and equipment	5 - 7 years

ICD capitalizes development costs, including interest and insurance until the project is placed in service. Thereafter, ICD 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, 2019 and 2018.

Other Receivables Other receivables primarily consists of property tax receivables from the Alameda County Tax Collector. The Company evaluates collectability on a case-by-case basis and provides a reserve when collection is doubtful.

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.

Change in Accounting Principle Effective January 1, 2018, the Company adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes, and disclose a summary of the methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and direct expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Effective January 1, 2019, the Company adopted the provisions of ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (ASU 2016-18). Under ASU 2016-18, restricted cash and restricted cash equivalents is now included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statements of cash flows. Prior period amounts have been reclassified to conform to the current year presentation, resulting in a decrease in cash used in operating activities of $22,924.

Effective January 1, 2019, the Company adopted the provisions of ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which amends the accounting guidance related to (1) evaluating whether transactions should be accounted for as contributions or exchange transactions, and (2) determining whether a contribution is conditional. For resource providers, the ASU is effective for annual periods beginning after December 15, 2019, with early adoption permissible.

New Accounting Pronouncement In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers (ASU 2014-09)*. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective for annual reporting periods beginning after December 15, 2018, and permits the use of either the retrospective or cumulative effect transition method. Subsequent to December 31, 2019, implementation of ASU 2014-09 has been deferred for one year.

Reclassifications Certain amounts in the prior year financial statements have been reclassified to conform to the current year financial statement presentation.

2. PREPAID GROUND LEASE

Littlejohn Commons 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 7. During the term of the lease, the Subsidiary will annually amortize prepaid ground lease of $34,444. In addition, Everett Commons entered into a ground lease agreement with AHA commencing June 2017 for a period of 99 years. In accordance with the ground lease agreement, $9,900 was recorded as a prepaid ground lease. As of December 31, 2019 and 2018, prepaid ground lease balances were $3,316,468 and $3,351,012, respectively.

3. RESERVES

Restricted cash accounts (Reserves) are restricted for use by various agreements including partnership, loan, and regulatory agreements. The Reserves as of December 31 2019 and 2018 are as follows:

	2019	**2018**
Reserves	$ 326,006	$ -

4. PREACQUISITION COSTS

ICD capitalizes preaquisition costs until management determines the proposed development is not feasable. ICD's preacquisition costs do not include AHA's incremental indirect project costs clearly associated with the acquisition, development and construction of the proposed Project. As of December 31, 2019 and 2018, ICD's preacquisition costs for two future Projects of $2,178,339 and $627,621, respectively, has been incurred and recorded in the accompanying consolidated statements of financial position.

5. DEFERRED COSTS – TCAC FEES AND DEBT ISSUANCE COSTS

Deferred TCAC Costs Deferred TCAC 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, 2019 and 2018, unamortized TCAC costs were $83,217 and $89,717, respectively.

Debt Issuance Costs Debt issuance costs of $253,088 and $260,293 net of accumulated amortization as of December 31, 2019 and 2018, respectively are reported as a direct reduction of the obligation to which such costs relate. While the projects are under development, the amortization of debt issuance costs are capitalized. Thereafter, the amortization is reported as a component of interest expense using a method that approximates the effective interest method.

6. DEPOSITS

Deposits consist of funds that ICD sent to various regulatory agencies on behalf of real estate projects under development. These funds are anticipated to be refunded as the projects under development achieve certain milestones. As of December 31, 2019 and 2018, deposits were $221,184 and $64,487, respectively.

7. NOTES PAYABLE

	2019	2018
A summary of ICD's financing arrangements as of December 31, 2019 and 2018 is as follows:		
AHA preacquisition loan Unsecured promissory note payable to AHA for the purpose of funding preacquisition efforts of $250,000, with interest accruing at a rate of 3.00% commencing January 1 2017. All unpaid principal and interest was due June 30, 2022. During 2019, the AHA preacquisition loan was repaid.	$ -	$ 250,000
AHA Rosefield loan Unsecured promissory note payable to AHA for the purpose of funding preacquisition efforts of a project known as Rosefield Village in the original loan amount of $1,000,000, with interest accruing at a rate of 3.00% commencing January 1, 2018. During 2019, the loan agreement was amended, increasing the maximum loan to $2,000,000 with interest accruing at 3.00%, retroactively commencing January 1, 2021. All unpaid principal and interest are due December 31, 2026.	2,000,000	1,000,000
AHA North Housing loan Unsecured promissory note payable to AHA for the purpose of funding preacquisition efforts of a project known as North Housing in the original loan amount of $300,000, with interest accruing at a rate of 3.00% commencing January 1, 2024. During 2018, the loan agreement was amended to a maximum amount of $3,700,000. All unpaid principal and interest is due December 31, 2074.	700,000	300,000
Total ICD notes payable	2,700,000	1,550,000

	2019	2018
A summary of the Littlejohn Commons financing arrangements as of December 31, 2019 and 2018 is as follows:		
Note payable to Compass Bank, an Alabama banking corporation, provides construction financing in the maximum amount of $10,322,328. The note is secured by a construction and permanent leasehold deed of trust with absolute assignment of leases and rents, security agreement and fixture filing. The note provides for interest only payments based on one-month LIBOR plus 1.80% per annum through the conversion date. The interest rate was 4.15% at December 31, 2018. In February 2019, the construction loan was partially paid off with the Limited Partner’s capital contributions, with the remaining balance converted into a permanent loan of $2,429,400 with California Community Reinvestment Corporation (CCRC). The Partnership entered into a promissory note agreement with CCRC for the permanent loan, with an interest rate of 5.39%, which requires monthly payments of principal and interest, and matures on March 1, 2034.	2,348,793	10,311,685
Note payable to the City of Alameda, secured by a subordinate deed of trust, borrowings up to $195,740, simple interest at 3.00% per annum, payable from Residual Receipts and unpaid principal and interest are due on April 1, 2073.	195,740	195,740
Note payable to AHA, in the original amount of $3,600,000, secured by a leasehold deed of trust, assignment of rents, and security agreement, interest at 2.26%, compounded annually; principal and interest payable annually from Residual Receipts; as defined, unpaid principal and interest is due December 31, 2073.	3,600,000	3,600,000
Note payable to AHA, in the original amount of $3,410,000, secured by a leasehold deed of trust, assignment of rents, and security agreement, interest at 2.26%, compounded annually; principal and interest payable annually from Residual Receipts; unpaid principal and interest is due December 31, 2073.	3,410,000	3,410,000
Total Littlejohn Commons notes payable	9,554,533	17,516,425

	2019	2018
A summary of the Everett Commons financing arrangements as of December 31, 2019 and 2018 is as follows:		
Note payable to JPMorgan Chase Bank, N.A., a national banking association, provides construction financing in the maximum amount of $9,859,528. The note is secured by a construction and deed of trust, assignment of rents, security agreement and fixture filing. The note provides for interest only payments based on adjusted one-month LIBOR plus 1.85% per annum through the conversion date (4.35% as if December 31, 2018). In July 2019, the construction loan was partially repaid and concurrently converted to a $3,330,168 permanent loan that bears interest at 5.55% that requires monthly payments of principal and interest of $17,993. The note matures on September 21, 2039.	3,320,768	7,328,027
Note payable to the City of Alameda, secured by a subordinated leasehold deed of trust, assignment of rents, security agreement and fixture filing, borrowings up to $153,282, simple interest at 3.00%, payable from residual receipts; unpaid principal and interest are due on December 31, 2074.	153,282	152,282
Note payable to AHA, in the original amount of $4,250,000, secured by a leasehold deed of trust, assignment of rents, and security agreement and fixture filing, interest at 2.68%, compounded annually; principal and interest payable annually from residual receipts; unpaid principal and interest are due December 31, 2074.	4,250,000	4,250,000
Note payable to County of Alameda (County Loan), in the maximum amount of $1,000,000, secured by a subordinated leasehold deed of trust, assignment of rents, security agreement and fixture filing, simple interest at 3.00%, payable from Residual Receipts and unpaid principal and interest are due on December 31, 2074.	950,000	-
Total Everett Commons notes payable	8,674,050	11,730,309
Total notes payable	20,928,583	30,797,734
Less: unamortized debt issuance costs	(253,088)	(260,293)
Total notes payable, net	$ 20,675,495	$ 30,537,441

Principal payments on notes payable are required as follows:

Year Ending December 31,		Amount
2020	$	141,947
2021		150,396
2022		158,784
2023		167,640
2024		176,478
Thereafter		20,133,338
	$	20,928,583

8. 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. The total fees of $300,000 had been charged by AHA as of December 31, 2017, and no fees were charged for the year ended December 31, 2018. In December 2018, the agreement was amended to extend through December 31, 2019, and during 2019, ICD was charged $100,000 for consulting services.

Developer Fee Payable The Subsidiaries have entered into joint developer fee agreements with ICD and AHA (together referred to as the Developers in the amounts of 90.00% and 10.00%, respectively, or such amount agreed to by the Developers). As of December 31, 2019 and 2018, the Developers have entered into developer fee agreements in the amounts of $1,675,000 and $1,675,000, respectively. ICD's portion (90.00%) has been eliminated from presentation due to consolidation, net of costs incurred to provide development services, ($0 and $82,900 in 2019 and 2018, respectively). As of December 31, 2019 and 2018, developer fees owed to AHA of $167,500 and $167,500 , respectively, remain unpaid.

Due from Affiliates Due from Affiliates are net amounts advanced by ICD to AHA. These advances are unsecured, due on demand and do not accrue interest. As of December 31, 2019 and 2018, $0 and $29,437, respectively, is due from AHA.

Limited Partner Fees In connection with the limited partnerships, the limited partners (non-controlling entities) charge an Asset Management Fee for miscellaneous services rendered to the Partnerships.

9. GRANT REVENUE

In accordance with a May 23, 2018 memorandum of understanding (the MOU) between AHA and the Alameda Unified School District (AUSD), AHA is to receive funds from AUSD to support four affordable housing projects, from time to time. In connection with this MOU, during 2019, $250,000 was granted by AHA to ICD. As a result, ICD, made a $250,000 capital contribution to Sherman Buena Vista LP, aka Littlejohn Commons. The AHA grant was included in other revenue in the accompanying Consolidated Statements of Activities and Change in Net Assets.

10. COMMITMENTS

In connection with the development and operations of the Subsidiaries, AHA and the Company, together as Guarantor, made certain guaranties regarding the duties and performance obligations of the Subsidiaries' general partners. These duties include, but are not limited to, ensuring complete development of the Subsidiaries, ensuring tax credit delivery, maintaining the Subsidiaries' compliance with various regulatory agencies, and providing operating deficit guarantees of $314,000 to Everett Commons and $245,668 to Little John Commons.

11. LIQUIDITY AND AVAILABILITY

The Company's financial assets available to meet cash needs for general expenditures within one year of the date of the statement of financial position include:

As of December 31,	**2019**	**2018**
Cash and cash equivalents	$ 1,571,493	$ 725,048
Other receivables	99,819	255,081
Restricted funds	367,506	22,924
Less: Subsidiaries operating cash due to partnership and lender restrictions	(1,118,681)	(308,518)
Estimated financial assets available to meet general expenditures within one year	$ 920,137	$ 694,535

In addition to the financial assets available in the above table, for the year ended December 31, 2019 and 2018, AHA has committed an additional $3,000,000 and $3,400,000 respectively, of development proceeds to ICD (Note 7).

Regarding the Subsidiaries' liquidity needs, each subsidiary has been established to develop and operate affordable housing. As a result, the Subsidiaries have been structured in such a way to be self-sufficient regarding their liquidity needs. In the event, the subsidiaries have unplanned liquidity needs over and above that which is provided by its operations, they have access to cash reserves, reported as restricted funds, subject to lender and limited partner withdrawal approval, upon conversion to permanent financing. In addition, in the normal course of business, the Subsidiaries under development rely on receiving funds from, non-recourse permanent loan commitments and limited partner capital contributions. In the event, the Subsidiaries are unable to meet their liquidity needs, AHA and the Company as together as Guarantor have provided limited guarantees to fund operating deficits. As of December 31, 2019, ICD's management believes they have sufficient liquidity availability to meets it obligations for the coming year.

12. SUBSEQUENT EVENTS

Management evaluated all activity of the Company through the independent auditor's report date, which is the date that the consolidated financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements, except as disclosed below.

Effects of the Coronavirus Outbreak As a result of the COVID-19 outbreak in early 2020, the economic environment in which the Company operates may be disrupted. The Company's management continues to gather information and respond to these events. As of the independent auditor's report date, the ultimate impact of COVID-19 is unknown.

Acquisitions During 2020, a Company's subsidiary, Constitution and Eagle, LP, acquired from AHA an apartment complex known as Rosefield Village, for $17,210,000.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES

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

AS OF DECEMBER 31, 2019

ASSETS

	Island City Development	Housing (a)	Pre-Consolidation	Eliminating Entries	Consolidated
Property, at cost:					
Land improvements	$ -	$ 2,170,596	$ 2,170,596	$ -	$ 2,170,596
Buildings and improvements	-	27,589,209	27,589,209	(1,427,500)	26,161,709
Furniture and equipment	-	512,067	512,067	-	512,067
Total property	-	30,271,872	30,271,872	(1,427,500)	28,844,372
Accumulated depreciation	-	(1,058,662)	(1,058,662)	37,688	(1,020,974)
Net property	-	29,213,210	29,213,210	(1,389,812)	27,823,398
Cash and cash equivalents	820,318	751,175	1,571,493	-	1,571,493
Other receivables	89,328	10,491	99,819	-	99,819
Due from affiliates	154,361	-	154,361	(154,361)	-
Restricted funds:					
Reserves	-	326,006	326,006	-	326,006
Tenant security deposits	-	41,500	41,500	-	41,500
Developer fee receivable	382,677	-	382,677	(382,677)	-
Prepaid ground lease	-	3,316,468	3,316,468	-	3,316,468
Investment in affiliates	288,933	-	288,933	(288,933)	-
Preacquisition costs	2,190,665	-	2,190,665	(12,326)	2,178,339
Other prepaids	-	28,472	28,472	-	28,472
Deposits	156,697	64,487	221,184	-	221,184
Deferred costs - TCAC fees, net amortization	-	83,157	83,157	-	83,157
Total assets	$ 4,082,979	$ 33,834,966	$ 37,917,945	$ (2,228,109)	$ 35,689,836

(a) Sherman and Buena Vista LP and Everett and Eagle L.P.

See independent auditor's report.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES

SCHEDULE I

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

AS OF DECEMBER 31, 2019

LIABILITIES AND NET ASSETS (DEFICIT)

	Island City Development	Housing (a)	Pre-Consolidation	Eliminating Entries	Consolidated
Notes payable, net	$ 2,700,000	$ 17,975,495	$ 20,675,495	$ -	$ 20,675,495
Accounts payable and accrued expenses	6,636	51,281	57,917	-	57,917
Due to affiliates	-	170,833	170,833	(170,833)	-
Accrued Partnership Management Fee payable	-	38,933	38,933	(38,933)	-
Accrued Asset Management Fee payable	-	7,233	7,233	-	7,233
Accrued interest payable	13,980	844,816	858,796	-	858,796
Developer fee payable	167,500	382,677	550,177	(382,677)	167,500
Prepaid rents	-	11,499	11,499	-	11,499
Tenant security deposits	-	41,500	41,500	-	41,500
Total liabilities	2,888,116	19,524,267	22,412,383	(592,443)	21,819,940
Net assets (deficit)					
Net assets without donor restrictions					
Controlling interests	1,194,863	250,036	1,444,899	(1,635,666)	(190,767)
Noncontrolling interests	-	14,060,663	14,060,663	-	14,060,663
Total net assets (deficit)	1,194,863	14,310,699	15,505,562	(1,635,666)	13,869,896
Total liabilities and net assets (deficit)	$ 4,082,979	$ 33,834,966	$ 37,917,945	$ (2,228,109)	$ 35,689,836

(a) Sherman and Buena Vista LP and Everett and Eagle L.P.

See independent auditor's report.

ISLAND CITY DEVELOPMENT AND SUBSIDIARIES

SCHEDULE II

(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICITS)

FOR THE YEAR ENDED DECEMBER 31, 2019

	Island City Development	Housing (a)	Pre-Consolidation	Eliminating Entries	Consolidated
Revenue:					
Residential rent	$ -	$ 224,748	$ 224,748	$ -	$ 224,748
Tenant subsidies	-	810,664	810,664	-	810,664
Total rental revenue	-	1,035,412	1,035,412	-	1,035,412
Grant and other revenue	294,539	7,614	302,153	(30,600)	271,553
Total other revenue	294,539	7,614	302,153	(30,600)	271,553
Total revenue	294,539	1,043,026	1,337,565	(30,600)	1,306,965
Expenses:					
Program services	-	2,189,907	2,189,907	(41,834)	2,148,073
Supporting services	156,542	99,864	256,406	(30,600)	225,806
Total operating expenses	156,542	2,289,771	2,446,313	(72,434)	2,373,879
Changes in net assets	137,997	(1,246,745)	(1,108,748)	41,834	(1,066,914)
Contributions - controlling interests	-	250,000	250,000	(250,000)	-
Contributions - noncontrolling interests	-	14,637,897	14,637,897	-	14,637,897
Total changes in net assets	137,997	13,641,152	13,779,149	(208,166)	13,570,983
Net assets (deficits), beginning of the year	1,056,866	669,547	1,726,413	(1,427,500)	298,913
Net assets (deficits), end of the year	$ 1,194,863	$ 14,310,699	$ 15,505,562	$ (1,635,666)	$ 13,869,896

(a) Sherman and Buena Vista LP and Everett and Eagle L.P.

See independent auditor's report.