

**Preservation of Affordable
Housing, Inc. and Subsidiaries**

**Consolidated Financial Statements
(with Supplementary Information)
and Independent Auditor's Report**

December 31, 2016 and 2015

Preservation of Affordable Housing, Inc. and Subsidiaries

Index

	<u>Page</u>
Independent Auditor's Report	2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	6
Consolidated Statements of Functional Expenses	7
Consolidated Statements of Changes in Net Assets	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	11
Supplementary Information	
Consolidating Schedule of Financial Position	36
Consolidating Schedule of Activities	38
Consolidating Schedule of Changes in Net Assets	39
Consolidating Schedule of Cash Flows	40
Consolidating Schedule of Financial Position - Core Operating Companies	42
Consolidating Schedule of Activities - Core Operating Companies	44
Consolidating Schedule of Changes in Net Assets - Core Operating Companies	45
Consolidating Schedule of Cash Flows - Core Operating Companies	46

Independent Auditor's Report

To the Board of Directors
Preservation of Affordable Housing, Inc. and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Preservation of Affordable Housing, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 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 did not audit the financial statements of certain Subsidiaries, which statements reflect total assets of \$172,893,590 and \$172,709,185 as of December 31, 2016 and 2015, respectively, and total revenues of \$26,005,972 and \$25,682,579, respectively, for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Subsidiaries, is based solely on the reports of the other 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 audits 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

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 financial position of Preservation of Affordable Housing, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their activities, changes in net assets, 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2016 supplementary information on pages 36 to 46 is presented for the purposes of additional analysis 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 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.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Boston, Massachusetts
June 30, 2017

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 28,849,287	\$ 28,987,350
Restricted cash	448,651	509,957
Restricted reserves	757,016	755,530
Accounts receivable		
Rental - tenants and subsidy	1,471,254	872,758
Grants receivable	1,758,063	523,926
Properties, net of allowance for doubtful accounts	4,060	5,353
Other	859,268	1,979,972
Escrow deposits	87,018,066	82,708,609
Tenant security deposits	3,057,100	2,862,734
Prepaid expenses	1,557,733	1,211,493
Predevelopment costs reimbursable, current	<u>2,550,840</u>	<u>1,721,707</u>
Total current assets	<u>128,331,338</u>	<u>122,139,389</u>
Other assets		
Notes receivable, net of discount	8,407,000	-
Investment in partnerships	405,778	-
Predevelopment costs reimbursable, net of current	2,710,242	2,987,441
Other assets	<u>3,742,475</u>	<u>3,323,607</u>
Total other assets	<u>15,265,495</u>	<u>6,311,048</u>
Fixed assets		
Land and buildings	899,704,356	822,522,584
Rehabilitation in progress	13,252,781	33,570,103
Furniture, equipment and leasehold improvements	14,375,773	12,578,892
Less: Accumulated depreciation	<u>(145,143,631)</u>	<u>(123,927,110)</u>
Total fixed assets	<u>782,189,279</u>	<u>744,744,469</u>
Total assets	<u>\$ 925,786,112</u>	<u>\$ 873,194,906</u>

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 5,503,938	\$ 4,150,895
Accrued expenses	7,789,157	7,157,560
Accounts payable - development	11,954,612	12,788,606
Accrued interest	1,855,763	1,869,438
Mortgages payable - properties, current	7,706,641	19,700,298
Construction loans - properties, current	17,498,016	28,265,757
Loan payable, current	5,038,137	4,309,399
Line of credit, current	694,181	294,181
Tenant security deposits	2,884,503	2,701,179
Prepaid revenue	947,697	834,212
Due to affiliates	269,029	326,045
	<u>62,141,674</u>	<u>82,397,570</u>
Total current liabilities		
Long-term liabilities		
Loans and notes payable, net of current	15,094,706	14,474,555
Accrued interest payable - notes payable	408,280	131,510
Notes payable and accrued interest - properties	161,739,059	133,278,545
Mortgages payable - properties, net of current	448,461,636	433,080,469
Contingent deferred purchase obligation	3,727,897	3,727,897
Interest rate swap	1,562,385	2,011,379
Deferred income	8,586,894	11,721,240
	<u>639,580,857</u>	<u>598,425,595</u>
Total long-term liabilities		
Total liabilities	<u>701,722,531</u>	<u>680,823,165</u>
Net assets		
Unrestricted controlling	29,333,083	25,311,168
Unrestricted noncontrolling	193,483,599	166,685,573
	<u>222,816,682</u>	<u>191,996,741</u>
Total unrestricted net assets		
Temporarily restricted net assets	1,246,899	375,000
	<u>1,246,899</u>	<u>375,000</u>
Total net assets	<u>224,063,581</u>	<u>192,371,741</u>
Total liabilities and net assets	<u>\$ 925,786,112</u>	<u>\$ 873,194,906</u>

See Notes to Consolidated Financial Statements.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015**

	Unrestricted	Temporarily restricted	Total 2016	Total 2015
Support and revenue				
Rental income	\$ 110,069,609	\$ -	\$ 110,069,609	\$ 103,360,760
Grant income	3,384,589	975,343	4,359,932	2,735,554
Grant income, capital investments	3,793,926	456,412	4,250,338	3,748,353
Contribution income	57,150	-	57,150	-
Developer fee revenue	755,053	-	755,053	557,040
State tax credit proceeds	4,209,182	-	4,209,182	2,849,321
Property management and accounting service fees	39,793	-	39,793	56,220
Gain on sale	-	-	-	1,227,282
Interest income	510,827	-	510,827	383,724
Loss on investment in partnership	(50,249)	-	(50,249)	-
Investment and other income	4,026,127	-	4,026,127	5,778,313
	<u>126,796,007</u>	<u>1,431,755</u>	<u>128,227,762</u>	<u>120,696,567</u>
Net assets released from restrictions	<u>559,856</u>	<u>(559,856)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>127,355,863</u>	<u>871,899</u>	<u>128,227,762</u>	<u>120,696,567</u>
Expenses				
Personnel	11,334,525	-	11,334,525	10,678,443
Development expense	1,517,100	-	1,517,100	1,093,107
Professional services	1,320,334	-	1,320,334	965,277
Contributions and grants made	1,538,882	-	1,538,882	243,014
Rental	861,736	-	861,736	872,121
Taxes and insurance	349,225	-	349,225	279,662
Travel and lodging	662,373	-	662,373	697,826
Interest	1,254,052	-	1,254,052	950,420
Property operations	66,439,327	-	66,439,327	62,625,929
Property mortgage interest	30,128,471	-	30,128,471	28,007,373
Office and administration	794,622	-	794,622	943,755
Depreciation and amortization	20,510,717	-	20,510,717	21,380,518
Community impact	2,742,231	-	2,742,231	1,738,295
Bad debt expense	14,183	-	14,183	20,113
Miscellaneous	174,679	-	174,679	206,778
Total expenses	<u>139,642,457</u>	<u>-</u>	<u>139,642,457</u>	<u>130,702,631</u>
Excess (deficiency) of revenue over expense	(12,286,594)	871,899	(11,414,695)	(10,006,064)
Excess of expenses over revenue attributable to noncontrolling interests	<u>(16,308,509)</u>	<u>-</u>	<u>(16,308,509)</u>	<u>(15,686,808)</u>
Excess of revenue over expenses attributable to the Company	<u>\$ 4,021,915</u>	<u>\$ 871,899</u>	<u>\$ 4,893,814</u>	<u>\$ 5,680,744</u>

See Notes to Consolidated Financial Statements.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Functional Expenses
Years Ended December 31, 2016 and 2015**

	2016			2015	
	Program services	Management and general	Fundraising	Total	Total
Personnel	\$ 9,650,699	\$ 1,335,810	\$ 348,016	\$ 11,334,525	\$ 10,678,443
Development expense	1,517,100	-	-	1,517,100	1,093,107
Professional services	1,320,334	-	-	1,320,334	965,277
Grants	1,538,882	-	-	1,538,882	243,014
Rental	761,240	79,725	20,771	861,736	872,121
Taxes and insurance	319,424	23,641	6,159	349,225	279,662
Travel and lodging	662,373	-	-	662,373	697,826
Interest	1,254,052	-	-	1,254,052	950,420
Property operations	66,439,327	-	-	66,439,327	62,625,929
Property mortgage interest	30,128,471	-	-	30,128,471	28,007,373
Office and administration	655,113	110,675	28,834	794,622	943,755
Depreciation and amortization	20,510,717	-	-	20,510,717	21,380,518
Community impact	2,742,231	-	-	2,742,231	1,738,295
Bad debt expense	14,183	-	-	14,183	20,113
Miscellaneous	153,724	16,625	4,330	174,679	206,778
	<u>\$ 137,667,870</u>	<u>\$ 1,566,476</u>	<u>\$ 408,110</u>	<u>\$ 139,642,457</u>	<u>\$ 130,702,631</u>

See Notes to Consolidated Financial Statements.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2016 and 2015**

	Unrestricted net assets			Temporarily restricted net assets	Net assets
	Controlling	Noncontrolling	Total	Controlling	Total
Beginning balance, January 1, 2015	\$ 20,603,278	\$ 163,158,013	\$ 183,761,291	\$ 294,316	\$ 184,055,607
Acquisition of noncontrolling limited partnership interest	(322,466)	322,466	-	-	-
Transfer of limited partnership interest to noncontrolling	(569,722)	569,722	-	-	-
Other comprehensive loss attributable to noncontrolling interests	-	178,662	178,662	-	178,662
Other comprehensive income attributable to the Company	18	-	18	-	18
Capital contributions from noncontrolling interests	-	18,311,180	18,311,180	-	18,311,180
Distributions to noncontrolling interests	-	(89,161)	(89,161)	-	(89,161)
Noncontrolling interests' syndication costs	-	(78,501)	(78,501)	-	(78,501)
Excess of expenses over revenue attributable to noncontrolling interests	-	(15,686,808)	(15,686,808)	-	(15,686,808)
Excess of revenue over expenses attributable to the Company	5,600,060	-	5,600,060	80,684	5,680,744
Ending balance, December 31, 2015	25,311,168	166,685,573	191,996,741	375,000	192,371,741
Capital contributions from noncontrolling interests	-	43,222,449	43,222,449	-	43,222,449
Distributions to noncontrolling interests	-	(98,414)	(98,414)	-	(98,414)
Noncontrolling interests' syndication costs	-	(17,500)	(17,500)	-	(17,500)
Excess of expenses over revenue attributable to noncontrolling interests	-	(16,308,509)	(16,308,509)	-	(16,308,509)
Excess of revenue over expenses attributable to the Company	4,021,915	-	4,021,915	871,899	4,893,814
Ending balance, December 31, 2016	\$ 29,333,083	\$ 193,483,599	\$ 222,816,682	\$ 1,246,899	\$ 224,063,581

See Notes to Consolidated Financial Statements.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Excess of expenses over revenue	\$ (11,414,695)	\$ (10,006,064)
Adjustments to reconcile excess of expenses over revenue to net cash provided by operating activities		
Loss on investment in partnership	50,249	-
Depreciation and amortization	21,789,795	21,380,518
Effective interest adjustment	2,072,289	1,515,101
Change in fair market value of interest rate swaps	(448,994)	-
Loss on sale of properties	(106,779)	(1,227,282)
Forgiveness of debt	(574,311)	(1,148,622)
Deferred income	(2,854,819)	(2,997,602)
Changes in		
Accounts receivable	(710,636)	(499,640)
Prepaid expenses and other assets	(624,337)	485,595
Predevelopment costs reimbursable	(551,934)	319,996
Accounts payable, accrued expenses and deferred compensation costs	2,296,905	657,627
Prepaid and deferred revenues	163,187	(1,897,294)
Tenant security deposits, net	(11,042)	(41,257)
Due to affiliates, net	(57,016)	160,478
	<u>9,017,862</u>	<u>6,701,554</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Escrow deposits and restricted reserves, net	(4,310,943)	(5,241,903)
Advances on notes receivable and accrued interest	(8,407,000)	-
Investment in partnership	(456,027)	-
Cash paid for fixed assets	(58,214,972)	(91,229,784)
	<u>(71,388,942)</u>	<u>(96,471,687)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from line of credit	1,700,000	294,181
Payments on line of credit	(1,300,000)	-
Proceeds from notes and mortgages payable	105,349,191	131,572,840
Payment on notes and mortgages payable	(82,107,818)	(50,079,425)
Deferred income	(329,307)	(323,742)
Proceeds from contingent deferred purchase obligation	-	(4,168,759)
Finance fees paid	(2,189,793)	(3,022,345)
Syndication costs paid	(17,500)	(78,501)
Distributions paid to minority partners	(98,414)	(89,161)
Minority partners' capital contributions received	41,165,351	18,311,180
	<u>62,171,710</u>	<u>92,416,268</u>
Net cash provided by financing activities		
Net (decrease) increase in cash and cash equivalents	(199,369)	2,646,135
Cash and cash equivalents, beginning of year	<u>29,497,307</u>	<u>26,851,172</u>
Cash and cash equivalents, end of year	<u>\$ 29,297,938</u>	<u>\$ 29,497,307</u>

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Supplemental disclosure of cash flow activities		
Cash paid for interest	<u>\$ 28,376,313</u>	<u>\$ 25,128,387</u>
Schedule of noncash investing activities		
Fixed asset costs incurred	\$ 100,035,829	\$ 103,396,909
Mortgages and loans assumed	-	(8,134,289)
Fixed assets assets sold in connection with common control transaction	(29,579,902)	-
Accounts payable - development, beginning of year	86,854,045	8,753,325
Accounts payable - development, end of year	<u>(99,095,000)</u>	<u>(12,786,161)</u>
Cash paid for fixed assets	<u>\$ 58,214,972</u>	<u>\$ 91,229,784</u>
Deferred liability included in residual receipts escrow	<u>\$ 78</u>	<u>\$ 784,360</u>
Contribution of notes receivable	<u>\$ 2,543,905</u>	<u>\$ -</u>
Increase in interest on notes receivable for acquisitions under common control	<u>\$ -</u>	<u>\$ 24,963</u>
Schedule of noncash financing activities		
Increase (decrease) in liabilities due to interest rate swap	<u>\$ 575,824</u>	<u>\$ (178,680)</u>

See Notes to Consolidated Financial Statements.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 1 - Organization

Preservation of Affordable Housing, Inc., ("POAH" or the "Company") was created to do exactly what its name suggests, preserve affordable housing stock. The Company is dedicated to the acquisition of and long-term ownership and operation of existing affordable housing properties.

The Company conducts its development and property management business through Preservation of Affordable Housing, LLC ("POAH LLC") and its wholly owned subsidiary, POAH Communities, LLC ("POAHC LLC"). The Company is located in Boston, Massachusetts, Kansas City, Missouri, Chicago, Illinois and Washington, DC.

At December 31, 2016, POAH or affiliates of POAH hold General Partner, Managing Member or ownership interests in 94 entities that own, in the aggregate 8,959 units of affordable housing. POAH LLC is the managing member of POAH/Trinity Loan Holding Company, LLC ("PTLHC"). At December 31, 2015, POAH or affiliates of POAH hold General Partner, Managing Member or ownership interests in 85 entities that own, in the aggregate 8,730 units of affordable housing.

Note 2 - Summary of significant accounting policies

Consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets, and financial activities of the Company and its core operating subsidiaries, POAH LLC, POAHC LLC and PTLHC. The statements include those 31 property entities in which the Company has a 100% ownership interest. Additionally, in accordance with ASC-810-20, "Control of Partnership and Similar Entities", as described below, the statements include the assets, liabilities, net assets and financial activities of 63 entities in which POAH or affiliates serve as General Partner or Managing Member.

The accompanying 2016 and 2015 consolidated financial statements include the assets, liabilities, equity and financial activities of those limited partnerships and limited liability companies where the Company generally owns a .01 - 1% general partner or managing member interest and represent all properties in which POAH or affiliates act as general partner or managing member and in which third party investors have substantial economic interests. All significant inter-company balances and transactions between the Company and the entities have been eliminated in consolidation. Unrestricted noncontrolling net assets on the accompanying consolidated financial statements reflects the proportional share of equity and operations that is not attributable to the Company's interest in these entities. The limited partnerships and limited liability companies are detailed in note 13.

Financial statement presentation

Under ASC-958-205, "Not-for-Profit Entities, Presentation of Financial Statements", the Company is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2016, \$1,246,899 of the Company's net assets are classified as temporarily restricted. As of December 31, 2015, \$375,000 of the Company's net assets are classified as temporarily restricted.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of acquisition to be cash equivalents. Cash and cash equivalents are stated at cost, which approximates market value.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Depreciation

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated asset lives. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the permanent mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense on the consolidated statement of activities and is computed using an imputed interest rate on the related loan.

Tax credit and in-place leases

Tax credit compliance monitoring fees are costs related to obtaining low-income housing tax credits, which are being amortized over the mandatory 15-year compliance period. In-place leases are amortized over one year. Unamortized tax credit fees and in-place leases are included in other assets on the consolidated statement of financial position. Amortization expense for the years ended December 31, 2016 and 2015 totaled \$536,039 and \$1,276,971, respectively, and accumulated amortization totaled \$2,550,505 and \$2,014,466, respectively.

Estimated amortization expense for each of the ensuing five years through December 31, 2020 is as follows:

Years	Wholly Owned (1)	LP (2)	Total
2017	\$ 64,447	\$ 262,463	\$ 326,910
2018	7,259	231,512	238,771
2019	7,259	201,716	208,975
2020	7,259	200,009	207,268
2021	7,259	196,589	203,848

(1) Entities wholly-owned by POAH

(2) Entities controlled by POAH or subsidiaries

Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Grants receivable

Grants receivable represents costs incurred on cost reimbursable grants that will be billed after December 31, 2016. Grants receivable are stated at the amount management expects to be collected from the outstanding balance. As of December 31, 2016, management has determined that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Contribution revenue

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Predevelopment costs

The Company carries all third party costs associated with the potential acquisition of investment properties as predevelopment costs reimbursable. Costs associated with potential acquisitions that are not deemed probable to be recovered are expensed.

Noncontrolling interests

The Company purchased Housing Investments, Inc.'s ("HII") noncontrolling 50% share of POAH LLC on January 12, 2012 (see Note 16). At both December 31, 2016 and 2015, eliminations related to the noncontrolling interests total (\$13,048,858). Noncontrolling interest in POAH LLC represents the proportional share of equity and operations of PTHLC that is not attributable to POAH LLC's interest in the entity. At December 31, 2016, the noncontrolling member's interest total \$2,057,098. Noncontrolling interest in the project limited partnerships and limited liability companies represents various investor limited partners and members proportionate share of equity in the project limited partnerships and limited liability companies. At December 31, 2016 and 2015, the noncontrolling partners'/members' interest in the project limited partnerships and limited liability companies were approximately 99.99% and total \$204,475,359 and \$179,734,431, respectively. Income is allocated to noncontrolling interest based on the noncontrolling partners'/members' ownership.

Investment in partnership

POAH LLC's investment in one limited partnership is accounted for under the equity method of accounting as POAH LLC does not exercise control or meet the requirements for consolidation. Amounts contributed are carried at cost, adjusted for the Company's share of undistributed earnings or losses.

Tax status

The Company is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(c)(3) and did not have any unrelated business income for the years ended December 31, 2016 and 2015. No provision or benefit for income taxes has been included in these consolidated financial statements for POAH LLC, POAHC LLC, PTLHC LLC and the entities controlled by POAH or an affiliate since the limited liability companies are either disregarded entities of POAH and thus POAH is treated for tax purposes as having earned all of the income and incurred all of the losses directly of those limited liability companies, or the limited liabilities companies are treated as partnerships and thus all of their net taxable profit or loss is passed through to the partners, including POAH. The Company is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be considered for disclosure. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2013 remain open.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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.

Functional expenses

Expenses are charged directly to program, management and general or fundraising categories based on specific identification. Certain expenses have been allocated based on salary expenditures.

Accounting for the impairment of long-lived assets

The Company reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2016 and 2015.

Developer fee revenue

Development fees are recognized as revenue when amounts are earned according to the development services agreements and in accordance with ASC-360-20, "Real Estate Sales." Amounts receivable from surplus cash of the properties are not recorded until such time as there is available surplus cash.

Other fee revenue from properties

Other fees from properties are earned in accordance with property partnership agreements. Fees payable from surplus cash of the properties are recorded at such time as there is available surplus cash. These fees earned from consolidated properties are eliminated in consolidation.

Property management fees

Property management fees are recognized as revenue when amounts are earned according to the management agreements. Fees earned from consolidated properties are eliminated in consolidation.

Rental income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the limited partnerships and the tenants of the properties are operating leases.

State credit proceeds

State credit proceeds are recognized as revenue over one to five years, the period that the state tax credit is recognized by the investor.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Derivatives

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Effective January 1, 2010, this guidance was codified into ASC-815-10 "Derivatives and Hedging." The Company uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge initially is included as a component of other comprehensive income and is subsequently reclassified into earnings when interest on the related debt is paid. As part of the transition process, the fair value of the Company's pre-existing cash flow hedge is reflected in accumulated other comprehensive income/loss.

Fair value measurement

In September 2006, the Financial Accounting Standards Board ("FASB") issued pre-codification guidance in SFAS No. 157, *Fair Value Measurements*. Effective July 1, 2012, the guidance was codified into ASC 820-10, *Fair Value Measurements and Disclosures* ("ASC 820-10"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2012, the FASB issued pre-codification guidance in the Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*. Effective July 1, 2010, the guidance was codified into ASC 820-60-65, ("ASC 820-60-65"). ASC 820-60-65 amends ASC 820-10 to delay the effective date of the standard to fiscal years beginning after November 15, 2008 as it relates to nonfinancial assets and nonfinancial liabilities. The company has adopted ASC 820-10 for financial assets and financial liabilities, as required, effective as of January 1, 2008. Acquisitions of real property from third parties are recorded at fair value upon purchase.

Reclassifications

Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

Note 3 - Notes receivable

The Company, as the sponsor of the entities that own the affordable housing developments, holds various notes receivable from the entities. Certain notes were contributed to the Company by the Department of Housing and Urban Development ("HUD") in connection with Mark-to-Market restructuring. The notes bear interest at various rates, are generally secured but subordinate to the first mortgages on the properties and are payable from available cash flow. The notes, at the time of receipt by the Company, were recorded at a discount rate reflecting the present value of future projected cash flows. The discount rate was 17% for notes received prior to 2005 and 20% for notes received thereafter. The interest income that is received by the Company is recorded based on the amortization schedules at the discounted note values. Payments received in excess of the amortization schedules are recorded to income in the year of the excess payment.

Other loans have been originated by the Company and were funded by reserves or represent seller financing provided to the affordable housing development. Management has established an allowance for amounts deemed uncollectible in the amount of \$3,174,052 as of December 31, 2016 and 2015.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

A summary of the notes receivable and accrued interest at year end is as follows:

Entity (1)	Original amount of note	Amortized principal value	Discount/ Allowance	Carrying value December 31, 2016	Maturity date	Stated interest rate	Carrying value December 31, 2015
Mark-to-market loans							
Hawthorne (5)	\$ 15,442,614	\$ 12,434,135	\$ (9,409,982)	\$ 3,024,153	2032	1%	\$ 3,024,153
Hawthorne (2), (5)	-	-	-	400,115	-	-	539,792
Washington Gardens (5)	2,846,903	2,831,358	(2,516,386)	314,972	2034	1%	314,972
Washington Gardens (2), (5)	-	-	-	-	-	-	26,888
Garfield (5)	1,668,723	1,668,723	(1,447,939)	220,784	2031	5.50%	220,784
Woodlen (5)	1,110,743	1,110,743	(1,110,743)	-	2034	1%	-
Sugar River (5)	3,202,161	3,101,039	(2,996,378)	104,661	2028	3.67%	104,661
Sugar River (2), (5)	-	-	-	85,505	-	-	85,505
New Horizons (4)	3,135,755	3,135,755	(2,885,767)	249,988	2029	3.50%	249,988
Lafayette (4)	1,960,798	1,960,798	(1,104,719)	856,079	2031	1.00%	856,079
Other loans							
Oakland (5)	518,240	518,240	-	518,240	2038	5%	518,240
Oakland (2), (4)	-	-	-	44,299	-	-	44,299
Jefferson (5)	579,914	579,914	-	579,914	2038	5%	579,914
Jefferson (2), (4)	-	-	-	49,571	-	-	49,571
Beachwood (5)	1,495,262	994,291	-	994,291	2034	5%	994,291
Beachwood (2), (5)	-	-	-	40,750	-	-	21,251
Washington Gardens (5)	1,107,624	1,106,884	(1,106,884)	-	2036	4.79%	-
Crestview (5)	2,240,000	2,240,000	(2,067,168)	172,832	2037	4.72%	172,832
Hillside (5)	617,000	617,000	-	617,000	2046	4.90%	617,000
Pocasset (3), (5)	2,340,000	2,340,000	-	2,340,000	2046	4.90%	2,340,000
Pocasset (5)	448,344	448,344	-	448,344	2046	4.90%	448,344
Hillcrest (5)	116,000	116,000	-	116,000	2047	4.90%	116,000
Hillcrest (3), (5)	300,000	300,000	-	300,000	2047	4.90%	300,000
Bridle Path (3), (5)	844,160	844,160	-	844,160	2050	12.00%	844,160
Chestnut Gardens (3), (5)	1,727,285	1,727,285	-	1,727,285	2050	8.75%	1,727,285
Dom Narodowy (3), (5)	912,273	857,170	-	857,170	2050	5.15%	864,500
Dom Narodowy (2), (5)	-	-	-	30,840	-	-	46,306
Eastgate (3), (5)	3,196,804	2,971,224	-	2,971,224	2050	5.15%	3,082,502
Eastgate (3), (5)	-	-	-	98,699	-	-	56,925
Fieldstone (5)	310,000	310,000	-	310,000	2047	5.09%	310,000
Fairweather (3), (5)	6,000,000	4,630,554	-	4,630,554	2050	5.00%	4,767,564
Fairweather (2), (5)	-	-	-	159,497	-	-	715,486
Chestnut Gardens (3), (5)	121,000	121,000	-	121,000	2050	5.00%	121,000
Dom Narodowy (3), (5)	93,998	26,712	-	26,712	2050	5.00%	26,712
Fieldstone (5)	511,430	511,000	-	511,000	2047	5.09%	511,000
Heritage (3), (5)	1,639,308	1,422,411	-	1,422,411	2048	5.00%	1,639,308
Heritage (2), (5)	-	-	-	43,260	-	-	147,679
Heritage (3), (5)	2,517,824	2,517,824	-	2,517,824	2048	5.00%	2,517,824
Cochecho (5)	245,000	245,000	-	245,000	2049	4.46%	245,000
Cutler Manor (4)	216,370	216,370	-	216,370	2013	8.00%	216,370
New Horizons (5)	200,000	200,000	-	200,000	2029	3.53%	200,000
United Front (5)	5,412,500	5,330,350	-	5,330,350	2050	0.00%	5,330,350
Cromwell (3), (5)	872,000	872,000	-	872,000	2061	4.30%	872,000
Cromwell (5)	500,000	500,000	-	500,000	2061	0.00%	500,000
Fairweather (5)	165,000	103,607	-	103,607	2042	2.67%	103,607
Sugar River (5)	50,000	50,000	-	50,000	2042	2.67%	50,000
Blackstone (3), (5)	12,485,719	12,485,719	-	12,485,719	2053	3.65%	12,485,719
Blackstone (2), (5)	-	-	-	688,577	-	-	649,348
Franklin (3), (5)	16,676,301	16,676,301	-	16,676,301	2053	4.30%	16,676,301
Franklin (2), (5)	-	-	-	354,478	-	-	220,138
Franklin (3), (5)	1,895,148	1,895,148	-	1,895,148	2053	4.30%	1,895,148
Kenmore (3), (5)	12,182,798	11,466,872	-	11,466,872	2053	2.67%	12,063,334
Kenmore (2), (5)	-	-	-	313,428	-	-	331,072
King's Landing (3), (5)	4,941,821	4,941,821	-	4,941,821	2053	3.50%	4,941,821
King's Landing (3), (5)	2,400,000	2,400,000	-	2,400,000	2053	3.50%	2,400,000
King's Landing (3), (5)	3,288,681	3,288,681	-	3,288,681	2054	0.25%	3,288,681
Peter's Grove (3), (5)	626,994	599,898	-	599,898	2053	4.00%	599,898
Peter's Grove (2), (5)	-	-	-	61,720	-	-	40,472
Peter's Grove (3), (5)	339,458	339,458	-	339,458	2053	4.00%	339,458
Peter's Grove (3), (5)	2,625,000	2,429,060	-	2,429,060	2053	4.00%	2,429,060
Rock Harbor (3), (5)	355,416	345,710	-	345,710	2053	2.64%	345,710
Rock Harbor (2), (5)	-	-	-	9,416	-	-	22,336
Rock Harbor (3), (5)	2,561,065	2,561,065	-	2,561,065	2053	2.67%	2,561,065
Rock Harbor (3), (5)	3,500,000	3,276,588	-	3,276,588	2053	0.00%	3,276,588

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Entity (1)	Original amount of note	Amortized principal value	Discount/ Allowance	Carrying value December 31, 2016	Maturity date	Stated interest rate	Carrying value December 31, 2015
United Front (5)	1,000,000	1,000,000	-	1,000,000	2048	5.45%	1,000,000
United Front (2), (5)	-	-	-	4,113			4,113
Clay Pond Cove (3), (5)	4,456,750	4,557,278	-	4,557,278	2041	1.00%	4,557,278
Clay Pond Cove (2), (5)	-	-	-	17,941			29,969
WCN (4)	263,101	263,101	-	263,101	2054	0.00%	263,101
POAH Ventures (4)	109,835	109,835	-	109,835	2015	4.50%	109,835
Grace (4)	157,646	157,646	-	157,646	2054	0.00%	157,646
Water's Edge (4)	32,000	32,000	-	32,000	2035	1.00%	32,000
WP Senior (4)	5,134,794	5,134,794	-	5,134,794	2065	0.00%	5,134,794
Lafayette (4)	1,140,000	1,140,000	-	1,140,000	2054	6.00%	1,140,000
Lafayette (2), (4)	-	-	-	68,400			68,400
NSP Chicago (4)	1,188,000	1,176,610	-	1,176,610	2054	0.00%	1,081,039
Aaron Briggs (4)	1,343,532	-	-	-	2017	6.00%	1,343,532
Newberry (4)	3,172,224	614,250	-	614,250	2016	6.68%	614,250
Trinity Towers South (4)	240,891	-	-	-	2048	4.00%	180,577
Trinity Towers South (2), (4)	-	-	-	-			1,005
Harbor City Towers (4)	500,000	500,000	-	500,000	2031	0.00%	500,000
Lafayette (4)	137,544	137,544	-	137,544	2056	2.50%	137,544
Briston Arms (5)	4,807,000	4,807,000	-	4,807,000	2057	5.00%	4,807,000
Melpet Farm (5)	400,000	511,902	-	511,902	2021	6.00%	51,190
Melpet Farm (2), (5)	-	-	-	16,701			-
Central Annex (5)	695,000	695,000	-	695,000	2055	1.00%	695,000
NSP Chicago (4)	1,187,445	91,351	-	91,351	2021	6.00%	-
NSP Chicago (4)	1,184,445	88,842	-	88,842	2021	6.00%	-
Greenwood (4)	263,096	263,096	-	263,096	2017	6.00%	-
Tribune (4)	454,823	275,800	-	275,800	2056	5.00%	-
Old Middletown HS (5)	1,359,859	1,359,859	-	1,359,859	2055	2.50%	-
Cherry Briggs (5)	558,374	558,374	-	558,374	2057	5.00%	-
Trinity Towers South (6)	704,179	441,807	-	441,807	2048	0.00%	-
Trinity Towers East (6)	304,508	45,000	-	45,000	2056	2.25%	-
Trinity Towers West (6)	2,057,098	2,057,098	-	2,057,098	2048	4.00%	-
Bridle Path (7)	-	-	-	420,370	2055	3.32%	404,456
Franklin (7)	-	-	-	37,146	2055	3.20%	54,756
Torrington (7)	-	-	-	1,532	2025	5.00%	511
Fieldstone	2,650,850	2,650,850	-	2,650,850	2047	5.09%	2,650,850
King's Landing	2,558,179	2,426,016	-	2,426,016	2053	3.50%	2,558,179
Chase NMTC Trianon	8,407,000	8,407,000	-	8,407,000	2044	1.79%	-
	<u>\$ 175,011,607</u>	<u>\$ 161,168,265</u>	<u>\$ (24,645,966)</u>	139,468,657			128,663,316
Eliminated in consolidation				(131,061,657)			(128,663,316)
				<u>\$ 8,407,000</u>			<u>\$ -</u>

- (1) See Note 13 for a detail of these entities
- (2) Represents accrued interest receivable on note
- (3) See Note 15 for related deferred gain
- (4) Note is held at POAH
- (5) Note is held at POAH LLC
- (6) Note is held at PTLHC
- (7) Represents interest receivable on unpaid developer fee

The Company only records accrued interest receivable to the extent that payment is expected from the properties from available surplus cash. Interest of \$16,521,427 and \$14,336,609 for 2016 and 2015, respectively, has not been recorded in these financial statements because no assurance can be made that it will be paid.

Gains from the excess payments over the loan principal and accretion of market discounts is \$948,428 and \$638,661, respectively, for the years ended December 31, 2016 and 2015. The effects of these transactions have been eliminated in consolidation each year.

In 2014, a change was implemented relating to properties purchased and controlled by entities wholly owned by the Company and subsequently sold to limited partnerships ("LP's") where the Company retains a general partner or controlling interest. Under common control accounting guidance, the acquired assets on the acquiring entity's books are recorded at the net book value as

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

reflected on the selling entity's books at the date of the acquisition and not at the fair value as determined by an appraisal. The net book value is typically less than the fair value purchase price of the acquired assets.

In prior years the fair value gain on sale was recognized by the Company or POAH LLC as a seller note receivable and related deferred gain. The change in guidance, effective for the year ending December 31, 2014, precludes recording these notes and deferred gain on the Company's consolidated statement of financial position or POAH LLC's balance sheet.

During 2016 and 2015, notes receivable totaling \$17,108,337 and \$3,397,049, respectively, are assets of POAH LLC, however they are not reflected as a component of notes receivable on the consolidated statement of financial position because they represent notes receivable related to acquisitions under common control. POAH LLC records cash payments on such notes receivable and interest income as a component of equity. At December 31, 2016 and 2015, interest income in the amount of \$0 and \$24,964, respectively, is recorded as a component of equity.

A summary of these common control notes receivable and accrued interest at year end is as follows:

Entity (1)	Original amount of note	Amortized principal value	Common control assets not recorded	Carrying value December 31, 2016	Maturity date	Stated interest rate	Carrying value December 31, 2015
Torrington (3)	\$ 320,171	\$ 331,967	\$ (331,967)	\$ -	2055	7.00%	\$ -
Torrington (3)	231,657	247,922	(247,922)	-	2055	5.00%	-
Torrington (2), (3)	-	-	-	49,895			49,895
Central Annex (3)	527,070	527,070	(527,070)	-	2055	3.20%	-
Central Annex (3)	977,225	977,225	(977,225)	-	2055	3.32%	-
Harbor City (3)	12,865	12,865	(12,865)	-	2050	2.95%	-
Harbor City (3)	1,300,000	1,300,000	(1,300,000)	-	2050	3.50%	-
Brandy Hill (3)	6,319,869	6,319,869	(6,319,869)	-	2058	2.45%	-
Cherry Briggs (3)	2,697,202	2,697,202	(2,697,202)	-	2057	7.00%	-
Cherry Briggs (3)	1,294,295	1,294,295	(1,294,295)	-	2057	7.00%	-
Trinity Towers South (4)	3,399,922	3,399,922	(3,399,922)	-	2048	1.95%	-
	<u>\$ 17,080,276</u>	<u>\$ 17,108,337</u>	<u>\$ (17,108,337)</u>	49,895			49,895
Eliminated in consolidation				<u>(49,895)</u>			<u>(49,895)</u>
				<u>\$ -</u>			<u>\$ -</u>

(1) See Note 13 for a detail of these entities

(2) Represents accrued interest receivable on note

(3) Note is held at POAH LLC

(4) Note is held at PTLHC

Note 4 - Loans and notes payable

Calvert Social Investment Foundation

In September 2011, the Company entered into a \$2,000,000 loan commitment with Calvert Social Investment Foundation for the purpose of furthering its activities as a non-profit organization engaged in community economic development. In August 2013, the Company entered into an additional \$2,000,000 loan commitment. In December 2015, the Company refinanced and entered into a new loan commitment for \$8,000,000. Interest accrues at the rate of 4.5% per annum. Payments of interest are due quarterly in arrears with the first principal payment with any accrued and unpaid interest due July 31, 2018 and the second principal payment with any accrued and unpaid interest due December 31, 2022. At December 31, 2016 and 2015, the outstanding principal balance is \$8,000,000 and \$6,000,000, respectively. Accrued and unpaid interest at December 31, 2016 and 2015 is \$0 and \$9,500, respectively.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Local Initiatives Support Corporation ("LISC")

In July 2012, the Company entered into a \$5,000,000 line of credit (loan) with LISC for the purpose of funding predevelopment costs. The line is collateralized by the mortgage note receivable from Hawthorne (see Note 3). Interest accrues at the rate of 6% per annum and is due monthly. Disbursements are made on a Project basis and principal and any accrued and unpaid interest is due for each Project at the earliest to occur of closing of construction financing, refinancing, the eighteen month anniversary following disbursement of funds or the maturity date of October 2017. In May 2017, the line was increased to \$6,500,000 and the maturity date was extended to October 2022. At December 31, 2016 and 2015, the outstanding principal balance is \$1,376,885 and \$2,018,011, respectively. Accrued and unpaid interest is \$0, respectively.

Life Insurance Community Investment Initiative, LLC

In May 2014, the Company entered into a \$1,500,000 revolving line of credit with Life Insurance Community Investment Initiative, LLC for the purpose of funding predevelopment costs for properties in Massachusetts. Interest accrues at 6.5% and is due quarterly. Payments of principal are due at the closing of the acquisition of the properties. All unpaid principal and accrued interest was due on the maturity date May 29, 2019. Disbursements that are repaid can be reborrowed, assuming loan criteria are met. The line is collateralized by the mortgage note receivable from Fairweather (see Note 3). At December 31, 2016 and 2015 the outstanding principal balance is \$550,000, respectively. Accrued and unpaid interest at December 31, 2016 and 2015 is \$8,937 and \$1,787, respectively.

Low Income Investment Fund

In June 2015, the Company entered into a \$5,000,000 loan commitment with Low Income Investment Fund ("LIIF") for the purpose of funding predevelopment costs. The loan is collateralized by the mortgage note receivable from Blackstone (see Note 3). Interest accrues at the rate equal to the greater of the 5-year United States Treasury Rate plus 500 basis points or 6.25% per annum. Payments of interest are due monthly and payments of principal and unpaid interest are due at the earlier of the closing and funding of any construction or permanent financing of the project loan or five year anniversary of the first day of the first full month following the closing date. At December 31, 2016 and 2015 the outstanding principal balance is \$1,773,590, respectively. Accrued and unpaid interest at December 31, 2016 and 2015 is \$0, respectively.

Boston Community Loan Fund, Inc.

In December 2014, POAH LLC entered into a \$2,000,000 line of credit agreement with Boston Community Loan Fund, Inc. for the purpose of funding energy conservation improvements. Interest accrues at 5% and is payable monthly. Disbursements are made on a Project basis and principal and any accrued and unpaid interest is due for each Project five years after the issuance of a term note. Funds can be drawn until February 28, 2017. At December 31, 2016 and 2015, the outstanding principal balance is \$511,902 and \$51,190, respectively.

Annual maturities of debt for the ensuing five years as of December 31, 2016 are summarized as follows:

2017	\$	335,185
2018		40,801
2019		42,918
2020		45,132
2021		47,866

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Life Initiative

In July 2015, POAH LLC entered into a \$2,407,000 loan agreement with Life Insurance Community Investment Initiative, LLC for the purpose of funding development costs for Briston Arms, a property in Cambridge, MA, being developed by POAH LLC. Interest accrues at 7% compounded annually. Payments of principal and accrued interest are due annually in the amount of 80% of deferred development fee payments received from Briston Arms. All unpaid principal and accrued interest is due on the maturity date of July 6, 2023. The loan proceeds have been loaned to Briston Arms (see Note 3). At December 31, 2016 and 2015, the outstanding principal is \$2,407,000, respectively, and accrued interest is \$264,547 and \$83,777, respectively.

Cambridge Affordable Housing Trust

In July 2015, POAH LLC entered into a \$2,400,000 loan agreement with Cambridge Affordable Housing Trust for the purpose of funding development costs for Briston Arms, a property in Cambridge, MA, being developed by POAH LLC. Interest accrues at 4% per annum. Payments of principal and accrued interest are due annually in an amount equal to the EV Income Payments as defined in the agreement. After full repayment of the Life Initiatives note, all unpaid principal and accrued interest is due on the maturity date of June 30, 2035. The loan proceeds have been loaned to Briston Arms (see Note 3). At December 31, 2016 and 2015, the outstanding principal is \$2,400,000, respectively, and accrued interest is \$143,733 and \$47,733, respectively.

Debt issuance costs

As of December 31, 2016, unamortized debt issuance costs related to the loans of \$52,199 consist of financing costs of \$203,160 less accumulated amortization of \$150,961. As of December 31, 2015, unamortized debt issuance costs related to the loans of \$99,299 consist of financing costs of \$203,160 less accumulated amortization of \$103,861. For the years ended December 31, 2016 and 2015, \$47,100 and \$51,051 of amortization was incurred and is included in interest expense on the consolidated statements of activities.

Loan balances

The balances as included in the accompanying consolidated statement of financial position as of December 31, 2016 and 2015 are summarized as follows:

Lender	Current portion	Long-term portion	Total balance at December 31, 2016	Current portion	Long-term portion	Total balance at December 31, 2015
LISC	\$ 1,376,885	\$ -	\$ 1,376,885	\$ 2,018,010	\$ -	\$ 2,018,010
Life Initiative	-	550,000	550,000	-	550,000	550,000
Calvert	-	8,000,000	8,000,000	-	6,000,000	6,000,000
LIIF	1,773,590	-	1,773,590	1,773,590	-	1,773,590
BCLF - LLC	344,849	167,053	511,902	-	51,190	51,190
Life Initiative - LLC	-	2,407,000	2,407,000	-	2,407,000	2,407,000
CAHT - LLC	-	2,400,000	2,400,000	-	2,400,000	2,400,000
HII (1)	1,552,477	1,613,188	3,165,665	517,799	3,165,664	3,683,463
	<u>\$ 5,047,801</u>	<u>\$ 15,137,241</u>	<u>\$ 20,185,042</u>	<u>\$ 4,309,399</u>	<u>\$ 14,573,854</u>	<u>\$ 18,883,253</u>

(1) See Note 16

The Company entered into several note agreements in 2012 with HII as part of the purchase of POAH LLC (see Note 16).

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 5 - Loan facility

In December 2005, the Company entered into a \$10 million loan agreement with the Prudential Insurance Company of America. Under the Prudential loan facility, the Company had the right to draw advances for the direct ownership and long term warehousing of multifamily properties through December 2012.

At December 31, 2011, \$3,000,000 was advanced from the loan facility to purchase POAH Brandy Hill LLC ("PBH LLC"), a 132-unit property in E. Wareham, MA. This loan bears interest at 3.43% per annum and is secured by an economic interest in the property. The Company has guaranteed 15% of the PBH LLC loan advance. Principal payments may be deferred until December 1, 2016. The loan was repaid in full on October 27, 2016.

Note 6 - Line of credit - Boston Private Bank

In January 2013, POAH LLC entered an agreement for a revolving demand line of credit note with Boston Private Bank & Trust Company. The line of credit is not to exceed \$1,500,000 and matures on January 16, 2017. The line was increased to \$3,500,000 in February 2016 and the maturity date was extended to May 8, 2019. The note accrues interest equal to the Prime Rate with a floor of 3.25% (3.75% and 3.50% at December 31, 2016 and 2015, respectively) and is payable monthly. The line is collateralized by the mortgage notes receivable from Bridle Path, Chestnut Gardens, Dom Narodowy and Eastgate (see Note 3). During 2016 and 2015, interest expense of \$55,507 and \$4,184, respectively, was recorded on the consolidated statements of income. At December 31, 2016 and 2015, \$694,181 and \$294,181, respectively, are outstanding on the line. Accrued and unpaid interest at December 31, 2016 and 2015 is \$6,260 and \$856, respectively.

Note 7 - Mortgages payable - properties

The Company receives financing for the affordable housing properties from various federal, state and local agencies and financial institutions. These loans are nonrecourse to the Company and are secured by mortgages on the properties. Some of the mortgages also require monthly remittances for escrows and reserves.

The entities in which the Company owns a general partner or managing member interest have outstanding mortgage loans and notes payable. Generally, the loans are secured by security interests and liens common to mortgage loans on the entities' real property and other assets and are nonrecourse to the Company. Such loans bear interest at rates ranging from approximately 0% to 13.125% per annum. The majority of the first mortgage loans require monthly payments of principal and interest, while some of the subordinate loans are only payable from available cash flow and/or deferred to maturity. The mortgages mature in years from 2031 to 2065. For those mortgages payable to POAH or an affiliate, the effect of the loan has been eliminated in the consolidation for each year (see Note 3).

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

A summary of the mortgages and notes payable at year-end is as follows:

	Balance at December 31, 2016	Balance at December 31, 2015
	<u> </u>	<u> </u>
Permanent conventional loans, bearing compounded interest from 2.813% to 7.25%, generally with principal and interest due monthly, to be repaid in full on various maturity dates through 2049.	\$ 65,630,927	\$ 62,355,579
Federal, state and local agency loans, bearing interest from 0% to 12.625%, generally with principal and interest due monthly or payable from the respective property's net cash flow, if any, to be repaid in full on various maturity dates through 2049.	19,884,313	29,110,970
Other loans, bearing interest from 4.5% to 8%, generally payable annually from the respective property's net cash flow, if any, to be repaid in full on various maturity dates through 2031.	3,275,640	8,926,106
Accrued interest	<u>616,115</u>	<u>539,352</u>
	23,776,068	38,576,428
Unamortized debt issuance costs	<u>(802,585)</u>	<u>(1,134,954)</u>
Subtotal - wholly owned entities	22,973,483	37,441,474
Subtotal - entities controlled by POAH or affiliates	<u>696,968,442</u>	<u>678,696,620</u>
	719,941,925	716,138,094
Mortgages and notes eliminated in consolidation	<u>(150,167,500)</u>	<u>(152,635,783)</u>
	<u><u>\$ 569,774,425</u></u>	<u><u>\$ 563,502,311</u></u>

During the years ended December 31, 2016 and 2015, amortization expense incurred on debt issuance costs was \$2,025,189 and \$1,515,101, respectively, and was included in property mortgage interest in the consolidated statements of activities. A summary of the mortgages payable and related deferring financing costs is as follows:

	Wholly Owned	LP	Total balance at December 31, 2016	Wholly Owned	LP	Total balance at December 31, 2015
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Mortgages payable less unamortized debt issuance costs	\$ 60,483,545	\$ 395,684,732	\$ 456,168,277	\$ 67,710,247	\$ 385,070,520	\$ 452,780,767
Debt issuance costs	\$ 1,455,920	\$ 16,919,406	\$ 18,375,326	\$ 1,841,658	\$ 15,188,387	\$ 17,030,045
Less: accumulated amortization	(653,335)	(4,807,050)	(5,460,385)	(706,704)	(3,655,566)	(4,362,270)
Unamortized debt issuance costs	<u>\$ 802,585</u>	<u>\$ 12,112,356</u>	<u>\$ 12,914,941</u>	<u>\$ 1,134,954</u>	<u>\$ 11,532,821</u>	<u>\$ 12,667,775</u>

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Annual maturities of debt for the ensuing five years are summarized as follows:

Years	Wholly Owned (1)	LP (2)	Total
2017	\$ 1,343,626	\$ 23,861,031	\$ 25,204,657
2018	1,398,948	6,463,836	7,862,784
2019	22,636,351	6,685,522	29,321,873
2020	493,149	6,987,944	7,481,093
2021	359,359	20,951,468	21,310,827

(1) Entities wholly-owned by POAH

(2) Entities controlled by POAH or subsidiaries

On January 1, 2006, Salem Heights Preservation Associates Limited Partnership ("SHPALP") adopted certain provisions of ASC-820-10 (see Note 2). ASC-820-10 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and establishes the following fair value hierarchy:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the partners or manager has the ability to access;
- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

To minimize the effect of changes in interest on a mortgage note, a limited partnership, SHPALP, entered into interest rate swap agreements with two banks under which the partnership pays interest at a fixed rate of 4.24% and the banks pay the interest on the mortgage at a variable rate. The result is that the partnership pays interest at a fixed effective rate. Valued separately, the interest rate swap agreements represent a liability in the amount of \$1,435,555 and \$2,011,379 as of December 31, 2016 and 2015, respectively, and are categorized as Level 2. This value represents the fair value of the current difference in the interest paid and received under the swap agreement over the remaining term of the agreement. Changes in the swap agreement fair value are currently included in other comprehensive income.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

To minimize the effect of changes in interest on a mortgage note, POAH Support Corporation ("PSC"), entered into interest rate swap agreements with BMO Harris Bank under which PSC pays interest at a fixed rate of 1.31% and the banks pay the interest on the mortgage at a variable rate. The result is that the partnership pays interest at a fixed effective rate. Valued separately, the interest rate swap agreements represent a liability in the amount of \$126,830 as of December 31, 2016 and are categorized as Level 2. This value represents the fair value of the current difference in the interest paid and received under the swap agreement over the remaining term of the agreement. Changes in the swap agreement fair value are currently included in other comprehensive income.

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about fair value measurements. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Acquisition of real property is recorded at fair value at the time of purchase as determined by an appraisal and are categorized as Level 3. During the years ended December 31, 2016 and 2015, the Company recorded the acquisition of real property totaling \$8,086,602 and \$56,229,976, respectively.

Note 8 - Related party transactions

Notes and other receivables from affiliates

For the years ended December 31, 2016 and 2015, POAH Inc.'s and POAH LLC's notes receivable and accounts receivable are amounts receivable from limited partnerships in which the Company is a general partner. The effect of these transactions has been eliminated in consolidation each year.

Administrative salaries

The Company provides various services related to the administration of POAH LLC. For the years ended December 31, 2016 and 2015, POAH LLC reimbursed the Company for compensation, overhead and rent of \$5,962,572 and \$5,462,052, respectively.

Property management and accounting service fees

Property management and accounting service fees were earned by POAHC LLC in 2016 and 2015 in the amounts of \$6,008,538 and \$5,609,945, respectively, from related properties. An allowance for doubtful accounts has been established in the amounts of \$933,062 and \$918,880, respectively, as of December 31, 2016 and 2015. The effect of these transactions has been eliminated in consolidation each year.

Reimbursable salaries and expenses

POAHC LLC incurs costs related to payroll, technical support and other reimbursable expenses on behalf of the properties that it manages. For the years ended December 31, 2016 and 2015, the costs incurred and the related reimbursement from related properties totaled \$17,562,755 and \$16,982,651, respectively. The effect of these transactions has been eliminated in consolidation each year.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Development fee and other revenue from properties

During the years ended December 31, 2016 and 2015, the Company and POAH LLC earned development fee revenue and fees from affiliated entities as follows:

	<u>2016</u>	<u>2015</u>
Development fee paid from development sources	\$ 5,966,810	\$ 5,699,916
Development fee paid from cash flow	<u>1,169,616</u>	<u>627,510</u>
	7,136,426	6,327,426
Cash flow fees from certain related properties	<u>1,422,541</u>	<u>1,159,830</u>
	8,558,967	7,487,256
Development and cash flow fees eliminated in consolidation	<u>(7,803,914)</u>	<u>(6,930,216)</u>
	<u>\$ 755,053</u>	<u>\$ 557,040</u>

At December 31, 2016 and 2015, \$6,243,302 and \$5,798,413, respectively, is due from related properties for development and cash flow fees. At December 31, 2016 and 2015, development fees received but not yet earned are \$603,553 and \$784,849, respectively.

Note 9 - Investments in partnerships

The Company, either as a sole member of the entity or the 100% owner of the general partner, has made capital contributions to some of the entities that own the affordable housing developments.

A summary of the investments at year end is as follows:

<u>Entity (1)</u>	<u>Year of original investment</u>	<u>Original investment amount</u>	<u>Investment at December 31, 2016</u>	<u>Investment at December 31, 2015</u>
Country Club Village	2001	\$ -	\$ 354,705	\$ 235,304
Country Club Village II	2001	-	50,501	50,504
Highland Acres	2001	-	12,220	12,218
Houston Plaza	2001	-	3,561	3,561
Maplewood Manor	2001	-	83,033	83,034
Monroe Estates	2001	-	31,020	31,021
Prairie Plains	2001	-	25,656	25,660
Hawthorne	2002	930,000	929,793	929,760
Cherry Hill	2005	401,348	255,014	259,309
Torrington West (4)	2005	100	587,670	587,670
Pocasset	2006	1,067,857	1,067,519	1,067,559
Dom Narodowy Polski	2007	100	37	45
Heritage	2007	873	638	666
Sugar River (2)	2007	-	30,705	30,705
Cutler Manor	2008	-	-	94,761
Cutler Glen/Meadows	2008	-	(348,137)	(468,535)
Middletowne	2008	-	1,663,872	1,720,114
Grove Parc	2008	-	2,582	92,004

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Entity (1)	Year of original investment	Original investment amount	Investment at December 31, 2016	Investment at December 31, 2015
Riverview	2008	-	330,339	312,394
Campbell Arms	2009	-	2,775,756	2,760,182
New Horizons (3)	2009	-	28,488	28,488
Woodlawn Center South	2010	463,996	463,746	463,781
United Front	2010	2,259	1,823	1,885
Brandy Hill	2010	-	993,736	916,099
New Horizons Preservation (3)	2010	600,654	600,541	600,563
Trinity Towers East	2013	251,350	213,363	220,540
Trinity Towers West (5)	2013	298,650	-	21,220
Trinity Towers South	2013	92,258	569,649	390,035
Old Middletown	2014	100	3	54
Torrington West Preservation (4)	2014	100	41	55
POAH Holdings	2015	265,275	186,857	156,718
Harbor City Towers (5)	2015	-	46,167	10,390
Newberry	2015	100,000	129,832	99,910
Billings Forge	2015	265,375	256,498	156,450
Cherry Briggs	2016	100	97	-
Trinity East Preservation (6)	2016	100	98	-
Oxford Gardens (7)	2016	456,027	405,778	-
Trianon	2016	138,259	138,260	-
		<u>\$ 5,334,781</u>	11,891,461	10,894,124
Eliminated in consolidation			<u>(11,485,683)</u>	<u>(10,894,124)</u>
			<u>\$ 405,778</u>	<u>\$ -</u>

- (1) See note 13 for a detail of these entities.
- (2) On December 13, 2010, the Company sold the Sugar River property to a limited partnership in which an affiliate of the Company is a general partner.
- (3) On December 15, 2010, the Company sold the New Horizons property to a limited partnership in which the Company is a general partner.
- (4) On December 5, 2013, the Company sold the Torrington West property to a limited partnership in which the Company is a general partner.
- (5) On March 24, 2015, the Company sold the Trinity Towers West property to a limited partnership in which the Company is a general partner.
- (6) On November 28, 2016 the Company sold the Trinity Towers East property to a limited partnership in which the Company is a general partner.
- (7) Investment is held by POAH LLC, see below.

In 2016, POAH LLC purchased the 99% limited partner and .5% supervising general partner interest in PRC Associates Limited Partnership ("PRC") for \$456,027. PRC owns a property known as Oxford Gardens in Providence, RI. The investment is recorded using the equity method. The balance of this investment at December 31, 2016 is \$405,778.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

Certain financial information with respect to this investment at December 31, 2016 and the year then ended is as follows:

Net investment in real estate	\$ 335,551
Total assets	546,670
Permanent financing (including accrued interest)	7,127,803
Total liabilities	8,277,702
Limited partner's equity (deficit)	(6,942,783)
General partners' equity (deficit)	(788,249)
Revenue	538,317
Expenses	826,160
Net income (loss)	(287,843)

Note 10 - Commitments and contingencies

Lease commitments

The Company leased office space under a non-cancelable operating lease in Boston, MA which expires June 30, 2020. The Company executed a lease for additional space on February 15, 2014. Rental expense, inclusive of operating costs, for the year ended December 31, 2016 and 2015 totaled \$635,619 and \$634,718, respectively.

POAH LLC entered a non-cancelable operating lease for new office space which will expire in January 2018. Rental expense, inclusive of operating costs and net of amounts eligible for grant reimbursement, for the years ended December 31, 2016 and 2015 totaled \$26,519 and \$23,732, respectively.

POAHC LLC leases office space under a non-cancelable operating lease in Kansas City, MO, which expires in February 2018. Rental expenses, inclusive of real estate taxes and operating costs for the years ended December 31, 2016 and 2015 totaled \$125,525 and \$126,768, respectively.

Future minimum lease payments under operating leases as of December 31, 2016 are as follows:

	<u>INC</u>	<u>LLC</u>	<u>PHM</u>	<u>Total</u>
2017	\$ 591,546	\$ 69,354	\$ 128,944	\$ 789,844
2018	606,747	6,429	21,491	634,667
2019	610,681	-	-	610,681
2020	307,062	-	-	307,062
	<u>\$ 2,116,036</u>	<u>\$ 75,783</u>	<u>\$ 150,435</u>	<u>\$ 2,342,254</u>

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Other commitments and contingencies

In conjunction with the purchase of POAH Trinity Towers East LLC ("PTTE") and POAH Trinity Towers West LLC ("PTTW"), the Company guaranteed \$800,000 of principal and interest on the \$4,230,000 loans used to acquire the properties. The acquisition loans were secured by property mortgages. The PTTE loan was repaid October 2014 and the PTTW loan was repaid March 2015.

The Company or its affiliates serve as the general partner or managing member for various entities that are the owners of the affordable housing properties. The investors and in some cases lenders in these entities usually require guarantees from POAH entities on behalf of the general partner or managing member as a condition to their investment. Generally, these guarantees are for obligations such as construction and rehabilitation completion, funding of operating deficits and tax credit recapture price adjusters.

A summary of the guarantees outstanding at December 31, 2016 is as follows. See Note 13 for a detail of these entities and properties.

Entity	Acquisition year	Guaranty	guaranty maximum amount	Loan guarantee	Operating deficit expiration	Operating deficit maximum amount	Advances at December 31, 2016
7 Different							
Missouri Properties	2001	(2)	N/A	N/A	N/A	N/A	\$ -
Hawthorne	2002	(1), (2)	N/A	N/A	None	\$ 500,000	-
Jefferson	2003	(1), (2)	N/A	N/A	December 2026	970,894	-
Oakland	2003	(2)	N/A	N/A	N/A	N/A	-
Salem	2003	(1), (2)	N/A	N/A	N/A	N/A	625,596 (8)
Woodlen	2004	(2)	N/A	N/A	N/A	N/A	-
Beachwood	2004	(2)	N/A	N/A	N/A	N/A	-
Southwinds	2004	(2)	N/A	N/A	N/A	N/A	-
Meadowbrook	2004	(2)	N/A	N/A	N/A	N/A	-
Driftwood	2005	(1), (2)	N/A	N/A	None	420,705	-
Crestview	2005	(1), (2)	N/A	N/A	(8)	395,547	-
Washington Gardens	2005	(1), (2)	N/A	N/A	N/A	N/A	-
Garfield Hills	2006	(1), (2)	N/A	N/A	N/A	N/A	124,000 (8)
Hillside	2006	(2)	N/A	N/A	N/A	N/A	-
Pocasset	2006	(2)	N/A	N/A	N/A	N/A	-
Hillcrest	2007	(2)	N/A	N/A	N/A	N/A	-
Bridle Path	2007	(2)	N/A	N/A	N/A	N/A	-
Chestnut Gardens	2007	(2)	N/A	N/A	N/A	N/A	-
Dom Narodowy	2007	(2)	N/A	N/A	N/A	N/A	-
Eastgate	2007	(2)	N/A	N/A	N/A	N/A	-
Fairweather	2007	(2)	N/A	N/A	N/A	N/A	-
Fieldstone	2007	(2)	N/A	N/A	N/A	N/A	-
Heritage	2008	(2)	N/A	N/A	N/A	N/A	-
Coheco	2008	(2)	N/A	N/A	N/A	N/A	-
Riverview	2008	(3)	N/A	1,600,000	N/A	N/A	-
United Front	2008	(1), (2)	N/A	N/A	(7)	1,050,000	-
WCS	2010	(1), (2), (6)	N/A	N/A	(7)	310,000	-
Sugar River	2010	(1), (2)	N/A	N/A	(7)	815,000	-
New Horizons	2010	(1), (2)	N/A	N/A	N/A	N/A	-
Cromwell	2011	(1), (2)	N/A	N/A	(7)	715,815	-
Renaissance	2011	(1), (2)	N/A	N/A	N/A	N/A	-
Blackstone	2012	(1), (2)	N/A	N/A	June 2018	1,998,765	-
Franklin	2012	(1), (2)	N/A	N/A	(7)	1,994,828	-
Kenmore	2012	(1), (2)	N/A	N/A	(7)	2,396,000	-
Peter's Grove	2012	(1), (2)	N/A	N/A	(7)	653,755	-
Rock Harbor	2012	(1), (2)	N/A	N/A	June 2018	641,983	-
WCN	2012	(1), (2), (6)	N/A	N/A	(7)	162,500	-
Clay Pond Cove	2012	(1), (2)	N/A	N/A	(7)	393,543	-
Kings Landing	2013	(1), (2)	N/A	N/A	(7)	593,473	-
Central Annex	2013	(1), (2), (9)	N/A	N/A	(7)	554,259	-
Torrington	2013	(1), (2)	N/A	N/A	(7)	413,050	-
Grace	2013	(1), (2)	N/A	N/A	(7)	702,695	-

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Entity	Acquisition year	Guaranty	guaranty maximum amount	Loan guarantee	Operating deficit expiration	Operating deficit maximum amount	Advances at December 31, 2016
Old Middletown	2014	(1), (2)	N/A	N/A	(7)	700,068	-
WP Senior	2014	(1), (2), (6)	N/A	N/A	(7)	288,634	-
Dennis	2014	(1), (2)	N/A	N/A	(7)	161,956	-
Lafayette	2014	(1), (2), (3)	1,685,075	N/A	(7)	548,000	-
Briston Arms	2015	(1), (2), (3), (4)	(4)	3,700,000	(7)	4,475,000	-
Newberry	2015	(1), (2), (3), (4)	(4)	1,500,000	(7)	524,914	-
Billings Forge	2015	(1), (2), (4), (9)	(4)	N/A	(7)	620,000	-
Cherry Briggs	2016	(1), (2), (3)	7,334,909	N/A	(7)	569,290	-
Trianon	2016	(2), (3), (4), (11)	3,000,000	N/A	N/A	N/A	-
Greenwood	2016	(3)	N/A	3,000,000	N/A	N/A	-
NSP Chicago	2016	(3)	N/A	2,160,000	N/A	N/A	-
Brandy Hill	2016	(1), (2), (4)	(4)	N/A	N/A	630,000	-
Founders	2016	(1), (2), (4)	(4)	N/A	N/A	300,055	-
Trinity Towers East	2016	(1), (2), (5)	(4)	8,006,000	N/A	660,404	-
Trinity Towers South	2016	(1), (2), (5)	(4)	9,450,000	N/A	881,300	-
Tribune	2016	(1), (2), (4)	(4)	N/A	N/A	441,155	-

Types of guarantees

- (1) Operating deficits
- (2) Tax credit recapture price adjusters
- (3) Loan guarantee
- (4) Construction rehabilitation completion, per agreement there is no limit on the amount of this guarantee
- (5) Construction completion and construction loan guarantee
- (6) Financing coverage guarantee

Other

- (7) Two to five years from construction completion and/or breakeven
- (8) Eliminated in consolidation
- (9) Annual commercial income guarantee
- (10) Basic rent guarantee per net lease

Note 11 - Financial instruments

The Company and its subsidiaries maintain its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes it is not exposed to any significant credit risk on its cash, cash equivalents and other deposits at December 31, 2016 and 2015.

Note 12 - Rent subsidies

For most of the properties, tenants' rents are being subsidized by various federal and state programs. Generally, these programs restrict assistance to those residents who qualify by meeting certain established criteria, including maximum income limitations. A majority of the properties have entered into contracts with HUD to provide the federal subsidies. These contracts expire in years 2018 to 2041. Rent subsidies totaled \$77,034,852 and \$71,292,787 for 2016 and 2015, respectively.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 13 - Limited partnerships and limited liability companies

As of December 31, 2016, the Company owns a general partner or managing member interest in the following entities:

Entity	Project Location	No. of Units
1) Country Club Village II Associates - I, L.P.	Springfield, MO	28
2) Highland Acres Associates - I, L.P.	Carthage, MO	35
3) Houston Plaza Associates - I, L.P.	Adrian, MO	34
4) Maplewood Manor Associates - I, L.P.	Web City, MO	66
5) Monroe Estates Associates - I, L.P.	Lebanon, MO	74
6) Prairie Plains Associates - I, L.P.	Lamar, MO	50
7) Woodlen Place Associates, L.P.	Kansas City, MO	60
8) Crestview Village Associates - I, L.P.	Liberty, MO	48
9) Hawthorne Associates Limited Partnership	Independence, MO	745
10) Beachwood Preservation Associates Limited Partnership	Narragansett, RI	56
11) Southwinds Preservation Associates Limited Partnership	Narragansett, RI	48
12) Driftwood Preservation Associates Limited Partnership	Narragansett, RI	32
13) Hillside Preservation Associates Limited Partnership	Providence, RI	42
14) Pocasset Preservation Associates Limited Partnership	Providence, RI	82
15) Hillcrest Preservation Associates Limited Partnership	Providence, RI	130
16) Fieldstone Preservation Associates Limited Partnership	Narragansett, RI	24
17) Heritage Preservation Associates Limited Partnership	North Kingstown, RI	204
18) Grace Preservation Associates Limited Partnership	Providence, RI	101
19) Cherry Briggs Preservation Associates Limited Partnership	Johnston & Providence, RI	160
20) Jefferson Maison East Limited Dividend Housing Association LLC	Detroit, MI	280
21) Oakland Grand Haven Limited Dividend Housing Association LLC	Troy, MI	297
22) Meadowbrook Preservation Associates Limited Partnership	Northampton, MA	252
23) Salem Heights Preservation Associates, Limited Partnership	Salem, MA	283
24) Bridle Path Preservation Associates Limited Partnership	Randolph, MA	104
25) Chestnut Gardens Preservation Associates Limited Partnership	Lynn, MA	65
26) Dom Narodowy Polski Preservation Associates Limited Partnership	Chicopee, MA	50
27) Eastgate Preservation Associates Limited Partnership	Springfield, MA	148
28) Fairweather Preservation Associates Limited Partnership	Beverly, Danvers, Peabody and Salem, MA	321
29) United Front Nine Preservation Associates Limited Partnership	New Bedford, MA	173
30) Cromwell Preservation Associates Limited Partnership	Hyanis, MA	124
31) CB Rental Limited Partnership	Bourne, MA	28
32) Blackstone Preservation Associates Limited Partnership	Boston, MA	145
33) Franklin Preservation Associates Limited Partnership	Boston, MA	193
34) Kenmore Abbey Preservation Associates Limited Partnership	Boston, MA	199
35) Peter's Grove Preservation Associates Limited Partnership	Hudson, MA	96
36) Rock Harbor Preservation Associates Limited Partnership	Orleans, MA	100
37) Clay Pond Preservation Associates Limited Partnership	Bourne, MA	45
38) Kings Landing Preservation Associates Limited Partnership	Brewster, MA	108
39) Central Annex Preservation Associates Limited Partnership	Pittsfield, MA	101
40) Dennis Community Housing Preservation Associates Limited Partnership	Dennis, MA	27
41) Briston Arms Preservation Associates Limited Partnership	Cambridge, MA	154
42) Founders Court Preservation Associates Limited Partnership	Hyannis, MA	32
43) Brandy Hill Preservation Associates Limited Partnership	E. Wareham, MA	132
44) Tribune Preservation Associates Limited Partnership	Framingham, MA	53
45) Crestview Preservation Associates Limited Partnership	Kankakee, IL	132
46) WCS Preservation Associates Limited Partnership	Chicago, IL	67
47) Renaissance Preservation Associates Limited Partnership	Chicago, IL	117
48) WCN Preservation Associates Limited Partnership	Chicago, IL	33
49) WP Senior Preservation Associates Limited Partnership	Chicago, IL	65
50) Lafayette Preservation Associates Limited Partnership	Chicago, IL	94

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Entity	Project Location	No. of Units
51) Newberry Preservation Associates Limited Partnership	Chicago, IL	84
52) Washington Gardens Preservation Associates L.P.	Hagerstown, MD	100
53) Garfield Hills Preservation Associates Limited Partnership	Washington, DC	94
54) Cochecho Preservation Associates Limited Partnership	Dover, NH	78
55) Sugar River Preservation Associates Limited Partnership	Claremont, NH	162
56) New Horizons Preservation Associates LP	Miami, FL	100
57) Harbor City Towers LLLP	Melbourne, FL	192
58) Trinity Towers East Preservation Associates LLLP	Melbourne, FL	156
59) New Trinity Towers South Preservation Associates LLLP	Melbourne, FL	162
60) Torrington West Preservation Associates Limited Partnership	Torrington, CT	79
61) Billings Forge LLC		
62) Billings Forge Preservation Associates Limited Partnership	Hartford, CT	112
63) Old Middletown Preservation Associates Limited Partnership	Middletown, CT	65
64) POAH Cherry Hill LLC (100% owned by POAH, Inc.)		
65) POAH Aaron Briggs LLC (100% owned by POAH, Inc.)		
66) POAH Fieldstone Apartments LLC (100% owned by POAH, Inc.)		
67) POAH Torrington West LLC (100% owned by POAH, Inc.)		
68) POAH Old Middletown LLC (100% Owned by POAH, Inc.)		
69) POAH Central Annex LLC (100% owned by POAH, Inc.)		
70) SSAH LLC (100% owned by POAH, Inc.)	Weymouth, MA	20
71) POAH Brandy Hill LLC (100% owned by POAH, Inc.)		
72) POAH Ventures LLC (100% owned by POAH, Inc.)		
73) BR Sugar River Limited Partnership (100% owned by POAH, Inc.)		
74) POAH Kings Landing LLC (100% owned by POAH, Inc.)		
75) Riverview Residences Dover LLC (100% owned by POAH, Inc.)	Dover, NH	24
76) POAH Cutler Meadows LLC (100% owned by POAH, Inc.)	Miami, FL	225
77) POAH Cutler Manor LLC (100% owned by POAH, Inc.)	Miami, FL	219
78) POAH Middletowne Apartments LLC (100% owned by POAH, Inc.)	Orange Park, FL	100
79) POAH Campbell Arms, LLC (100% owned by POAH, Inc.)	Homestead, FL	201
80) POAH New Horizons, LLC (100% owned by POAH, Inc.)		
81) POAH Trinity Towers East, LLC (100% owned by POAH, Inc.)		
82) POAH Trinity Towers West, LLC (100% owned by POAH, Inc.)		
83) Trinity Towers South Preservation Associates LLLP (100% owned by POAH, Inc.)		
84) POAH NSP Chicago LLC (100% owned by POAH, Inc.)	Chicago, IL	184
85) POAH Grove Parc Apartments LLC (100% owned by POAH, Inc.)	Chicago, IL	-
86) POAH Holdings (100% owned by POAH, Inc.)	Chicago, IL	12
87) POAH NMTC2 Title Holding Company LLC (100% owned by POAH, Inc.)	Chicago, IL	27
88) POAH Support Corporation (100% owned by POAH, Inc.)		
89) POAH Greenwood Park LLC (100% owned by POAH, Inc.)	Chicago, IL	122
90) Colony Plaza Associates, L.P. (100% owned by POAH, Inc.)	Excelsior Springs, MO	111
91) Country Club Village Associates, L.P. (100% owned by POAH, Inc.)	Springfield, MO	70
92) Glenwood Manor Associates, L.P. (100% owned by POAH, Inc.)	Springfield, MO	119
93) Highland Meadows Associates, L.P. (100% owned by POAH, Inc.)	Carthage, MO	44
94) Deerfield Village Associates, L.P. (100% owned by POAH, Inc.)	Carthage, MO	60
		8,959

The majority of these properties qualify for the low-income tax credit in accordance with Section 42 of the Internal Revenue Code. Provisions of Section 42 regulate the use of the Project as to occupancy eligibility and unit gross rent, among other requirements, for 15 years. Most of the properties are subject to these provisions for additional terms in accordance with agreements entered into with the state tax credit agencies. The properties are also controlled by regulatory agreements with lenders and other funding and subsidy sources.

The limited partners or investor members generally own between 99 to 99.99% interest in the properties. Capital contributions are due from these partners or members in installments upon each property's satisfaction of specified conditions, as defined, and are subject to adjustment based on the actual low income tax credits delivered. These contributions are recorded by the entities when received.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 14 - State credit proceeds

In 2010, the Company sold State Low Income Housing Tax Credits ("SLIHTC") from one limited partnership property to an unrelated party in the amount of \$6,555,000. The Company will recognize these proceeds as income over the five year state credit period beginning in 2010. The funds were received in 2011. The Company has provided a loan in the amount of \$5,412,500 to the property and has established a reserve in the amount of \$1,000,000 for the benefit of the property.

In 2012, the Company sold SLIHTC from three limited partnership properties to unrelated parties in the total amount of \$10,262,926. The funds were received in 2013. The Company has provided loans in the amount of \$10,262,926 to the respective properties. Income will be recognized over the five year state credit period beginning in 2013.

In 2013, the Company sold SLIHTC from one limited partnership to an unrelated party in the amount of \$3,288,680. The funds were received in 2014. The Company provided a loan in the amount of \$3,288,680 to the property. Income is recognized over the five year state credit period beginning in 2013.

In 2015, the Company sold State Historic Tax Credits ("SHTC") from one limited partnership to an unrelated party in the amount of \$695,000. The funds were received in 2015. The Company provided a loan in the amount of \$695,000 to the property. Income is recognized over the five year state credit period beginning in 2015.

In 2016, the Company sold State Historic Tax Credits ("SHTC") from one limited partnership to an unrelated party in the amount of \$1,359,859. The funds were received in 2016. The Company provided a loan in the amount of \$1,359,859 to the property. Income is recognized over the one year state credit period in 2016.

At December 31, 2016 and 2015, \$3,127,322 and \$5,976,645, respectively, is included in deferred income and \$4,209,182 and \$2,849,321, respectively, was recognized as income and reflected as state tax credit proceeds income on the consolidated statements of activities for the years ended December 31, 2016 and 2015.

Note 15 - Deferred gains

The Company has purchased various properties and then sold those properties to limited partnerships in which an affiliate of the Company serves as general partner. This related party sale results in a deferred gain.

As part of the purchase of certain of these properties, the Company acquired reserve funds. The Company then used those reserve funds to either fund general partner capital contributions or provide loans to related limited partnerships.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

The following is a summary of the deferred gains and related notes receivable:

Property	Deferred gain	Resale note receivable	General partner contribution	Reserve note receivable
Pocasset Manor Apartments	\$ 4,589,201	\$ 2,340,000	\$ 1,067,857	\$ 1,181,344 (1)
Hillcrest Village Apartments	300,000	300,000	-	-
Bridle Path Apartments	3,893,445	844,160	-	3,049,285 (2)
Chestnut Garden Apartments	1,727,285	1,727,285	-	-
Dom Narodowy Polski Apartments	965,490	912,273	-	53,217 (2)
Eastgate Apartments	6,242,014	3,196,804	-	3,045,210 (2)
Heritage Village II Apartments	4,668,132	1,639,308	-	3,028,824 (3)
New Horizons	200,000	200,000	-	-
Cromwell Court	872,000	872,000	-	-
Blackstone	16,658,507	12,485,719	-	4,172,788 (4)
Franklin	16,676,301	16,676,301	-	-
Kenmore Abbey	17,722,502	12,182,798	-	5,539,704 (5)
Peter's Grove	626,994	626,994	-	-
Rock Harbor	355,416	355,416	-	-
King's Landing	2,400,000	2,400,000	-	-
Grace	157,646	-	-	157,646
Chery Hill	444,276	-	-	444,276 (6)
Aaron Briggs	114,098	-	-	114,098 (6)
Tribune	175,800	-	-	175,800
	<u>78,789,107</u>	<u>56,759,058</u>	<u>1,067,857</u>	<u>20,962,192</u>
Gain recognized from receipt of principal payment in prior years	(1,493,053)	(260,617)	-	(1,232,436)
Gain recognized from receipt of principal payment in current year	<u>(1,068,978)</u>	<u>(931,967)</u>	<u>-</u>	<u>(137,011)</u>
	<u>\$ 76,227,076</u>	<u>\$ 55,566,474</u>	<u>\$ 1,067,857</u>	<u>\$ 19,592,745</u>

(1) Funds loaned to Pocasset, Hillside and Hillcrest

(2) Funds loaned to Fairweather, Chestnut Gardens and Dom Narodowy

(3) Funds loaned to Heritage and Fieldstone

(4) Funds loaned to Franklin and Rock Harbor

(5) Funds loaned to Franklin and Peter's Grove

(6) Funds loaned to Cherry Briggs

The results of the above transactions are eliminated in consolidation.

Note 16 - Purchase of interest in POAH LLC

The Company (the "Buyer") purchased Hill's (the "Seller") non-controlling interest in POAH, LLC on January 12, 2012. The purchase was financed with a series of seller notes as described below.

A fixed seller note in the amount of \$5,419,983. The note may amortize over ten years with fixed quarterly payments at 10% interest. The note was subject to annual prepayment requirements based on sharing in annual cash flow (as defined in the Purchase Agreement). During 2015, interest of \$47,916 was incurred and paid. The note was repaid in full in April 2015.

Preservation of Affordable Housing, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Two contingent notes to be delivered from the Buyer to the Seller on the third ("Third Year Note") and sixth ("Sixth Year Note") anniversaries of the closing, sized at 15% of the value of POAH LLC based on revaluations to be carried out at the dates of the note issuances. The notes will amortize with fixed payments of a seven year and four year term, respectively. The Third Year Note was issued effective January 12, 2015. The present value of the Sixth Year Note, the contingent purchase obligation, is estimated to be \$3,727,897, respectively, at December 31, 2016 and 2015.

The Company issued the Third Year Note in the amount of \$4,168,759 effective January 12, 2015. The note bears interest at 6.5% and amortizes quarterly over seven years. The note is subject to mandatory prepayment requirements on sharing in annual cash flow (as defined in the Purchase Agreement). A prepayment in the amount of \$1,000,000 was made in April 2017. During 2016 and 2015, interest of \$228,206 and \$260,708, respectively, was incurred and paid. At December 31, 2016 and 2015 the outstanding principal balance is \$3,165,665 and \$3,683,463, respectively.

The purchase notes and contingent notes are collateralized by the assets of POAH LLC.

Annual maturities of debt on the Third Year Note for the ensuing five years as of December 31, 2016 are summarized as follows:

2017	\$	552,477
2018		589,477
2019		628,956
2020		671,078
2021		723,675

Under the accounting rules governing the purchase of a non-controlling interest (a/k/a minority partner), the Company recorded the difference between the purchase price and the book value of Hill's capital account in POAH LLC in 2012 as a \$9,104,606 reduction of net assets. In 2014, \$2,535,442 was recorded as a reduction of net assets to reflect the estimated increase in the value of the contingent notes.

Note 17 - Subsequent events

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes to the consolidated financial statements. Management evaluated the activity of the Company through June 30, 2017 and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements, except as noted below.

Supplementary Information

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Financial Position
December 31, 2016**

	Core Operating Companies	Wholly Owned	LP	Subtotal	Elimination	Total
<u>Assets</u>						
Current assets						
Cash and cash equivalents	\$ 7,537,536	\$ 4,745,402	\$ 16,566,349	\$ 28,849,287	\$ -	\$ 28,849,287
Restricted cash	448,651	-	-	448,651	-	448,651
Restricted reserves	757,016	-	-	757,016	-	757,016
Accounts receivable						
Rental - tenants and subsidy	-	275,692	1,195,562	1,471,254	-	1,471,254
Grants receivable	1,758,063	-	-	1,758,063	-	1,758,063
Properties, net of allowance for doubtful accounts	2,090,618	-	-	2,090,618	(2,086,558)	4,060
Development fees	4,995,482	-	-	4,995,482	(4,995,482)	-
Other	98,310	135,236	635,107	868,653	(9,385)	859,268
Escrow deposits	-	17,052,507	69,965,559	87,018,066	-	87,018,066
Tenant security deposits	-	498,530	2,558,570	3,057,100	-	3,057,100
Due from affiliates	588,088	185,000	-	773,088	(773,088)	-
Prepaid expenses	351,885	332,341	873,507	1,557,733	-	1,557,733
Note receivable, current	1,754,250	-	-	1,754,250	(1,754,250)	-
Interest on notes receivable	2,996,253	-	-	2,996,253	(2,996,253)	-
Predevelopment costs reimbursable, current	4,307,301	-	-	4,307,301	(1,756,461)	2,550,840
Total current assets	27,683,453	23,224,708	91,794,654	142,702,815	(14,371,477)	128,331,338
Other assets						
Notes receivable, net of discount	121,284,183	13,483,866	-	134,768,049	(126,361,049)	8,407,000
Investment in partnerships	11,496,787	394,674	-	11,891,461	(11,485,683)	405,778
Predevelopment costs reimbursable, net of current	2,710,242	-	-	2,710,242	-	2,710,242
Other assets	837,719	255,751	2,649,005	3,742,475	-	3,742,475
Total other assets	136,328,931	14,134,291	2,649,005	153,112,227	(137,846,732)	15,265,495
Fixed assets						
Land and buildings	-	89,083,427	1,014,833,570	1,103,916,997	(204,212,641)	899,704,356
Rehabilitation in progress	1,439,601	3,091,290	8,721,890	13,252,781	-	13,252,781
Furniture, equipment and leasehold improvements	432,246	1,186,300	12,757,227	14,375,773	-	14,375,773
Less: Accumulated depreciation	(370,280)	(18,870,013)	(159,162,361)	(178,402,654)	33,259,023	(145,143,631)
Total fixed assets	1,501,567	74,491,004	877,150,326	953,142,897	(170,953,618)	782,189,279
Total assets	\$ 165,513,951	\$ 111,850,003	\$ 971,593,985	\$ 1,248,957,939	\$ (323,171,827)	\$ 925,786,112

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Financial Position
December 31, 2016**

	Core Operating Companies	Wholly Owned	LP	Subtotal	Elimination	Total
<u>Liabilities and Net Assets</u>						
Liabilities						
Current liabilities						
Accounts payable	\$ 1,296,184	\$ 1,203,371	\$ 3,843,121	\$ 6,342,676	\$ (838,738)	\$ 5,503,938
Accrued expenses	1,092,253	1,112,275	5,584,629	7,789,157	-	7,789,157
Accounts payable - development	51,616	3,538,649	51,960,349	55,550,614	(43,596,002)	11,954,612
Accrued interest	15,198	79,886	1,760,679	1,855,763	-	1,855,763
Mortgages payable - properties, current	-	1,343,626	6,363,015	7,706,641	-	7,706,641
Construction loans - properties, current	-	-	17,498,016	17,498,016	-	17,498,016
Loan payable, current	5,038,137	-	-	5,038,137	-	5,038,137
Line of credit, current	694,181	-	-	694,181	-	694,181
Tenant security deposits	-	462,971	2,421,532	2,884,503	-	2,884,503
Prepaid revenue	24,755	57,735	865,207	947,697	-	947,697
Due to affiliates	247,539	1,870,708	2,564,929	4,683,176	(4,414,147)	269,029
Total current liabilities	8,459,863	9,669,221	92,861,477	110,990,561	(48,848,887)	62,141,674
Long-term liabilities						
Loans and notes payable, net of current	15,094,706	-	-	15,094,706	-	15,094,706
Accrued interest payable - notes payable	408,280	-	-	408,280	-	408,280
Notes payable and accrued interest - properties	-	28,120,865	283,785,694	311,906,559	(150,167,500)	161,739,059
Mortgages payable - properties, net of current	-	59,139,919	389,321,717	448,461,636	-	448,461,636
Contingent deferred purchase obligation	3,727,897	-	-	3,727,897	-	3,727,897
Interest rate swap	-	126,830	1,435,555	1,562,385	-	1,562,385
Deferred income	79,957,951	10,870,932	5,620,891	96,449,774	(87,862,880)	8,586,894
Total long-term liabilities	99,188,834	98,258,546	680,163,857	877,611,237	(238,030,380)	639,580,857
Total liabilities	107,648,697	107,927,767	773,025,334	988,601,798	(286,879,267)	701,722,531
Net assets						
Unrestricted controlling	54,561,257	3,922,236	(5,906,708)	52,576,785	(23,243,702)	29,333,083
Unrestricted noncontrolling	2,057,098	-	204,475,359	206,532,457	(13,048,858)	193,483,599
Total unrestricted net assets	56,618,355	3,922,236	198,568,651	259,109,242	(36,292,560)	222,816,682
Temporarily restricted net assets	1,246,899	-	-	1,246,899	-	1,246,899
Total net assets	57,865,254	3,922,236	198,568,651	260,356,141	(36,292,560)	224,063,581
Total liabilities and net assets	\$ 165,513,951	\$ 111,850,003	\$ 971,593,985	\$ 1,248,957,939	\$ (323,171,827)	\$ 925,786,112

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Activities
Year Ended December 31, 2016**

	Core Operating Companies	Wholly Owned	LP	Subtotal	Elimination	Total
Support and revenue						
Rental income	\$ -	\$ 19,244,091	\$ 90,825,518	\$ 110,069,609	\$ -	\$ 110,069,609
Grant income	3,830,066	3,392,637	447,229	7,669,932	(3,310,000)	4,359,932
Grant income, capital investments	4,250,338	-	-	4,250,338	-	4,250,338
Contribution income	57,150	-	-	57,150	-	57,150
Developer fee revenue	7,136,426	-	-	7,136,426	(6,381,373)	755,053
Cash flow from properties	1,422,541	-	-	1,422,541	(1,422,541)	-
State tax credit proceeds	4,209,182	-	-	4,209,182	-	4,209,182
Property management and accounting service fees	6,062,974	-	-	6,062,974	(6,023,181)	39,793
Reimbursable salaries and expenses	17,562,755	-	-	17,562,755	(17,562,755)	-
Gain on receipt of mortgage note	1,524,761	-	-	1,524,761	(1,524,761)	-
Gain on prepayment of notes receivable	948,428	-	-	948,428	(948,428)	-
Gain on sale	-	(106,779)	-	(106,779)	106,779	-
Interest income	2,948,612	250,769	400,883	3,600,264	(3,089,437)	510,827
Loss on investment in partnership	(50,249)	-	-	(50,249)	-	(50,249)
Investment and other income	212,218	1,223,656	2,818,621	4,254,495	(228,368)	4,026,127
Total support and revenue	50,115,202	24,004,374	94,492,251	168,611,827	(40,384,065)	128,227,762
Expenses						
Personnel	11,334,525	-	-	11,334,525	-	11,334,525
Development expense	1,932,900	-	-	1,932,900	(415,800)	1,517,100
Professional services	1,320,334	-	-	1,320,334	-	1,320,334
Contributions and grants made	4,848,882	-	-	4,848,882	(3,310,000)	1,538,882
Rental	861,736	-	-	861,736	-	861,736
Taxes and insurance	349,225	-	-	349,225	-	349,225
Travel and lodging	662,373	-	-	662,373	-	662,373
Interest	1,254,052	-	-	1,254,052	-	1,254,052
Reimbursable salaries and expenses	17,562,755	-	-	17,562,755	(17,562,755)	-
Property operations	-	14,879,674	57,541,222	72,420,896	(5,981,569)	66,439,327
Property mortgage interest	-	4,735,822	28,858,028	33,593,850	(3,465,379)	30,128,471
Office and administration	927,564	-	-	927,564	(132,942)	794,622
Depreciation and amortization	47,823	2,927,544	24,403,141	27,378,508	(6,867,791)	20,510,717
Community impact	2,742,231	-	-	2,742,231	-	2,742,231
Bad debt expense	14,183	-	-	14,183	-	14,183
Miscellaneous	174,679	-	-	174,679	-	174,679
Total expenses	44,033,262	22,543,040	110,802,391	177,378,693	(37,736,236)	139,642,457
Excess of expenses over revenue	6,081,940	1,461,334	(16,310,140)	(8,766,866)	(2,647,829)	(11,414,695)
Excess (deficiency) of expenses over revenue attributable to noncontrolling interests	-	-	(16,308,509)	(16,308,509)	-	(16,308,509)
Excess (deficiency) of revenue over expenses attributable to the Company	\$ 6,081,940	\$ 1,461,334	\$ (1,631)	\$ 7,541,643	\$ (2,647,829)	\$ 4,893,814

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

Consolidating Schedule of Changes in Net Assets Year Ended December 31, 2016

	Unrestricted net assets									Temporarily restricted net assets	Net assets	
	Controlling					Noncontrolling						
	Core Operating Companies	Wholly Owned	LP	Eliminations	Subtotal	Core Operating Companies	LP	Eliminations	Subtotal			Total
Beginning balance, January 1, 2016	\$ 49,351,216	\$ 3,275,524	\$ 979,453	\$ (28,295,025)	\$ 25,311,168	\$ -	\$ 179,734,431	\$ (13,048,858)	\$ 166,685,573	\$ 191,996,741	\$ 375,000	\$ 192,371,741
Capital contributions from noncontrolling interests	-	-	-	-	-	2,057,098	41,165,351	-	43,222,449	43,222,449	-	43,222,449
Capital contributions from the Company	-	285,545	150,634	(436,179)	-	-	-	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-	-	(98,414)	-	(98,414)	(98,414)	-	(98,414)
Distributions to the Company	-	(650,167)	(248,815)	898,982	-	-	-	-	-	-	-	-
Noncontrolling interests' syndication costs	-	-	-	-	-	-	(17,500)	-	(17,500)	(17,500)	-	(17,500)
Other changes in equity	-	(450,000)	(6,786,349)	7,236,349	-	-	-	-	-	-	-	-
Excess of expenses over revenue attributable to noncontrolling interests	-	-	-	-	-	-	(16,308,509)	-	(16,308,509)	(16,308,509)	-	(16,308,509)
Excess of revenue (expenses) attributable to the Company	5,210,041	1,461,334	(1,631)	(2,647,829)	4,021,915	-	-	-	-	4,021,915	871,899	4,893,814
Ending balance, December 31, 2016	\$ 54,561,257	\$ 3,922,236	\$ (5,906,708)	\$ (23,243,702)	\$ 29,333,083	\$ 2,057,098	\$ 204,475,359	\$ (13,048,858)	\$ 193,483,599	\$ 222,816,682	\$ 1,246,899	\$ 224,063,581

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Cash Flows
Year Ended December 31, 2016**

	Core Operating Companies	Wholly Owned	LP	Subtotal	Elimination	Total
Cash flows from operating activities						
Excess of revenue over expenses (expenses over revenue)	\$ 6,081,940	\$ 1,461,334	\$ (16,310,140)	\$ (8,766,866)	\$ (2,647,829)	\$ (11,414,695)
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities						
Loss on investment in partnership	50,249	-	-	50,249	-	50,249
Investment income	(208,368)	-	-	(208,368)	208,368	-
Depreciation and amortization	47,823	2,927,544	24,403,141	27,378,508	(5,588,713)	21,789,795
Amortization of debt issuance costs	47,100	590,393	1,434,796	2,072,289	-	2,072,289
Change in fair market value of interest rate swaps	-	126,830	(575,824)	(448,994)	-	(448,994)
Loss on sale of properties	-	(106,779)	-	(106,779)	-	(106,779)
Forgiveness of debt	-	(574,311)	-	(574,311)	-	(574,311)
Deferred income	(2,854,819)	-	-	(2,854,819)	-	(2,854,819)
Changes in						
Accounts receivable	(1,734,357)	160,992	483,223	(1,090,142)	379,506	(710,636)
Prepaid expenses and other assets	(388,616)	(122,937)	(112,783)	(624,337)	-	(624,337)
Predevelopment costs reimbursable	(1,468,968)	-	-	(1,468,968)	917,034	(551,934)
Accounts payable and accrued expenses	825,215	156,207	1,296,927	2,278,349	18,556	2,296,905
Prepaid and deferred revenues	18,900	3,093,877	(128,770)	2,984,007	(2,820,820)	163,187
Tenant security deposits, net	-	3,836	(14,878)	(11,042)	-	(11,042)
Due to affiliates, net	(215,893)	773,064	543,886	1,101,057	(1,158,073)	(57,016)
Net cash provided by operating activities	<u>200,206</u>	<u>8,490,050</u>	<u>11,019,578</u>	<u>19,709,833</u>	<u>(10,691,971)</u>	<u>9,017,862</u>
Cash flows from investing activities						
Escrow deposits and restricted reserves, net	(1,486)	(7,794,141)	3,484,684	(4,310,943)	-	(4,310,943)
Advances on notes receivable and accrued interest	(10,561,498)	(8,407,000)	-	(18,968,498)	10,561,498	(8,407,000)
Repayments of notes receivable and accrued interest	10,088,092	132,163	-	10,220,255	(10,220,255)	-
Investment in partnership	(456,027)	-	-	(456,027)	-	(456,027)
Contributions to partnerships	(166,188)	(238,224)	-	(404,412)	404,412	-
Distributions from partnerships	21,221	-	-	21,221	(21,221)	-
Cash paid for fixed assets	(6,204)	19,323,852	(82,767,691)	(63,450,043)	5,235,071	(58,214,972)
Net cash (used in) provided by investing activities	<u>(1,082,090)</u>	<u>3,016,650</u>	<u>(79,283,007)</u>	<u>(77,348,447)</u>	<u>5,959,505</u>	<u>(71,388,942)</u>
Cash flows from financing activities						
Proceeds from line of credit	1,700,000	-	-	1,700,000	-	1,700,000
Payments on line of credit	(1,300,000)	-	-	(1,300,000)	-	(1,300,000)
Proceeds from notes and mortgages payable	3,837,597	23,207,561	75,835,750	102,880,908	2,468,283	105,349,191
Payment on notes and mortgages payable	(2,535,808)	(34,110,438)	(45,461,572)	(82,107,818)	-	(82,107,818)
Deferred income	(510,603)	-	-	(510,603)	181,296	(329,307)
Debt issuance costs paid	-	(210,200)	(1,979,593)	(2,189,793)	-	(2,189,793)
Syndication costs paid	-	-	(17,500)	(17,500)	-	(17,500)
Acquisition costs and fees paid as a component of general partner equity	-	-	(1,620,094)	(1,620,094)	1,620,094	-
Distributions paid to partners	-	(650,157)	(347,229)	(997,386)	898,972	(98,414)
Partners capital contributions received	-	285,545	41,315,985	41,601,530	(436,179)	41,165,351
Net cash provided by (used in) financing activities	<u>\$ 1,191,186</u>	<u>\$ (11,477,689)</u>	<u>\$ 67,725,747</u>	<u>\$ 57,439,244</u>	<u>\$ 4,732,466</u>	<u>\$ 62,171,710</u>
Net increase (decrease) in cash and cash equivalents	\$ 309,302	\$ 29,011	\$ (537,682)	\$ (199,369)	\$ -	\$ (199,369)
Cash and cash equivalents, beginning of year	<u>7,676,885</u>	<u>4,716,391</u>	<u>17,104,031</u>	<u>29,497,307</u>	<u>-</u>	<u>29,497,307</u>
Cash and cash equivalents, end of year	<u>\$ 7,986,187</u>	<u>\$ 4,745,402</u>	<u>\$ 16,566,349</u>	<u>\$ 29,297,938</u>	<u>\$ -</u>	<u>\$ 29,297,938</u>

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Cash Flows
Year Ended December 31, 2016**

	Core Operating Companies	Wholly Owned	LP	Subtotal	Elimination	Total
Supplemental disclosure of cash flow activities						
Cash paid for interest	\$ 876,872	\$ 4,002,767	\$ 23,496,674	\$ 28,376,313	\$ -	\$ 28,376,313
Schedule of noncash investing activities						
Fixed asset costs incurred	\$ 6,204	\$ 11,188,167	\$ 87,514,469	\$ 98,708,840	\$ 1,326,989	\$ 100,035,829
Fixed assets sold in connection with common control transaction	-	(29,579,902)	-	(29,579,902)	-	(29,579,902)
Accounts payable - development, beginning of year	-	2,606,532	47,213,571	49,820,103	37,033,942	86,854,045
Accounts payable - development, end of year	-	(3,538,649)	(51,960,349)	(55,498,998)	(43,596,002)	(99,095,000)
Cash paid for fixed assets	\$ 6,204	\$ (19,323,852)	\$ 82,767,691	\$ 63,450,043	\$ (5,235,071)	\$ 58,214,972
Sale of properties	\$ -	\$ (1,148,619)	\$ (1,473,730)	\$ (2,622,349)	\$ -	\$ (2,622,349)
Deferred liability included in residual receipts escrow	\$ -	\$ -	\$ 78	\$ 78	\$ -	\$ 78
Contribution of notes receivable	\$ 2,543,905	\$ -	\$ -	\$ 2,543,905	\$ -	\$ 2,543,905
Schedule of noncash financing activities						
Decrease in liabilities due to interest rate swap	\$ -	\$ -	\$ 575,824	\$ 575,824	\$ -	\$ 575,824

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Financial Position - Core Operating Companies
December 31, 2016**

	<u>POAH INC</u>	<u>POAH LLC</u>	<u>POAHC LLC</u>	<u>Subtotal</u>	<u>Elimination</u>	<u>Total</u>
<u>Assets</u>						
Current assets						
Cash and cash equivalents	\$ 2,313,042	\$ 3,777,402	\$ 1,447,092	\$ 7,537,536	\$ -	\$ 7,537,536
Restricted cash	448,651	-	-	448,651	-	448,651
Restricted reserves	757,016	-	-	757,016	-	757,016
Accounts receivable						
Grants receivable	1,758,063	-	-	1,758,063	-	1,758,063
Properties, net of allowance for doubtful accounts	184,117	1,063,703	842,798	2,090,618	-	2,090,618
Development fees	-	4,995,482	-	4,995,482	-	4,995,482
Other	-	-	98,310	98,310	-	98,310
Due from affiliates	2,938,017	1,680,814	343,074	4,961,905	(4,373,817)	588,088
Prepaid expenses	133,916	7,699	210,270	351,885	-	351,885
Note receivable, current	1,754,250	-	-	1,754,250	-	1,754,250
Interest on notes receivable	162,270	2,833,983	-	2,996,253	-	2,996,253
Predevelopment costs reimbursable, current	4,307,301	-	-	4,307,301	-	4,307,301
	<u>14,756,643</u>	<u>14,359,083</u>	<u>2,941,544</u>	<u>32,057,270</u>	<u>(4,373,817)</u>	<u>27,683,453</u>
Total current assets						
Other assets						
Notes receivable, net of discount	9,553,056	111,731,127	-	121,284,183	-	121,284,183
Investment in companies	38,688,818	2,173,582	-	40,862,400	(40,862,400)	-
Investment in partnerships	11,091,009	405,778	-	11,496,787	-	11,496,787
Predevelopment costs reimbursable, net of current	2,710,242	-	-	2,710,242	-	2,710,242
Other assets	816,139	17,431	4,149	837,719	-	837,719
	<u>62,859,264</u>	<u>114,327,918</u>	<u>4,149</u>	<u>177,191,331</u>	<u>(40,862,400)</u>	<u>136,328,931</u>
Total other assets						
Fixed assets						
Rehabilitation in progress	1,439,601	-	-	1,439,601	-	1,439,601
Furniture, equipment and leasehold improvements	124,553	68,387	239,306	432,246	-	432,246
Less: Accumulated depreciation	(84,509)	(58,051)	(227,720)	(370,280)	-	(370,280)
	<u>1,479,645</u>	<u>10,336</u>	<u>11,586</u>	<u>1,501,567</u>	<u>-</u>	<u>1,501,567</u>
Total fixed assets						
	<u>\$ 79,095,552</u>	<u>\$ 128,697,337</u>	<u>\$ 2,957,279</u>	<u>\$ 210,750,168</u>	<u>\$ (45,236,217)</u>	<u>\$ 165,513,951</u>
Total assets						

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Financial Position - Core Operating Companies
December 31, 2016**

	<u>POAH INC</u>	<u>POAH LLC</u>	<u>POAHC LLC</u>	<u>Subtotal</u>	<u>Elimination</u>	<u>Total</u>
<u>Liabilities and Net Assets</u>						
Liabilities						
Current liabilities						
Accounts payable	\$ 1,057,886	\$ 117,355	\$ 120,943	\$ 1,296,184	\$ -	\$ 1,296,184
Accrued expenses	256,074	183,570	652,609	1,092,253	-	1,092,253
Accounts payable - development	51,616	-	-	51,616	-	51,616
Accrued interest	8,938	6,260	-	15,198	-	15,198
Loan payable, current	4,702,952	335,185	-	5,038,137	-	5,038,137
Line of credit, current	-	694,181	-	694,181	-	694,181
Prepaid revenue	-	-	24,755	24,755	-	24,755
Due to affiliates	1,968,349	2,180,810	472,197	4,621,356	(4,373,817)	247,539
Total current liabilities	8,045,815	3,517,361	1,270,504	12,833,680	(4,373,817)	8,459,863
Long-term liabilities						
Loans and notes payable, net of current	10,112,381	4,982,325	-	15,094,706	-	15,094,706
Accrued interest payable - notes payable	-	408,280	-	408,280	-	408,280
Contingent deferred purchase obligation	3,727,897	-	-	3,727,897	-	3,727,897
Deferred income	1,401,303	78,556,648	-	79,957,951	-	79,957,951
Total long-term liabilities	15,241,581	83,947,253	-	99,188,834	-	99,188,834
Total liabilities	23,287,396	87,464,614	1,270,504	112,022,514	(4,373,817)	107,648,697
Net assets						
Unrestricted controlling	54,561,257	39,175,625	1,686,775	95,423,657	(40,862,400)	54,561,257
Unrestricted noncontrolling	-	2,057,098	-	2,057,098	-	2,057,098
Total unrestricted net assets	54,561,257	41,232,723	1,686,775	97,480,755	(40,862,400)	56,618,355
Temporarily restricted net assets	1,246,899	-	-	1,246,899	-	1,246,899
Total net assets	55,808,156	41,232,723	1,686,775	98,727,654	(40,862,400)	57,865,254
Total liabilities and net assets	\$ 79,095,552	\$ 128,697,337	\$ 2,957,279	\$ 210,750,168	\$ (45,236,217)	\$ 165,513,951

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Activities - Core Operating Companies
Year Ended December 31, 2016**

	POAH INC	POAH INC Temporarily Restricted	POAH LLC	POAHC LLC	Subtotal	Elimination	Total
Support and revenue							
Grant income	\$ 2,854,723	\$ 975,343	\$ -	\$ -	\$ 3,830,066	\$ -	\$ 3,830,066
Grant income, capital investments	3,793,926	456,412	-	-	4,250,338	-	4,250,338
Contribution income	57,150	-	-	-	57,150	-	57,150
Developer fee revenue	-	-	7,136,426	-	7,136,426	-	7,136,426
Cash flow from properties	684,484	-	738,057	-	1,422,541	-	1,422,541
State tax credit proceeds	-	-	4,209,182	-	4,209,182	-	4,209,182
Property management and accounting service fees	-	-	-	6,062,974	6,062,974	-	6,062,974
Reimbursable salaries and expenses	-	-	-	17,562,755	17,562,755	-	17,562,755
Gain on receipt of mortgage note	-	-	1,524,761	-	1,524,761	-	1,524,761
Gain on prepayment of notes receivable	-	-	948,428	-	948,428	-	948,428
Interest income	159,686	-	2,788,784	142	2,948,612	-	2,948,612
Loss on investment in partnership	-	-	(50,249)	-	(50,249)	-	(50,249)
Investment and other income	9,254,049	-	550,808	3,027	9,807,884	(9,595,666)	212,218
	16,804,018	1,431,755	17,846,197	23,628,898	59,710,868	(9,595,666)	50,115,202
Net assets released from restrictions	559,856	(559,856)	-	-	-	-	-
Total support and revenue	17,363,874	871,899	17,846,197	23,628,898	59,710,868	(9,595,666)	50,115,202
Expenses							
Personnel	1,740,078	-	5,137,732	4,456,715	11,334,525	-	11,334,525
Development expense	401,805	-	1,531,095	-	1,932,900	-	1,932,900
Professional services	595,407	-	623,864	101,063	1,320,334	-	1,320,334
Contributions and grants made	4,842,427	-	6,455	-	4,848,882	-	4,848,882
Rental	237,016	-	471,205	153,515	861,736	-	861,736
Taxes and insurance	266,377	-	963	81,885	349,225	-	349,225
Travel and lodging	154,735	-	171,004	336,634	662,373	-	662,373
Interest	876,165	-	377,887	-	1,254,052	-	1,254,052
Reimbursable salaries and expenses	-	-	-	17,562,755	17,562,755	-	17,562,755
Office and administration	125,619	-	453,313	348,632	927,564	-	927,564
Depreciation and amortization	24,911	-	13,677	9,235	47,823	-	47,823
Community impact	2,742,231	-	-	-	2,742,231	-	2,742,231
Bad debt expense	-	-	-	14,183	14,183	-	14,183
Miscellaneous	147,062	-	14,144	13,473	174,679	-	174,679
Total expenses	12,153,833	-	8,801,339	23,078,090	44,033,262	-	44,033,262
Excess of expenses over revenue	\$ 5,210,041	\$ 871,899	\$ 9,044,858	\$ 550,808	\$ 15,677,606	\$ (9,595,666)	\$ 6,081,940

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Changes in Net Assets - Core Operating Companies
Year Ended December 31, 2016**

	Unrestricted net assets						Temporarily restricted net assets		
	Controlling			Eliminations	Subtotal	Noncontrolling	Total	Controlling	Total
	POAH, Inc	POAH, LLC	POAHC, LLC			POAH, LLC		POAH, Inc	
Beginning balance, January 1, 2016	\$ 49,351,216	\$ 33,998,960	\$ 1,435,967	\$ (35,434,927)	\$ 49,351,216	\$ -	\$ 49,351,216	\$ 375,000	\$ 49,726,216
Capital contributions from the Company	-	581,807	-	(581,807)	-	-	-	-	-
Capital contributions from noncontrolling interests	-	-	-	-	-	2,057,098	2,057,098	-	2,057,098
Distributions to the Company	-	(4,450,000)	(300,000)	4,750,000	-	-	-	-	-
Excess of revenue (expenses)	5,210,041	9,044,858	550,808	(9,595,666)	5,210,041	-	5,210,041	871,899	6,081,940
Ending balance, December 31, 2016	<u>\$ 54,561,257</u>	<u>\$ 39,175,625</u>	<u>\$ 1,686,775</u>	<u>\$ (40,862,400)</u>	<u>\$ 54,561,257</u>	<u>\$ 2,057,098</u>	<u>\$ 56,618,355</u>	<u>\$ 1,246,899</u>	<u>\$ 57,865,254</u>

See Independent Auditor's Report.

Preservation of Affordable Housing, Inc. and Subsidiaries

**Consolidating Schedule of Cash Flows - Core Operating Companies
Year Ended December 31, 2016**

	POAH, Inc.	POAH, LLC	POAHC, LLC	Subtotal	Elimination	Total
Cash flows from operating activities						
Excess of revenue over expenses (expenses over revenue)	\$ 6,081,940	\$ 9,044,858	\$ 550,808	\$ 15,677,606	\$ (9,595,666)	\$ 6,081,940
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities						
Loss on investment in partnership	-	50,249	-	50,249	-	50,249
Investment income	(9,253,226)	(550,808)	-	(9,804,034)	9,595,666	(208,368)
Depreciation	24,911	13,677	9,235	47,823	-	47,823
Effective interest adjustment	30,395	16,705	-	47,100	-	47,100
Deferred income	175,800	(3,030,619)	-	(2,854,819)	-	(2,854,819)
Changes in						
Accounts receivable	(1,418,254)	(260,772)	(55,331)	(1,734,357)	-	(1,734,357)
Prepaid expenses and other assets	(362,247)	47,991	(74,360)	(388,616)	-	(388,616)
Predevelopment costs reimbursable	(1,468,968)	-	-	(1,468,968)	-	(1,468,968)
Accounts payable and accrued expenses	500,905	376,559	(52,249)	825,215	-	825,215
Prepaid and deferred revenues	(5,417)	-	24,317	18,900	-	18,900
Due to affiliates, net	(572,944)	472,200	(115,149)	(215,893)	-	(215,893)
Net cash (used) provided by operating activities	<u>(6,267,105)</u>	<u>6,180,040</u>	<u>287,271</u>	<u>200,206</u>	<u>-</u>	<u>200,206</u>
Cash flows from investing activities						
Escrow deposits and restricted reserves, net	(1,486)	-	-	(1,486)	-	(1,486)
Advances on notes receivable and accrued interest	(3,072,547)	(7,488,951)	-	(10,561,498)	-	(10,561,498)
Repayments of notes receivable and accrued interest	3,783,001	6,305,091	-	10,088,092	-	10,088,092
Reduction from purchase of noncontrolling interest	-	-	-	-	-	-
Distributions received from subsidiary	4,450,000	300,000	-	4,750,000	(4,750,000)	-
Investment in partnership	-	(456,027)	-	(456,027)	-	(456,027)
Contribution to subsidiary	(95,000)	-	-	(95,000)	95,000	-
Contributions to partnerships	(166,188)	-	-	(166,188)	-	(166,188)
Distributions from partnerships	21,221	-	-	21,221	-	21,221
Cash paid for fixed assets	(6,204)	-	-	(6,204)	-	(6,204)
Net cash provided (used) in investing activities	<u>4,912,797</u>	<u>(1,339,887)</u>	<u>-</u>	<u>3,572,910</u>	<u>(4,655,000)</u>	<u>(1,082,090)</u>
Cash flows from financing activities						
Proceeds from line of credit	-	1,700,000	-	1,700,000	-	1,700,000
Payments on line of credit	-	(1,300,000)	-	(1,300,000)	-	(1,300,000)
Proceeds from notes payable	3,376,885	460,712	-	3,837,597	-	3,837,597
Payment on notes payable	(2,535,808)	-	-	(2,535,808)	-	(2,535,808)
Deferred income	-	(510,603)	-	(510,603)	-	(510,603)
Contributions from member	-	95,000	-	95,000	(95,000)	-
Distributions paid to members	-	(4,450,000)	(300,000)	(4,750,000)	4,750,000	-
Net cash provided (used) by financing activities	<u>841,077</u>	<u>(4,004,891)</u>	<u>(300,000)</u>	<u>(3,463,814)</u>	<u>4,655,000</u>	<u>1,191,186</u>
Net (decrease) increase in cash and cash equivalents	<u>(513,231)</u>	<u>835,262</u>	<u>(12,729)</u>	<u>309,302</u>	<u>-</u>	<u>309,302</u>
Cash and cash equivalents, beginning of year	<u>3,274,924</u>	<u>2,942,140</u>	<u>1,459,821</u>	<u>7,676,885</u>	<u>-</u>	<u>7,676,885</u>
Cash and cash equivalents, end of year	<u>\$ 2,761,693</u>	<u>\$ 3,777,402</u>	<u>\$ 1,447,092</u>	<u>\$ 7,986,187</u>	<u>\$ -</u>	<u>\$ 7,986,187</u>
Supplemental disclosure of cash flow activities						
Cash paid for interest	<u>\$ 809,556</u>	<u>\$ 67,316</u>	<u>\$ -</u>	<u>\$ 876,872</u>	<u>\$ -</u>	<u>\$ 876,872</u>
Schedule of noncash investing activities						
Contributions of notes receivable	<u>\$ -</u>	<u>\$ 2,543,905</u>	<u>\$ -</u>	<u>\$ 2,543,905</u>	<u>\$ -</u>	<u>\$ 2,543,905</u>

See Independent Auditor's Report.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com