Los Angeles LDC, Inc. and Subsidiaries
(Nonprofit Organizations)
Consolidated Financial Statements
Years ended September 30, 2013 and 2012
with Report of Independent Auditors

VASQUEZ & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

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Report of Independent Auditors

Board of Directors
Los Angeles LDC, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Los Angeles LDC, Inc. and Subsidiaries (collectively, the "Organization"), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2013 and 2012, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 12 to the financial statements, the Organization received a demand for repayment letter from the City of Los Angeles for its outstanding EDA loan and grant funds. The Organization is contesting the amount demanded and is negotiating with the City of Los Angeles for its resolution. The ultimate outcome of the negotiation cannot presently be determined.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Consolidating Schedules of Financial Position and the Consolidating Schedules of Activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Vasquez & Company LLP

Los Angeles, California
April 2, 2014

		September 30		
		2013		2012
ASSETS				
Cash and cash equivalents	**$**	**1,391,743**	$	2,549,622
Investments		**784,042**		783,732
Notes receivable, net		**2,440,840**		2,809,136
Interest receivable		**16,706**		16,383
Prepaids and other receivables		**137,401**		178,537
Property and equipment, net		**9,678**		10,962
Other real estate owned		**467,431**		-
Investment in 504 ACE Loan Fund I (2004), LLC		**137,873**		147,473
Total assets	**$**	**5,385,714**	$	6,495,845
LIABILITIES AND NET ASSETS				
Liabilities				
Line of credit	**$**	**-**	$	325,026
Accounts payable and accrued expenses		**226,841**		117,324
Estimated liability to the City of Los Angeles		**802,589**		802,589
Notes payable		**2,900,000**		3,400,000
Total liabilities		**3,929,430**		4,644,939
Net assets				
Unrestricted		**1,456,284**		1,850,906
Total net assets		**1,456,284**		1,850,906
Total liabilities and net assets	**$**	**5,385,714**	$	6,495,845

See notes to financial statements.

	Year ended September 30	
	2013	2012
Revenue and support		
Interest on loans	**$ 201,358**	$ 275,039
Grants and contributions	**13,500**	55,000
Interest on investments	**2,074**	3,699
Equity in net earnings of an investee company	**5,000**	4,700
Other income	**21,490**	44,969
Total revenues	**243,422**	383,407
Interest expense	**88,636**	84,816
Net interest, fees and other income	**154,786**	298,591
Provision for credit losses	**(12,025)**	(132,954)
Net interest, fees and other income after recovery from (provision for) credit losses	**142,761**	165,637
Operating expenses		
Salaries and wages	**257,178**	261,196
Professional and consultant fees	**97,977**	114,389
Lease and parking	**45,369**	42,871
Repairs and maintenance	**24,843**	3,026
Insurance	**22,595**	12,747
Communications	**10,762**	10,187
Advertising and marketing	**10,335**	27,886
Printing and supplies	**5,448**	4,635
Development and sponsorship	**5,150**	1,586
Dues, membership and subscriptions	**4,500**	5,845
Taxes and licenses	**3,921**	2,009
Depreciation	**1,177**	1,284
Lending expenses	**1,065**	9,160
Student internship	**1,000**	2,650
Contributions and donations	**-**	250
Bank service charge	**-**	3,106
Travel, Meals and Entertainment	**-**	600
Miscellaneous	**46,063**	52,456
Total expenses	**537,383**	555,883
Change in net assets	**(394,622)**	(390,246)
Net assets		
Beginning of year	**1,850,906**	2,241,152
End of year	**$ 1,456,284**	$ 1,850,906

See notes to financial statements.

	Year ended September 30	
	2013	2012
Cash flows from operating activities		
Change in net assets	**$ (394,622)**	$ (390,246)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Equity in net earnings of an investee company	**(5,000)**	(4,700)
Recovery from credit losses	**-**	(5,000)
Provision for credit losses	**12,025**	137,954
Depreciation	**1,177**	1,284
Changes in assets and liabilities		
Decrease (increase) in interest receivable	**(323)**	5,876
Increase in prepaids and other receivables	**41,136**	(107,491)
Increase (decrease) in accounts payable and accrued expenses	**109,517**	24,692
Net cash used in operating activities	**(236,090)**	(337,631)
Cash flows from investing activities		
Sale and purchase of investments, net	**(310)**	176,958
Disbursements of notes receivable	**(137,687)**	(632,200)
Collections on notes receivable	**26,634**	952,435
Distributions received from an investee company	**14,600**	13,100
Net cash provided by (used in) investing activities	**(96,763)**	510,293
Cash flows from financing activities		
Paydowns on lines of credit	**(325,026)**	(3,800)
Payments of notes payable	**(500,000)**	(50,000)
Paydowns on loan participations	**-**	(472,815)
Net cash used in financing activities	**(825,026)**	(526,615)
Change in cash and cash equivalents	**(1,157,879)**	(353,953)
Cash and cash equivalents - beginning of year	**2,549,622**	2,903,575
Cash and cash equivalents - end of year	**$ 1,391,743**	$ 2,549,622
Supplemental disclosures of cash flow information		
Interest paid	**$ 89,946**	$ 86,126

See notes to financial statements.

NOTE 1 GENERAL

Nature of the Organization

Los Angeles LDC, Inc. ("LDC") and Subsidiaries (collectively, the "Organization") is a not-for-profit community development financial services corporation organized to promote community development by initiating, sponsoring, promoting and carrying out plans, policies and activities that promote the creation and retention of jobs by expanding businesses and revitalizing economically distressed communities primarily throughout the County of Los Angeles. The Organization (as defined in Note 2) provides direct loans, investments and technical assistance to businesses, real estate developers, not-for-profit service providers and other targeted borrowers operating in specific investment areas.

The Organization is certified as a Community Development Financial Institution ("CDFI") by the United States Department of Treasury Community Development Financial Institutions Fund (the "CDFI Fund") and the California Department of Insurance California Organized Investment Network ("COIN"). It is authorized to make commercial loans under a Commercial Finance Lenders license by the California Department of Corporations.

The Organization was originally created to administer two federally funded revolving loan funds ("RLF"), under an agreement with the City of Los Angeles, through the Mayor's Office of Economic Development ("MOED"), an Executive Department of the Office of the Mayor.

Since its inception the Organization has operated capital access programs that originate and manage loans to eligible borrowers located in underserved communities or targeted populations which have a history of having greater difficulty in obtaining loans or investments to finance growth, expansion, revitalization, capital assets or other needs. As loan repayments are received, they are used to replenish the lending capital so that additional loans may be made. Loans are collateralized by real estate, equipment and other collateral, and bear interest at the prevailing market rate.

In 1999, the Organization purchased the community development loan portfolio of the Southern California Business Development Corporation ("SCBDC"), a multi-bank community development corporation. Since August 1999, the Organization has borrowed $3,400,000 under Equity Equivalent ("EQ2") subordinated notes from SCBDC, which will be used to make additional community development loans, as defined under the Community Reinvestment Act ("CRA"), to eligible borrowers.

NOTE 1 GENERAL (CONTINUED)

In 2002, the Organization was certified as a CDFl by the CDFl Fund program. This certification requires the Organization to have a primary mission of promoting community development and maintaining other requirements as set forth in the CDFl Fund regulation A 12CFR Part 1805 and is more fully described in 12CFR Sections 1805.200 and 1805.201. The Organization is required to meet certain financial mutually agreed-upon performance goals under the Assistance Agreement between the CDFl Fund and the Organization. The goals include, but are not limited to, the Organization exceeding its goal of leveraging total private sector dollars to CDFI Fund dollars. During the fiscal years ending September 30, 2013 and 2012, the Organization did not receive any funds relating to the CDFl Fund program.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of LDC and its wholly-owned subsidiaries, 504 ACE Loan Fund II (2006), LLC and LDC Management Services, LLC (collectively, the "Organization"). All significant intercompany accounts and transactions are eliminated in consolidation. In addition, the investment in 504 ACE Loan Fund I (2004), LLC is accounted for under the equity method.

- 504 ACE Loan Fund II (2006), LLC: This is a wholly-owned subsidiary of LDC that was developed in December 2001 to promote access to capital and community development in geographically targeted areas with underserved populations of low-income residents. This subsidiary was previously named EZ Credit LLC.

- LDC Management Services, LLC: This is a wholly-owned subsidiary of LDC that was organized in March 2002 to provide management services to various investment funds on behalf of LDC and its investors. The 504 ACE Loan Fund I (2004), LLC, in which it has a 10% ownership interest, is the first investment fund it is managing.

- 504 ACE Loan Fund I (2004), LLC (the "Fund"): This was created to promote access to capital for women and minority-owned businesses and to promote community development in certain geographically targeted areas. It was inaugurated in September 2004 and capitalized with $10 million from investors and from LDC Management Services. LDC Management Services owns 10% of the Fund after its investment of $1 million. The Fund commenced funding activity in October 2004. LDC Management Services exercises significant influence over the operations and the management of the Fund. The Organization accounts for its investment in the Fund under the Equity Method.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting
The accompanying financial statements are presented utilizing the accrual basis of accounting.

Financial Statement Presentation
The Organization reports information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization did not have any permanently restricted or temporarily restricted net assets at September 30, 2013 and 2012.

Revenue Recognition
Loan fees are recognized as revenue when the related loan is provided. Interest income on loans, net of participations sold, is recorded as earned from the date the borrower signs the promissory note to the date the note is paid off or to the end of the reporting period. Grants and contributions are recognized as revenue in the period received.

Cash and Cash Equivalents
For purposes of reporting cash flows, the Organization considers all cash accounts not subject to withdrawal restrictions and certificates of deposit with original maturities of ninety (90) days or less to be cash or cash equivalents.

Investments
Investments in marketable securities are recorded at fair value

Estimated Fair Value of Financial Instruments
Financial instruments included in the Organization's statement of financial position include cash and cash equivalents, investments, notes receivable, line of credit, loan participations, and notes payable.

In 2009, the Organization adopted updates issued by the Financial Accounting Standards Board ("FASB"), except as it applies to those nonfinancial assets and liabilities for which the effective date has been delayed by one year. The updates define fair value, establish a framework for measuring fair value, and require enhanced disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e. the exit price).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The updates require enhanced disclosures about financial instruments that are measured and reported at fair value. The updates establish a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring fair value. Market price observability is impacted by a number of factors, including the type of instrument, the characteristics specific to the instrument, and the state of the marketplace (including the existence and transparency of transactions between market participants). Instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 - Quoted prices are available in active markets for identical instruments as of the reporting date.

Level 2 - Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1. Fair value is determined through observable trading activity reported at net asset value or through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable for the instruments and include situations where there is little, if any, market activity for the instruments. The inputs into the determination of fair value require significant judgment or estimation by the Organization.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

Notes Receivable and Related Allowance for Losses

Notes receivable are recorded in the accompanying financial statements at face value, less payments received and funds not yet disbursed. Interest on these loans is accrued monthly as earned, except where a reasonable doubt exists as to the collectibility of the interest, in which case the accrual of income is discontinued. Cash receipts are allocated between interest earned and principal payment of the loan. Lending fees and costs are deferred and amortized over the life of the loan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan losses are charged against the allowance for losses. Provisions for losses are based on management's judgment as to the need to absorb known and inherent risks in the loan portfolio. Accounts are charged off against the allowance when the Organization believes they are uncollectible. Receivables are considered past due or delinquent based on contractual terms.

The Organization acts as the lead lender for certain community development loans. The Organization and the participants record their proportionate share of the loans on their respective accounting records.

Property and Equipment
Purchases of property and equipment over $300 with a useful life greater than three (3) years are capitalized. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives. Fully depreciated assets are retained in the accounts until their retirement.

The Organization reviews the carrying amount of its property and equipment for possible impairments when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Management assessed that the Organization’s property and equipment are not impaired.

Allocation of Expenses
The costs of providing direct loans and technical assistance to the Organization's borrowers have been summarized on a natural classification basis in the statement of activities. Management estimates the administrative costs were approximately $177,337 and $183,441 for the year ended September 30, 2013 and 2012.

Federal and State Income Taxes
The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation code and is generally not subject to federal or state income taxes. However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FASB Accounting Standards Codification (ASC) Topic 740-10-45, *Income Taxes – Other Presentation*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended September 30, 2013 and 2012, the Organization had no material unrecognized tax benefits or tax penalties or interest.

There are currently no audits for any tax periods in progress. The Organization's management believes it is no longer subject to income tax examination for calendar years prior to 2008.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include determination of loan receivable allowance, liability to the City of Los Angeles related to EDA fund, and depreciation. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk - consist principally of cash and cash equivalents and notes receivable. The Organization places its cash balances with reputable financial institutions. Concentrations of credit risk with respect to notes receivable are limited because of the large number of customers composing its loan portfolio, regular monitoring and collateral requirements. The Organization places its investments in reputable financial institutions and monitors their credit ratings periodically.

Custodial Credit Risk

Custodial credit risk is the risk that the Organization will not be able to (a) recover deposits if the depository financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

Financial instruments that potentially subject the Organization to credit risk are cash deposits with banks and other financial institutions that are in excess of the federally insured limit of $250,000. As of September 30, 2013 and 2012, the Organization has a total of $1,325,383 and $500,000 respectively, deposit accounts with banks that exceeded the Federal Deposit Insurance Corporation insured limit. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organization holds investments in the form of short-term money market investments. The management and Board of Directors routinely review market values of such investments.

On July 21, 2010, the Dodd-Frank financial regulatory reform legislation was signed into law making all noninterest-bearing transaction accounts fully insured without limit effective December 31, 2010 until January 1, 2013. During the two-year period, all noninterest-bearing accounts of all banks are covered. The legislation also modifies the methodology for FDIC assessments from deposit based to asset based. In addition, on July 21, 2010, the regulatory reform signed into law made the standard maximum deposit insurance amount of $250,000 permanent. The $250,000 per depositor is in addition to the full insurance on noninterest-bearing transaction accounts.

NOTE 3 CASH AND CASH EQUIVALENTS

The Organization maintains its cash balances in several banks and financial institutions in Southern California.

NOTE 4 FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value.

Investments: consist of certificates of deposit held at a certified financial institution. Carrying amount approximates fair value because of their short-term maturity.

Loans, notes and line of credit: Valued at amortized cost, which approximates fair value because the loans bear interest at rates commensurate with loans of similar credit quality and duration as of year-end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities measured at fair value as of September 30, 2013 and 2012:

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

2013

	Level 1	Level 2	Level 3	Total
Investments:				
CD-Comerica Bank	$ 120,977	$ -	$ -	$ 120,977
CD-Far East National Bank	62,327	-	-	62,327
CD-Manufacturers Bank	500,027	-	-	500,027
IMMA-Northern Trust Bank of California	100,710	-	-	100,710
Total investments	784,041	-	-	784,041
Cash and cash equivalents	1,323,741	-	-	1,323,741
Notes receivable	-	-	2,516,330	2,516,330
Notes payable	-	-	(2,900,000)	(2,900,000)
Net	$ 2,107,782	$ -	$ (383,670)	$ 1,724,112

2012

	Level 1	Level 2	Level 3	Total
Investments:				
CD-Comerica Bank	$ 120,972	$ -	$ -	$ 120,972
CD-Far East National Bank	62,060	-	-	62,060
CD-Manufacturers Bank	500,000	-	-	500,000
IMMA-Northern Trust Bank of California	100,700	-	-	100,700
Total investments	783,732	-	-	783,732
Cash and cash equivalents	2,549,622	-	-	2,549,622
Notes receivable	-	-	3,047,986	3,047,986
Line of credit	-	-	(325,026)	(325,026)
Notes payable	-	-	(3,400,000)	(3,400,000)
Net	$ 3,333,354	$ -	$ (677,040)	$ 2,656,314

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets and liabilities for the year ended September 30, 2013.

Nature	Beginning Balance	Issuances	Settlements	Ending Balance
Notes receivable	$ 3,047,986	$ 137,687	$ 669,343	$ 2,516,330
Line of credit	(325,026)	-	(325,026)	-
Notes payable	(3,400,000)	-	(500,000)	(2,900,000)
Net	$ (677,040)	$ 137,687	$ (155,683)	$ (383,670)

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets and liabilities for the year ended September 30, 2012.

Nature	Beginning Balance	Issuances	Settlements	Ending Balance
Notes receivable	$ 3,363,221	$ 632,200	$ 947,435	$ 3,047,986
Line of credit	(328,826)	-	(3,800)	(325,026)
Loan participations	(472,815)	-	(472,815)	-
Notes payable	(3,450,000)	-	(50,000)	(3,400,000)
Net	$ (888,420)	$ 632,200	$ 420,820	$ (677,040)

NOTE 5 NOTES RECEIVABLE AND ALLOWANCE FOR UNCOLLECTIBLE LOANS

At September 30, notes receivable consist of the following:

	2013	2012
Notes receivable	**$ 2,516,330**	3,047,986
Allowance for uncollectible loans	**(75,490)**	(238,850)
Notes receivable, net	**$ 2,440,840**	$ 2,809,136

At September 30, 2013 and 2012, notes receivable were composed of 8 loans. The loans are generally collateralized by trust deeds on real estate, generally bear interest at various rates ranging from approximately 5.5% to 10% per annum, and mature at various dates through 2022. Provision for uncollectible loans amounts to $12,025 and $132,954 for the years ended September 30, 2013 and 2012.

NOTE 6 PROPERTY AND EQUIPMENT

At September 30, property and equipment is composed of the following:

	2013	2012
Equipment	**$ 68,783**	$ 68,783
Accumulated depreciation	**(59,105)**	(57,821)
Property and equipment, net	**$ 9,678**	$ 10,962

Depreciation expense for the years ended September 30, 2013 and 2012 amounted to $1,177 and $1,284, respectively.

NOTE 7 OTHER REAL PROPERTY OWNED

On December 19, 2012, the Organization completed foreclosure procedures against its borrower on a non-accruing note receivable. The Organization recorded the foreclosed property at $467,431, which is net of the outstanding loan balance of the borrower to a senior lender amounting to $587,750. The Organization is currently in the process of negotiating with the senior lender on the settlement of the outstanding loan balance.

NOTE 8 LINE OF CREDIT

The Organization maintained a line of credit with a commercial bank that allows the Organization to borrow a maximum of $500,000. The line of credit is collateralized by a $500,000 certificate of deposit and bears interest at 0.1% per annum in 2012 and 2.4% in 2011. As of September 30, 2012, the outstanding balance on the line of credit amounted to $325,026. The line of credit was paid on August 16, 2013.

NOTE 9 NOTES PAYABLE

Note payable consisted of the following:

	2013	2012
Subordinated promissory notes with interest payable in annual installments at 4% per annum. The debt is subordinated to the right of any senior debt as defined in the agreement. The principal balance is due at maturity on March 31, 2014. The debt was issued with certain financial requirements that management is required to meet. This debt is similar to the EQ2 promissory notes, which are a form of debt capital commonly known as equity equivalent investments. The EQ2 promissory notes have certain characteristics of an equity investment in that they are unsecured, are subordinated to all other obligations of the Organization, bear a below-market interest rate, and have an indefinite maturity. In addition, certain investors or note holders, which are primarily regulated financial institutions, may receive favorable regulatory consideration under Community Reinvestment Act (CRA) by purchasing these EQ2 promissory notes, payable interest only. Under this promissory note, the Organization is required to maintain certain financial ratios as of the measurement date. This balance represents four different notes due to the Southern California Business Development Corporation. As of September 30, 2013 and 2012, the Organization met majority of the financial ratios and obtained a waiver for the subordinated debt to equity ratio that it did not meet.	$ 2,900,000	$ 3,400,000

NOTE 10 COMMITMENTS

The Organization leases equipment and office facilities under operating leases expiring through December 2015. Future minimum lease payments under operating leases that have remaining non-cancelable terms in excess of one year are as follows:

Year ending September 30,		
2014	$	39,438
2015		9,932
Total	$	49,370

Rent expense under operating leases amounted to $45,369 and $42,871 for the years ended September 30, 2013 and 2012, respectively.

NOTE 11 RETIREMENT PLANS

The Organization maintained a non-contributory 401(k) retirement plan that allowed eligible employees to contribute a portion of their annual compensation, subject to certain limitations. On March 3, 2011, the Board approved the termination of the 401(k) retirement plan. The participating employees rolled over their funds to individual plans.

On June 27, 2011, the Board approved a Savings Incentive Match Plan of Small Employers (SIMPLE) Individual Retirement Account (IRA) plan in which the employees can contribute up to $11,000 per annum with a 3% matching contribution by the Organization. The Organization's matching contribution expense for the year ended September 30, 2013 and 2012 amounted to $2,750 and $4,312, respectively.

NOTE 12 FEDERAL AWARDS COMPLIANCE AND CONTINGENT LIABILITY

The Organization operates a commercial revolving loan program under an Agreement with the City of Los Angeles (the "City"). The Agreement under which the Organization has operated the commercial revolving loan program has expired and was not extended by the City of Los Angeles. The Organization has attempted and is continuing to work with the City of Los Angeles to resolve noncompliance with the loan program by restructuring and/or returning the remaining funds to the City of Los Angeles.

The Organization received letters dated December 15, 2009 and June 22, 2010 from the City of Los Angeles' Office of Economic Development demanding repayment of $11,050,109 million in outstanding EDA loan balances and grant funds from two EDA-funded projects. There have been exchanges of communications between parties and the Organization is contesting this amount.

Management is of the opinion that the Organization may be liable only to the extent of the balance of the EDA loans as of March 31, 2004 amounting to $802,589, which was based on the reports that were submitted to the City of Los Angeles when the commercial revolving loan program expired.

On May 5, 2011, the City filed a lawsuit against the Organization. The City demanded that the Organization return the $11,050,009 in funds and/or unexpended cash purportedly attributable to the two grants that the City received from the EDA. The Organization has filed an Answer to the Complaint denying that the City is entitled to the relief that it seeks in the Complaint. The parties have agreed to mediation and are scheduled to hold various meeting through August 2013. No discovery has been conducted by either party in the lawsuit. A jury trial is scheduled in the lawsuit on October 15, 2014.

NOTE 12 FEDERAL AWARDS COMPLIANCE AND CONTINGENT LIABILITY (CONTINUED)

The Organization's reasonable estimate of this liability is a range between $802,589 and $11,050,109, with no amount within that range a better estimate than any other amount; accordingly, the Organization accrued $802,589 as of September 30, 2013 and 2012.

NOTE 13 SUBSEQUENT EVENTS

The Organization has evaluated events or transactions that occurred subsequent to September 30, 2013 through April 2, 2014, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no subsequent matters require disclosure or adjustment to the accompanying financial statements except for the matter disclosed in Note 7.

SUPPLEMENTAL INFORMATION

Los Angeles LDC, Inc. and Subsidiaries
(Nonprofit Organizations)
Consolidating Schedules of Financial Position
September 30, 2013

	LA LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
ASSETS					
Cash and cash equivalents	$ 1,380,086	$ 4,290	$ 7,367	$ -	$ 1,391,743
Investments	784,042	-	-	-	784,042
Notes receivable, net	2,440,840	-	-	-	2,440,840
Interest receivable	16,706	-	-	-	16,706
Prepaids and other receivables	137,401	-	-	-	137,401
Property and equipment	9,678	-	-	-	9,678
Other real estate owned	467,431	-	-	-	467,431
Due from LDC Management Services, LLC	7,200	-	-	(7,200)	-
Investment in 504 ACE Loan Fund I (2004), LLC	137,873	-	-	-	137,873
Investment in 504 ACE Loan Fund II (2006), LLC	5,790	-	-	(5,790)	-
Total assets	$ 5,387,047	$ 4,290	$ 7,367	$ (12,990)	$ 5,385,714
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	$ 226,841	$ -	$ -	$ -	$ 226,841
Estimated liability to the City of Los Angeles	802,589	-	-	-	802,589
Due to LDC	-	4,790	7,200	(11,990)	-
Notes payable	2,900,000	-	-	-	2,900,000
Total liabilities	3,929,430	4,790	7,200	(11,990)	3,929,430
Net assets					
Unrestricted	1,457,617	(500)	167	(1,000)	1,456,284
Total net assets	1,457,617	(500)	167	(1,000)	1,456,284
Total liabilities and net assets	$ 5,387,047	$ 4,290	$ 7,367	$ (12,990)	$ 5,385,714

Los Angeles LDC, Inc. and Subsidiaries
(Nonprofit Organizations)
Consolidating Schedules of Financial Position
September 30, 2012

	LA LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
ASSETS					
Cash and cash equivalents	$ 2,544,274	$ 4,373	$ 975	$ -	$ 2,549,622
Investments	783,732	-	-	-	783,732
Notes receivable, net	2,809,136	-	-	-	2,809,136
Interest receivable	16,383	-	-	-	16,383
Prepaids and other receivables	178,537	-	-	-	178,537
Property and equipment	10,962	-	-	-	10,962
Investment in 504 ACE Loan Fund I (2004), LLC	147,473	-	-	-	147,473
Investment in 504 ACE Loan Fund II (2006), LLC	5,790	-	-	(5,790)	-
Total assets	$ 6,496,287	$ 4,373	$ 975	$ (5,790)	$ 6,495,845
LIABILITIES AND NET ASSETS					
Liabilities					
Line of credit	$ 325,026	$ -	$ -	$ -	$ 325,026
Accounts payable and accrued expenses	117,324	-	-	-	117,324
Estimated liability to the City of Los Angeles	802,589	-	-	-	802,589
Due to LDC	-	4,790	-	(4,790)	-
Notes payable	3,400,000	-	-	-	3,400,000
Total liabilities	4,644,939	4,790	-	(4,790)	4,644,939
Net assets					
Unrestricted	1,851,348	(417)	975	(1,000)	1,850,906
Total net assets	1,851,348	(417)	975	(1,000)	1,850,906
Total liabilities and net assets	$ 6,496,287	$ 4,373	$ 975	$ (5,790)	$ 6,495,845

	LA LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
Revenue and support					
Interest on loans	$ 201,358	$ -	$ -	$ -	$ 201,358
Grants and contributions	13,500	-	-	-	13,500
Interest on investments	2,074	-	-	-	2,074
Equity in net earnings of an investee company	5,000	-	-	-	5,000
Other income	21,489	-	1	-	21,490
Total revenues	243,421	-	1	-	243,422
Interest expense	88,636	-	-	-	88,636
Net interest, fees and other income	154,785	-	1	-	154,786
Provision for credit losses	(12,025)	-	-	-	(12,025)
Net interest, fees and other income after recovery from (provision for) credit losses	142,760	-	-	-	142,761
Operating expenses					
Salaries and wages	257,178	-	-	-	257,178
Professional and consultant fees	97,977	-	-	-	97,977
Lease and parking	45,369	-	-	-	45,369
Repairs and maintenance	24,843	-	-	-	24,843
Insurance	22,595	-	-	-	22,595
Communications	10,762	-	-	-	10,762
Advertising and marketing	10,335	-	-	-	10,335
Printing and supplies	5,448	-	-	-	5,448
Development and sponsorship	5,150	-	-	-	5,150
Dues, membership and subscriptions	4,500	-	-	-	4,500
Taxes and licenses	3,121	-	800	-	3,921
Depreciation	1,177	-	-	-	1,177
Lending expenses	1,065	-	-	-	1,065
Student internship	1,000	-	-	-	1,000
Miscellaneous	45,971	83	9	-	46,063
Total expenses	536,491	83	809	-	537,383
Change in net assets	(393,731)	(83)	(808)	-	(394,622)
Net assets					
Beginning of year	1,851,348	(417)	975	(1,000)	1,850,906
End of year	$ 1,457,617	$ (500)	$ 167	$ (1,000)	$ 1,456,284

	LA LDC	504 ACE Loan Fund II (2006), LLC	LDC Management Services, LLC	Eliminating Entries	Total
Revenue and support					
Interest on loans	$ 275,039	$ -	$ -	$ -	$ 275,039
Grants and contributions	55,000	-	-	-	55,000
Interest on investments	3,699	-	-	-	3,699
Equity in net earnings of an investee company	4,700				4,700
Other income	44,968	-	1	-	44,969
Total revenues	383,406	-	1	-	383,407
Interest expense	84,816	-	-	-	84,816
Net interest, fees and other income	298,590	-	1	-	298,591
Provision for credit losses	(132,954)	-	-	-	(132,954)
Net interest, fees and other income after provision for credit losses	165,636	-	-	-	165,637
Operating expenses					
Salaries and wages	261,196	-	-	-	261,196
Professional and consultant fees	114,389	-	-	-	114,389
Lease and parking	42,871	-	-	-	42,871
Advertising and marketing	27,886	-	-	-	27,886
Insurance	12,747	-	-	-	12,747
Communications	10,187	-	-	-	10,187
Lending expenses	9,160	-	-	-	9,160
Dues, membership and subscriptions	5,845	-	-	-	5,845
Printing and supplies	4,635	-	-	-	4,635
Repairs and maintenance	3,026	-	-	-	3,026
Student internship	2,650	-	-	-	2,650
Taxes and licenses	1,047	-	962	-	2,009
Development and sponsorship	1,586	-	-	-	1,586
Depreciation	1,284	-	-	-	1,284
Contributions and donations	250	-	-	-	250
Miscellaneous	56,078	84	-	-	56,162
Total expenses	554,837	84	962	-	555,883
Change in net assets	(389,201)	(84)	(961)	-	(390,246)
Net assets					
Beginning of year	2,240,549	(333)	1,936	(1,000)	2,241,152
End of year	$ 1,851,348	$ (417)	$ 975	$ (1,000)	$ 1,850,906