ABC HOTEL, L.P.

(A CALIFORNIA LIMITED PARTNERSHIP)
LAHD LOAN NO. C-12345
FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2012 AND 2011

NOTES SECTION

Attachment 1

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

ABC Hotel, L.P. (the Partnership), a California limited partnership, was formed on July 29, 1998 and amended on December 23, 1999, July 1, 2001 and on April 14, 2003. The Partnership is involved in the management of the ABC Hotel, a 43 unit residential project consisting of affordable rental housing in Los Angeles, California (the Project). The Managing General Partner is the XYZ Corporation, a nonprofit California corporation (XYZ), and the Limited Partners are Partner A (PTR A), a Delaware limited partnership and Partner B (PTR B) Limited Partnership, a Delaware limited partnership. The Project was completed and placed-in-service in 2001.

The Partnership has entered into regulatory agreements with the California Tax Credit Allocation Committee (TCAC) and the City of Los Angeles, which govern the ownership, occupancy, management, maintenance and operations of the Project.

Allocation of Profits, Losses, Tax Credits and Distributions

The Partnership Agreement, as amended, has various provisions which determine, among other things, allocations of profits, losses and distributions to partners, the ability to sell or refinance the Project, loans and guarantees, the rights and duties of the General Partner and other Partnership matters.

Generally, profits, losses and tax credits are allocated .01% to the General Partner and 49.995% to each of the Limited Partners.

Distributable cash flow, as defined by the Partnership Agreement, is distributable .01% to the General Partner and 49.995% to each of the Limited Partners.

Basis of Accounting

The Partnership prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Advertising costs are expensed when incurred.

Revenue Recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees earned for late payments, cleaning, damages, laundry facilities, and other charges and is recorded when earned.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property

Property is stated at cost. Depreciation is provided primarily using the straight-line method over the following estimated useful lives:

Description	Life
Building and improvements	40 years
Furniture and equipment	7 years

The Partnership reviews its property for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses were recognized for the years ended December 31, 2012 and 2011.

The Partnership capitalizes expenditures or improvements that materially increase asset lives and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations.

Cash and Cash Equivalents

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

Rental Subsidies

On January 1, 2001, the Partnership was awarded a 10 year Housing Assistance Payments Contract (HAP Contract) by the Housing Authority of the City of Los Angeles (HACOLA), under Section 8 of the U.S. Department of Housing and Urban Development. The HAP Contract provides rental subsidies to the Partnership for 42 residential units. The HAP Contract is subject to annual renewal and currently expires on January 29, 2014. The Partnership believes that the HAP Contract will be renewed based on its past experience with HACOLA. Under the terms of the HAP Contract, the tenants must receive various supportive services. During 2012 and 2011, the Partnership recognized rental subsidies of $235,545 and $221,686, respectively.

Concentrations of Business and Credit Risk

The Partnership's cash and cash equivalents are maintained at various banks. The Partnership has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by the Federal Deposit Insurance Corporation (FDIC). The Partnership believes that its credit risk is not significant.

The Partnership rents to people with qualifying levels of income who live primarily in the Los Angeles area. The Partnership is subject to business risks associated with the economy, available rental subsidies and level of unemployment in Los Angeles, which will affect occupancy as well as the tenants' ability to make rental payments.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Exemption

The Partnership is generally exempt from real property taxes. In the event such exemption is not renewed or no longer available, the Partnership's cash flow would be negatively impacted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

Deferred Costs

Amortization of deferred costs is provided using the straight-line method over the following estimated useful lives:

Description	Life
TCAC fees	15 years
Permanent loan costs	Life of the loan

NOTE 2. OPERATING AND REPLACEMENT RESERVES

According to the Partnership, loan and regulatory agreements, the Partnership is required to maintain operating and replacement reserves in restricted cash accounts held by a FDIC insured bank, to be used for replacement of property, unforeseen circumstances and operating cash flow deficits, with the prior approval of the Los Angeles Housing Department (LAHD). The Partnership Agreement requires an operating reserve to be funded in an amount equal to 6% of net rental income, up to a maximum of $195,000. The replacement reserve is to be funded in an amount equal to at least $236 per unit per year, increasing 4% per year. As of December 31, 2012 and 2011, the minimum funding requirements for the replacement reserves were $192,558 and $93,852, respectively.

In accordance with the provision of the LAHD regulatory agreement, restricted cash as of December 31, 2012 and 2011 was held by Bank of America, a FDIC insured bank, as follows:

	Beginning Balance 1/1/12	Additions	Interest	Withdrawals and Transfers	Ending Balance 12/31/12
Operating reserve	$ 197,552	$ -	$ 455	$ (1,500)	$ 196,507
Replacement reserve	108,001	12,757	262	(2,221)	118,799
	$ 305,553	$ 12,757	$ 717	$ (3,721)	$ 315,306

NOTE 2. OPERATING AND REPLACEMENT RESERVES (Continued)

	Beginning Balance 1/1/11	Additions	Interest	Withdrawals and Transfers	Ending Balance 12/31/11
Operating reserve	$ 199,412	$ -	$ 583	$ (2,443)	$ 197,552
Replacement reserve	100,178	13,267	310	(5,754)	108,001
	$ 299,590	$ 13,267	$ 893	$ (8,197)	$ 305,553

NOTE 3. RELATED PARTY TRANSACTIONS

Investor Services Fee

The Partnership shall pay The Enterprise Social Investment Corporation, an affiliate of PTR B, an annual investor services fee of $1,500 beginning in 2001 and increasing at a rate of 4% per year. The fee is payable from available cash flow, as defined in the Partnership Agreement, and any unearned fees are not deferred. For the years ended December 31, 2012 and 2011, investor services fee of $2,402 and $2,309, respectively, was incurred.

Incentive Management Fee

In accordance with the Partnership Agreement, the Partnership is required to provide an annual incentive management fee to the General Partner up to $30,000, increasing 4% per year, to the extent that the Partnership has generated net operating cash flow, as defined. The fee is payable as of the first year following the year in which the operating reserve contains a balance of at least $195,000. If net cash flow is not sufficient, the fee shall not accrue from year to year. For the years ended December 31, 2012 and 2011, no incentive management fee has been incurred.

Administration Fee

In accordance with the Partnership Agreement, the Partnership is required to provide an annual administrative fee of $10,000 to the General Partner payable from net cash flow, as defined. If net cash flow is not sufficient, the fee shall not accrue from year to year. For the years ended December 31, 2012 and 2011, no administration fee has been incurred.

Property Management Fee

The Project is managed by XYZ Property Management, an affiliate of the General Partner. For each of the years ended December 31, 2012 and 2011, XYZ Property Management has earned a property management fee of $34,082.

	Accrued Fee balance 1/1/12	Fee Expensed	Fee Paid	Accrued Fee balance 12/31/12
Investor Services Fee	$ -	$ -	$ -	$ -
Incentive Mgmt. Fee	634,227	63,487	(462)	697,252
Administration Fee	24,351	2,100	-	26,451
	$ 658,578	$ 65,587	$ (462)	$ 723,703

	Accrued fee 1/1/11	Fee Expense	Fee Paid	Accrued Interest 12/31/11
Investor Services Fee	$ -	$ -	$ -	$ -
Incentive Mgmt. Fee	570,740	63,487	-	634,227
Administration Fee	22,251	2,100	-	24,351
	$ 592,991	$ 65,587	$ -	$ 658,578

NOTE 4. NOTES PAYABLE

Notes payable are summarized as follows:

	2012	2011
Note payable to the Los Angeles Homeless Services Authority (LAHSA), available borrowings up to $706,678, secured by a first trust deed, bearing no interest, unpaid principal due December 31, 2040.	$ 706,668	$ 706,668
Note payable (residual receipts note) to the City of Los Angeles (City of L.A.), available borrowings up to $1,281,549, secured by a second trust deed, simple interest at 5%. Principal and interest shall be paid from residual receipts, any unpaid principal and interest is due November 9, 2039.	1,269,745	1,269,745
Note payable to the Affordable Housing Program – Citibank (AHP), secured by a third deed of trust, simple interest at 1%, any unpaid principal and interest due May 16, 2040.	210,000	210,000
Total notes payable	$ 2,186,413	$ 2,186,413

At December 31, 2012, required principal repayments of notes payable are as follows:

Year ending December 31,	Amount
2013	$ -
2014	-
2015	-
2016	-
2017	-
Thereafter	2,186,413
	$ 2,186,413

An analysis of accrued interest for 2012 and 2011 is as follows:

	Accrued Interest 1/1/12	Interest Expense	Interest Paid	Accrued Interest 12/31/12
LAHSA	$ -	$ -	$ -	$ -
City of L.A.	634,227	63,487	(462)	697,252
AHP	24,351	2,100	-	26,451
	$ 658,578	$ 65,587	$ (462)	$ 723,703

	Accrued Interest 1/1/11	Interest Expense	Interest Paid	Accrued Interest 12/31/11
LAHSA	$ -	$ -	$ -	$ -
City of L.A.	570,740	63,487	-	634,227
AHP	22,251	2,100	-	24,351
	$ 592,991	$ 65,587	$ -	$ 658,578

NOTE 5. INCOME TAXES AND LOW INCOME HOUSING TAX CREDITS

The Partnership is a pass-through entity for income tax purposes and all items of income and losses of the Partnership are reported by the partners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. The Partnership is required to file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure. With few exceptions, the Partnership is no longer subject to income tax examinations by tax authorities for years before 2008.

The Partnership has been allocated federal low-income housing tax credits from TCAC, which are available only to the extent the Partnership complies with the Internal Revenue Service's tax credit regulations. The General Partner is responsible to ensure that the Partnership satisfies such requirements and has made certain guarantees to the Limited Partners which are defined in the Partnership Agreement.

NOTE 6. DEFERRED DEVELOPER FEE

According to the TCAC cost certification, the total developer fee is $1,000,000 and the deferred amount is $200,000. Total principal and interest payments on the deferred developer fee as of 12/31/12 are $144,677 and $55,323 remains outstanding.

NOTE 7. DEFERRED COSTS

The costs incurred to obtain permanent financing and tax credit fees have been capitalized and consist of the following:

	2012	2011
Permanent loan costs	$ 17,816	$ 17,816
TCAC fees	54,734	54,734
Total deferred costs	72,550	72,550
Less: accumulated amortization	(48,407)	(44,301)
Net deferred costs	$ 24,143	$ 28,249

NOTE 8. SUBSEQUENT EVENTS

The Partnership has evaluated subsequent events that have occurred through February 28, 2013, which is the date that the financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements.