

Financial Statements
504 ACE Loan Fund I (2004), LLC
As of and for the Year Ended December 31, 2013
With Independent Accountants' Compilation Report

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Independent Accountants' Compilation Report

To the Members
504 ACE Loan Fund I (2004), LLC
(A Limited Liability Company)

We have compiled the accompanying balance sheet of 504 ACE Loan Fund I (2004), LLC (A Limited Liability Company) (the "Fund") as of December 31, 2013 and the related statements of income, members' equity and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.



Los Angeles, California
November 12, 2014

ASSETS

Cash and cash equivalents	\$	48,150
Notes receivable, net		466,427
Interest receivable		<u>2,733</u>
Total assets	\$	<u>517,310</u>

LIABILITIES AND NET ASSETS

Liabilities

Due to related party	\$	<u>594</u>
Total liabilities		<u>594</u>

Members' equity

Members' equity		465,044
Members' equity - related party		<u>51,672</u>
Total members' equity		<u>516,716</u>

Total liabilities and members' equity	\$	<u>517,310</u>
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See independent accountants' compilation report and accompanying notes.

504 ACE Loan Fund I (2004), LLC
Statement of Income
Year ended December 31, 2013

Revenue	
Interest on notes receivable	\$ 56,912
Recovery of allowance for doubtful accounts	8,448
Interest income	<u>50</u>
Total operating revenues	<u>65,410</u>
Operating expenses	
Professional fees	9,245
Management fees	6,812
Accounting services	3,050
Bank charges	813
Taxes	800
Miscellaneous	<u>186</u>
Total operating expenses	<u>20,906</u>
Net income	\$ <u>44,504</u>

See independent accountants' compilation report and accompanying notes.

504 ACE Loan Fund I (2004), LLC
Statement of Members' Equity
Year ended December 31, 2013

	<u>LDC Management Services, LLC</u>	<u>Bank of the West</u>	<u>City National Bank</u>	<u>Comerica Capital Advisors Inc.</u>	<u>Mellon 1St Bank</u>	<u>U S Bankcorp Community Dev. Corp.</u>	<u>Union Bank NA</u>	<u>JP Morgan Chase</u>	<u>Wells Fargo Community Dev. Corp.</u>	<u>Total Members' Equity</u>
Balance, January 1, 2013	\$ 143,902	\$ 143,902	\$ 143,902	\$ 28,779	\$ 28,779	\$ 143,902	\$ 259,023	\$ 287,803	\$ 259,023	\$ 1,439,012
Capital Distributions	(96,680)	(96,680)	(96,680)	(19,336)	(19,336)	(96,680)	(174,024)	(193,360)	(174,024)	(966,800)
Net Income	<u>4,450</u>	<u>4,450</u>	<u>4,450</u>	<u>890</u>	<u>890</u>	<u>4,450</u>	<u>8,011</u>	<u>8,901</u>	<u>8,011</u>	<u>44,504</u>
Balance, December 31, 2013	<u>\$ 51,672</u>	<u>\$ 51,672</u>	<u>\$ 51,672</u>	<u>\$ 10,333</u>	<u>\$ 10,333</u>	<u>\$ 51,672</u>	<u>\$ 93,010</u>	<u>\$ 103,344</u>	<u>\$ 93,010</u>	<u>\$ 516,716</u>
Ownership Interest	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>2%</u>	<u>2%</u>	<u>10%</u>	<u>18%</u>	<u>20%</u>	<u>18%</u>	<u>100%</u>

See independent accountants' compilation report and accompanying notes.

504 ACE Loan Fund I (2004), LLC
Statement of Cash Flows
Year ended December 31, 2013

Cash flows from operating activities	
Net income	\$ 44,504
Adjustments to reconcile net income to net cash provided by operating activities:	
Recovery of allowance for doubtful accounts	(8,448)
Change in operating assets and liabilities:	
Interest receivable	2,906
Due to related party	<u>(1,619)</u>
Net cash provided by operating activities	37,343
Cash flows from investing activities	
Principal payments on notes receivable	844,805
Cash flows from financing activities	
Capital distributions	<u>(966,800)</u>
Change in cash and cash equivalents	(84,652)
Cash and cash equivalents, beginning of year	<u>132,802</u>
Cash and cash equivalents, end of year	\$ <u><u>48,150</u></u>

See independent accountants' compilation report and accompanying notes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of 504 ACE Loan Fund I (2004), LLC (A Limited Liability Company) (the "Fund") is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management and board members who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

504 ACE Loan Fund I (2004), LLC (A Limited Liability Company) (the "Fund") was inaugurated on September 23, 2004 to promote access to capital by purchasing and originating new loans which finance the activities of minority and women led businesses or nonprofit organizations in conjunction with promoting community development in certain geographically targeted areas. The Fund was capitalized with \$10 million from accredited investors, of which a 10% interest is owned by LDC Management Services LLC, a wholly-owned subsidiary of Los Angeles LDC, Inc. ("LA LDC"). LA LDC manages the day-to-day operations and affairs of the Fund and charges the Fund a management fee of 0.5% per annum of the aggregate Notes Receivable balances, calculated monthly.

At the Fund's inauguration, it purchased seventeen (17) separate secured community development loans from LA LDC, and subsequently purchased seven (7) more loans from LA LDC, of which a total of three (3) remain outstanding as of December 31, 2013. The loans purchased by the Fund are its primary assets and are evidenced by promissory notes from various borrowers. There is only one (1) "class" of membership interest, and such interests are proportional to the members' initial capital contribution.

The Fund shall continue to operate until December 31, 2029, unless terminated sooner under the Fund's operating agreement. The Fund does not plan to provide new loans to businesses or organizations. When outstanding loans are paid off, the members currently plan to dissolve the Fund.

Basis of Accounting

The Fund's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Fund considers its investment in a money market account to be a cash equivalent. In addition, the Fund 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.

Revenue Recognition

The Fund earns revenues primarily through charging borrowers interest on their borrowings. Interest income is recognized in the month it is earned. Interest earned in a month is typically paid by the borrower with the subsequent month's regular payment.

Notes Receivable

Notes receivable are recorded in the accompanying financial statements at face value less payments received. 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.

Allowance for Doubtful Accounts

Loan losses are charged against the allowance for doubtful accounts. Notes receivable are periodically evaluated for collectability based on past payment history and the borrower's current financial condition. Accounts are charged off against the allowance when the Fund believes they are uncollectible. Receivables are considered past due or delinquent based on contractual terms. Management evaluates each note receivable separately and has established an allowance for doubtful accounts of 1% of each note receivable.

Income Taxes

The Fund is not a taxpaying entity for federal income tax purposes. In addition to the minimum California tax of \$800, a limited liability company is subject to an annual fee based on total income on a progressive scale ranging from \$0 to \$11,790. Income of the Fund is taxed in the respective tax returns of the members.

Use of 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 the determination of allowance for doubtful accounts. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents and notes receivable. The credit risk in cash and cash equivalents is decreased because the Fund places its cash balances in reputable financial institutions. A downturn in the economy could result in an increase in defaults by borrowers in paying off the notes. However, the Fund's credit risk is substantially decreased by the secured nature of the notes receivable as most of the notes are collateralized by real estate.

Custodial Credit Risk

Custodial credit risk is the risk that the Fund 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 Funds to credit risk are cash deposits with banks and other financial institutions that are in excess of the federally insured limit of \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Estimated Fair Value of Financial Instruments

Financial instruments included in the Fund's statement of financial position include cash and cash equivalents and notes receivable.

Financial 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 Fund.

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 Fund'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.

NOTE 2 NOTES RECEIVABLE

As of December 31, 2013, notes receivable is comprised of three (3) notes to three (3) borrowers.

During the year ended December 31, 2013, the members of the Fund, who were experienced lenders in the banking industry, have provided loan loss reserves of 1% on each of the outstanding note receivable. There were no accounts in default during the year.

NOTE 3 RELATED PARTY TRANSACTIONS

LA LDC manages the Fund's operations. The Operating Agreement calls for an annual management fee of 0.5% of the aggregate notes receivable balance each month. Management fees earned by LA LDC during the year ended December 31, 2013 aggregated to \$6,812. The balance owed to LA LDC at December 31, 2013 amounted to \$594.

NOTE 4 FAIR VALUE MEASUREMENTS

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

Notes receivable: 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 Fund 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 Fund's assets measured at fair value as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Notes receivable	\$ -	\$ -	\$ 466,427	\$ 466,427

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Fund's level 3 assets for the year ended December 31, 2013:

Beginning balance	\$ 1,311,232
Issuances	-
Collections	(844,805)
Gains (Losses)	-
Ending balance	\$ <u>466,427</u>

NOTE 5 SUBSEQUENT EVENTS

On May 15, 2014, the Fund closed the sale of the Soledad Enrichment Action note amounting to \$81,162 to First General Bank at par and distributed the proceeds to all members. On July 18, 2014, the remaining Asian American Drug Abuse Program note amounting to \$368,567 was refinanced by a member bank.

Subsequent to December 31, 2013 and through November 12, 2014, the date through which management evaluated subsequent events and on which the financial statements were available to be issued, the Fund did not identify any other subsequent events that require disclosure or adjustments to the financial statements.



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