

221 10TH AVENUE S, LLLP

Financial Statements

For the Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Partners
221 10th Avenue S, LLLP
Seattle, Washington

We have audited the accompanying financial statements of 221 10th Avenue S, LLLP, a Washington limited liability limited partnership, (the Partnership) which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in partners' equity and cash flows for the years ended December 31, 2019 and 2018, 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 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 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2019 and 2018, and the results of its operations and cash flows for the year ended December 31, 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of application of gross revenue 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.

Clark Nuber P.S.

Certified Public Accountants
April 1, 2020

221 10TH AVENUE S, LLLP

Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Investment in Real Estate:		
Buildings and improvements	\$ 43,012,840	\$ 42,960,009
Land improvements	4,207,343	4,207,343
Furniture and equipment	33,688	33,688
	<u>47,253,871</u>	<u>47,201,040</u>
Less accumulated depreciation	(3,188,105)	(1,899,386)
Net Investment in Real Estate	44,065,766	45,301,654
Other Assets:		
Cash and cash equivalents	1,436,541	3,016,703
Construction retainage reserve		1,926,535
Operating reserve	637,017	633,476
Capital replacement reserve	120,381	78,752
Deferred costs, net of accumulated amortization of \$30,817 (\$13,795 - 2018)	224,512	241,534
Accounts receivable, net	8,052	4,899
Prepaid expenses	43,296	42,815
Tenant security deposits	61,978	61,280
Total Other Assets	2,531,777	6,005,994
Total Assets	\$ 46,597,543	\$ 51,307,648
Liabilities and Partners' Equity		
Liabilities:		
Notes payable, net	\$ 27,442,010	\$ 27,563,173
Other Liabilities:		
Other accrued liabilities	43,685	37,677
Accrued interest - other loans	550,175	380,868
Tenant security deposits	60,617	61,267
Annual fee payable to the special limited partner	19,203	11,363
Due to affiliate	49,313	45,740
Accrued partnership fees	44,808	26,513
Developer fee payable	609,530	2,988,322
Commercial security deposit	2,000	2,000
Other liabilities - construction		1,866,348
Total Other Liabilities	1,379,331	5,420,098
Total Liabilities	28,821,341	32,983,271
Partners' equity	17,776,202	18,324,377
Total Liabilities and Partners' Equity	\$ 46,597,543	\$ 51,307,648

See accompanying notes.

221 10TH AVENUE S, LLLP

Statements of Operations
For the Years Ended December 31, 2019 and 2018

	2019	2018
Rental Income:		
Tenant rent	\$ 778,460	\$ 667,484
Subsidy rent	789,961	834,302
Commercial rent	6,865	6,485
Less vacancy loss	(12,410)	(1,479)
Net Rental Income	1,562,876	1,506,792
Interest income	5,378	1,575
Other income	886	17,536
Total Income	1,569,140	1,525,903
Operating Expenses:		
Salaries and employee benefits	173,598	148,057
Repairs and maintenance	152,949	116,931
Utilities	167,716	169,065
Property management fee	73,260	73,260
Taxes and insurance	85,478	84,015
Miscellaneous operating expenses	100,352	93,069
Total Operating Expenses	753,353	684,397
Net Operating Income Before Partnership and Financial Expenses and Depreciation and Amortization	815,787	841,506
Partnership and Financial Expenses:		
Annual fee to the special limited partner	7,841	7,613
Other related party fees and expenses	18,295	17,763
Interest expense	681,669	829,495
Total Partnership and Financial Expenses	707,805	854,871
Net Income (Loss) Before Depreciation and Amortization	107,982	(13,365)
Depreciation and amortization	1,305,741	1,277,615
Net Loss	\$ (1,197,759)	\$ (1,290,980)

See accompanying notes.

221 10TH AVENUE S, LLLP

Statements of Changes in Partners' Equity
For the Years Ended December 31, 2019 and 2018

	Investor Limited Partner	Special Limited Partner	General Partner	Syndication Costs	Total
Partners' Equity, December 31, 2017	\$ 4,369,878	\$ 100	\$ (13)	\$ (60,000)	\$ 4,309,965
Capital contributions	15,305,392				15,305,392
Net loss	<u>(1,290,851)</u>		<u>(129)</u>		<u>(1,290,980)</u>
Partners' Equity, December 31, 2018	18,384,419	100	(142)	(60,000)	18,324,377
Capital contributions	649,584				649,584
Net loss	<u>(1,197,639)</u>		<u>(120)</u>		<u>(1,197,759)</u>
Partners' Equity, December 31, 2019	<u>\$ 17,836,364</u>	<u>\$ 100</u>	<u>\$ (262)</u>	<u>\$ (60,000)</u>	<u>\$ 17,776,202</u>

See accompanying notes.

221 10TH AVENUE S, LLLP

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Net loss	\$ (1,197,759)	\$ (1,290,980)
Adjustments to reconcile net loss to net cash provided by operating activities-		
Depreciation	1,305,741	1,277,615
Amortization of debt issuance costs	2,948	5,062
Decrease (increase) in operating assets:		
Accounts receivable	(3,153)	54,699
Prepaid expenses	(481)	(1,293)
Increase (decrease) in operating liabilities:		
Accrued interest - construction loan		(62,338)
Accrued interest - other loans	169,307	199,802
Accrued partnership fees	18,295	17,763
Other accrued liabilities	5,358	(20,062)
Annual fee payable to the special limited partner	7,840	7,613
Due to affiliate	3,573	(74,000)
Net Cash provided by Operating Activities	311,669	113,881
Cash Flows From Investing Activities:		
Investment in real estate	(52,831)	(648,228)
Tax credit monitoring fees paid		(124,283)
Payment of retainage	(1,866,348)	
Net Cash Used in Investing Activities	(1,919,179)	(772,511)
Net Cash Provided by Financing Activities:		
Capital contributions	649,584	15,305,392
Proceeds from issuance of debt		2,071,801
Payments on notes payable	(124,111)	(14,598,695)
Payment of developer fee	(2,378,792)	(106,678)
Net Cash (Used in) Provided by Financing Activities	(1,853,319)	2,671,820
Net Change in Cash and Cash Equivalents	(3,460,829)	2,013,190
Cash and cash equivalents, beginning of period	5,716,746	3,703,556
Cash and Cash Equivalents, End of Period	\$ 2,255,917	\$ 5,716,746
Supplementary Disclosure of Noncash Investing and Financing Activities:		
Construction contract payable	\$ -	\$ 186,648
Supplementary Disclosure of Cash Flow Activities:		
Cash paid during the year for interest, net of amounts capitalized	\$ 509,413	\$ 686,969
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheet that sums to the total of the same such amounts shown in the statements of cash flows:		
Cash and Cash Equivalents Summary:		
Cash and cash equivalents	\$ 1,436,541	\$ 3,016,703
Construction retainage reserve		1,926,535
Operating reserve	637,017	633,476
Capital replacement reserve	120,381	78,752
Tenant security deposits	61,978	61,280
Total Cash, Cash Equivalents and Restricted Cash Shown in the Statements of Cash Flows	\$ 2,255,917	\$ 5,716,746

See accompanying notes.

221 10TH AVENUE S, LLLP

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 1 - Nature of Business

221 10th Avenue S, LLLP, (the Partnership) is a Washington limited liability limited partnership which was formed in 2015 to construct, own and operate a 111-unit apartment project (the Project) located in Seattle, Washington. The Partnership shall continue in perpetuity, unless sooner terminated in accordance with certain conditions in the Partnership's Operating Agreement (the Operating Agreement).

The Partnership has received an allocation of federal low-income housing tax credits under Section 42 of the Internal Revenue Code (IRC), administered by the Washington State Housing Finance Commission (WSHFC). Under this program, housing provided by the Project is subject to monitoring of tenant eligibility by the WSHFC. The Project must meet the provisions of these regulations during each of the fifteen consecutive years in order to remain qualified to received tax credits. In addition, the Partnership has agreed to an Extended Use Agreement, which requires the utilization of the Project pursuant to Section 42 for an additional 22 years (through December 2037).

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The financial statements are presented on the accrual basis and include only those assets and liabilities of the Partnership. The financial statements do not include any assets or liabilities attributable to the general partner or limited partners.

Investment in Real Estate - Investment in real estate with a purchase price exceeding \$1,000 and a useful life greater than one year is capitalized and recorded at cost. Depreciation is computed on a straight-line method. Depreciation is based on the estimated useful lives of the individual assets: 40 years for buildings, 20 years for land improvements and 9 years for furniture and equipment. Major replacements and betterments are capitalized. No impairment losses were recognized during the periods ending December 31, 2019 or 2018. The project was placed into service on June 28, 2017.

Financing Costs - Financing costs are recorded as a deduction to related debt liability on the balance sheet. Financing costs are amortized over the term of the applicable debt using the straight-line method. Accounting principles generally accepted in the United States of America (U.S. GAAP) requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs are included as a component of interest expense on the statements of operations.

Deferred Costs - Tax credit fees are reported as deferred costs on the balance sheets and amortized over fifteen years using the straight-line method. Amortization of tax credit fees are included as a component of depreciation and amortization on the statements of operations.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Partnership considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. Management maintains the Partnership's cash and reserves in bank deposit accounts, which at times, may exceed federally insured limits. Management does not anticipate nonperformance by the financial institution.

Construction Retainage Reserve - Construction retainage reserve funds are controlled by the bank holding the construction and permanent loan and are to be used for payment on the outstanding retainage liability due to the general contractor. Management maintains the Partnership's construction retainage reserve in a bank deposit account, which at times, may exceed federally insured limits. Management does not anticipate nonperformance by the financial institution. During the year ended December 31, 2019, the remaining construction retainage was fully paid and the reserve was depleted.

221 10TH AVENUE S, LLLP

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 2 - Continued

Receivables - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management has recorded an allowance for doubtful accounts of \$24,580 and \$6,820 for the periods ended December 31, 2019 and 2018, respectively.

Rental Income and Prepaid Rents - Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are classified as liabilities until earned.

Federal Income Taxes - The Partnership is a limited liability limited partnership which has elected to be taxed as a partnership under the provisions of the IRC. All profits and losses are passed through to the partners in accordance with the ownership percentages identified in Note 6. Accordingly, no provision for income taxes has been included in the financial statements.

Concentration - The Partnership's sole asset is a 111-unit apartment project. The Partnership's operations are concentrated in the multifamily real estate market in Seattle, Washington. The Partnership conducts its operations under assistance payments from government agencies. For the periods ended December 31, 2019 and 2018, 50% and 55%, respectively, of the Partnership's net rental income was earned from governmental assistance payments.

In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Implementation of New Accounting Standard - For the year ended December 31, 2019, the Project adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the statement of cash flow to explain the change during the period in total cash, cash equivalents and restricted cash. The statements of cash flows reflect this change as of December 31, 2019 and 2018.

Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from such estimates.

Subsequent Events - The Partnership has evaluated subsequent events through April 1, 2020, the date on which the financial statements were available to be issued.

Note 3 - Related Party Transactions

Developer Fee - The Partnership entered into a development services agreement with the general partner to provide development services. As of December 31, 2019 and 2018, the developer fee payable outstanding was \$609,530 and \$2,988,322, respectively. Of the developer fee payable at December 31, 2019, payments are to be made from operations.

Due to Affiliate - Housing Authority of the City of Seattle (SHA), the general partner, has allocated to the Project its share of certain operating costs. As of and for the year ended December 31, 2018, reimbursements of \$689,413 were paid to the general partner for operating expenses and \$883,088 was reimbursed for development costs with \$45,740 due to the general partner. As of and for the year ended December 31, 2019 reimbursements of \$655,720 were paid to the general partner for operating expenses and \$2,320,519 was reimbursed for development costs, of which \$470,595 was paid from operations, with \$49,313 due to the general partner.

221 10TH AVENUE S, LLLP

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 3 - Continued

Asset Management Fee - The Partnership has agreed to pay an annual asset management fee of \$7,500, increasing 3% per year, to the special limited partner. The fee shall be pro-rated for any partial year. The fee is cumulative, shall accrue without interest and is payable out of cash flows, as defined. Asset management fees of \$7,841 and \$7,613 were earned during the periods ended December 31, 2019 and 2018, respectively.

Partnership Management Fee - The Partnership has agreed to pay an annual partnership management fee of \$17,500, increasing by 3% per year to the general partner. The fee shall be pro-rated for any partial year. The fee is cumulative and is payable out of available cash flows, as defined. Partnership management fees of \$18,295 and \$17,763 were earned during the periods ended December 31, 2019 and 2018, respectively.

Property Management Fee - The Partnership entered into a management agreement on December 15, 2015 with Impact Property Management, an affiliate of the general partner. The management agreement provides for fees of \$55 per unit per month for the first two years of the agreement. After, the fee shall be budgeted and approved by the Owner, as defined by the management agreement. For the periods ended December 31, 2019 and 2018, management fees of \$73,260 were incurred and reported as property management fees in the statements of operations.

Master Sublease Agreement - On December 15, 2015, the Partnership entered into a commercial space master sublease with SHA. This agreement covers approximately 1,297 square feet of commercial space located on the ground floor of the Project. The lease agreement requires annual rent of \$1 and terminates 16 years after the commencement date.

Junior Sublease Agreement - On September 1, 2017, SHA entered into a junior sublease agreement with a Washington nonprofit corporation. This agreement covers approximately 1,297 square feet of commercial space located on the ground floor of the Project. The subtenant's rent will be based on their share of operating expenses and will be equal to \$5 per square foot for the years ended December 31, 2019 and 2018. The lease agreement will terminate on August 31, 2020, unless extended.

Land Lease Agreement - On December 21, 2015, the Partnership entered into a land lease agreement with Seattle Housing Authority. The agreement covers the property the project is built upon (the Property). This agreement requires annual rent of \$12 and terminates 99 years after the commencement date, on December 31, 2114. Under the terms of the agreement, the Partnership commits to using the Property solely for the purpose of providing low-income housing to qualified persons, in accordance with IRC Section 42.

Operating Deficit Loans - The general partner is obligated to make operating deficit loans to fund operating deficits that exceed available operating deficit reserves. The requirement to fund operating deficits terminates upon certain conditions as defined in the Operating Agreement. This obligation is limited to \$1,200,000. No operating deficit contributions were made during the periods ended December 31, 2019 or 2018.

Note 4 - Restricted Deposits

Operating Reserve - In accordance with the operating agreement, the Partnership established an operating deficit reserve in the amount of \$632,880 upon conversion of the construction loan payable to a permanent loan during the period ended December 31, 2018. Funds in the operating deficit reserve account will be used to fund operations and will be approved by the limited partner.

221 10TH AVENUE S, LLLP

Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 4 - Continued

Capital Replacement Reserve - In accordance with the operating agreement, the Partnership has established a capital replacement reserve to fund repairs or replace assets with annual deposits of \$350 per unit, increasing annually by 3%. The reserve is to be funded monthly, beginning the month following the month in which the permanent loan closing occurs. Funds in the reserve, including interest earned, shall be used exclusively for payment of capital expenditures, as approved by the special limited partner.

Activity in the restricted deposit accounts for the periods ended December 31 were as follows:

	Beginning Balance 2018	Additions and Interest	Withdrawals	Ending Balance 2018
Replacement reserve	\$ 38,850	\$ 39,902	\$ -	\$ 78,752
Operating reserve		633,476		633,476
	<u>\$ 38,850</u>	<u>\$ 673,378</u>	<u>\$ -</u>	<u>\$ 712,228</u>
	Beginning Balance 2019	Additions and Interest	Withdrawals	Ending Balance 2019
Replacement reserve	\$ 78,752	\$ 41,629	\$ -	\$ 120,381
Operating reserve	633,476	3,541		637,017
	<u>\$ 712,228</u>	<u>\$ 45,170</u>	<u>\$ -</u>	<u>\$ 757,398</u>

221 10TH AVENUE S, LLLP

Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 5 - Notes Payable

Notes payable consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Mortgage note payable to JPMorgan Chase Bank, N.A., payable in monthly installments of \$56,227, including interest at 4.72%, with the remaining balance due in July 2053. The mortgage note converted from a construction loan on June 18, 2018. The note is secured by a deed of trust on the project.	\$ 10,577,195	\$ 10,701,306
SHA Loan #1 - Note payable to SHA, the general partner, in the principal amount of \$6,725,000. Interest accrued annually at 1%. Payments of principal and interest are due annually to the extent of operating cash flow; the loan and all accrued but unpaid interest is due and payable in December 2065. The note is secured by the deed of trust and assignment of rents and leases.	6,688,824	6,688,824
SHA Loan #2 - Note payable to SHA in the principal amount of \$10,475,000. Interest accrues annually at 1%. Payments of principal and interest are due annually to the extent of operating cash flow; the loan and all accrued but unpaid interest is due and payable in December 2065. The note is secured by the deed of trust and assignment of rents and leases.	<u>10,292,373</u>	<u>10,292,373</u>
Notse payable	27,558,392	27,682,503
Less unamortized financing costs	<u>(116,382)</u>	<u>(119,330)</u>
Construction and Notes Payable, Net	<u>\$ 27,442,010</u>	<u>\$ 27,563,173</u>

The following schedule outlines principal amounts due on the notes:

For the Year Ending December 31,

2020	\$ 128,748
2021	136,481
2022	143,158
2023	150,161
2024	156,148
Thereafter	<u>26,843,696</u>
	27,558,392
Less unamortized financing costs	<u>(116,382)</u>
Mortgage Notes Payable, Net	<u>\$ 27,442,010</u>

221 10TH AVENUE S, LLLP

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 6 - Partners' Equity

The Partnership has one general partner, SHA, which has a 0.01% interest, a special limited partner, MUFG Union Bank, N.A., and one investor limited partner, MUFG Union Bank, N.A., which has a 99.99% interest.

Note 7 - Partnership Profit and Loss Allocations and Distributions

All profits and losses are allocated .01% to the general partner and 99.99% to the investor limited partner.

Net cash flow shall be distributed as follows:

- a. First, to pay payments due under the long-term lease and payment of mandatory debt service due and payable on the loans;
- b. Then, to other Partnership expenses; except for Partnership expenses listed in the Operating Agreement;
- c. Then, to fund the Capital Replacement Reserve but only to the extent that monthly deposits were not paid;
- d. Then, to fund the Operating Deficit Reserve to the extent necessary to restore its balance to \$632,880;
- e. Then, to repayment of any limited partner loan;
- f. Then, to payment of the current or accrued annual asset management fee;
- g. Then, to any amounts due under the developer fee note not payable as a Partnership expense;
- h. Then, to the investor limited partner in the amount of any distribution of an adjuster contribution or accelerated adjuster contribution that would have been due to it;
- i. Then, to payment of the current and accrued annual partnership management fee, but in no event, when aggregated with the fees payable to the property manager, greater than 12% of the total gross cash receipts from operations distributed in that year;
- j. Then, to repayment of the Operating Deficit Loan pro rata in accordance with the respective outstanding balances thereof;
- k. Then, to the partners in accordance with their percentage interests, provided, however, in no event shall the investor limited partner receive less than 10% of all amounts paid or distributed.

Note 8 - Buyout Option

The general partner has the option, exercisable within the two years immediately following the end of the compliance period, to purchase the limited partners' interest in the Partnership, at the greater of the fair market value of that interest or an amount determined in accordance with the Operating Agreement.

SUPPLEMENTARY INFORMATION

221 10TH AVENUE S, LLLP

Schedule of Application of Gross Revenue
For the Year Ended December 31, 2019

Gross Cash Receipts From Operations:

Total operating and other income	\$ 1,569,140
Change in accounts receivable	<u>(21,580)</u>

Total Gross Cash Receipts From Operations **1,547,560**

Application of Gross Revenue:

Debt service-	
Principal paid	(124,111)
Interest paid	(509,400)
Operating expenses	(753,353)
Change (decrease) in other accrued liabilities	(1,059)
Change (decrease) in amounts due to affiliate not including developer fee	7,488
Capital replacement reserve deposits	<u>(41,216)</u>

Amount Available for Investor and Developer Fees **\$ 125,909**