Burr Oaks Senior Housing, LLC

Financial Report

December 31, 2012

BURR OAKS SENIOR HOUSING, LLC

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Members
Burr Oaks Senior Housing, LLC
Madison, Wisconsin

We have audited the accompanying financial statements of Burr Oaks Senior Housing, LLC, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, members' equity and cash flows for the year ended December 31, 2012 and the period from inception (August 9, 2010) through December 31, 2011, 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 the 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Burr Oaks Senior Housing, LLC as of December 31, 2012 and 2011, and the results of its operations, changes in members' equity, and its cash flows for the periods then ended 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 schedules of other revenue and expenses shown on pages 16 – 17, is presented for purposes of additional analysis and is 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.

Madison, Wisconsin

REPORT DATE

BURR OAKS SENIOR HOUSING, LLC

BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 348,836	$ 141,343
Restricted cash	293,959	19,769
Accounts receivable	384	601
Prepaid expenses	2,176	1,699
Rental property, net	6,215,128	6,406,833
Loan costs	63,138	26,631
Tax credit fees, net	71,143	76,225
TOTAL ASSETS	$ 6,994,764	$ 6,673,101
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable	$ 1,555,000	$ 1,389,417
Development fee payable	0	570,000
Accounts payable	132	5,467
Construction payable	100	24,088
Accrued interest	5,996	3,864
Accrued real estate taxes	44,453	11,921
Other accrued expenses	39,414	16,910
Prepaid rents	15,832	13,887
Tenants' security deposits payable	17,001	15,700
Total liabilities	1,677,928	2,051,254
MEMBERS' EQUITY	5,316,836	4,621,847
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 6,994,764	$ 6,673,101

The accompanying notes are an integral part of these financial statements.

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF OPERATIONS
Year ended December 31, 2012 and
period from inception (August 9, 2010) through December 31, 2011

	2012	2011
Revenues:		
Rental income	$ 387,540	$ 164,515
Vacancies	(16,860)	(45,489)
Concessions	(1,887)	(2,287)
Other revenue	5,595	2,984
Total revenues	374,388	119,723
Rental expenses:		
Administrative	88,156	63,554
Utilities	35,232	17,208
Operating and maintenance	32,933	11,392
Taxes and insurance	56,164	8,777
Total rental expenses	212,485	100,931
Net rental income	161,903	18,792
Financial income (expense):		
Interest income	18	9
Interest expense	(46,245)	(55,814)
Total financial income (expense)	(46,227)	(55,805)
Income (loss) before other expenses	115,676	(37,013)
Other expenses:		
Organization and start-up expenses	0	39,989
Depreciation	196,208	80,640
Amortization	5,082	0
Asset management fees	15,000	0
Total other expenses	216,290	120,629
Net loss	$ (100,614)	$ (157,642)

The accompanying notes are an integral part of these financial statements.

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF MEMBERS' EQUITY
Year ended December 31, 2012 and
period from inception (August 9, 2010) through December 31, 2011

	Managing member	Investor member	Total
Members' equity:			
Balances, inception	$ 0	$ 0	$ 0
Capital subscriptions	100	5,581,942	5,582,042
Syndication costs	0	(6,950)	(6,950)
Net loss	(16)	(157,626)	(157,642)
Balances, December 31, 2011	84	5,417,366	5,417,450
Net loss	(10)	(100,604)	(100,614)
Balances, December 31, 2012	74	5,316,762	5,316,836
Subscriptions receivable:			
Balances, inception	0	0	0
Capital subscriptions	100	5,581,942	5,582,042
Subscription receipts	(100)	(4,786,339)	(4,786,439)
Balances, December 31, 2011	0	795,603	795,603
Subscription receipts	0	(795,603)	(795,603)
Balances, December 31, 2012	0	0	0
Total members' equity	$ 74	$ 5,316,762	$ 5,316,836
Percentage interest	0.01%	99.99%	100%

The accompanying notes are an integral part of these financial statements.

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF CASH FLOWS
Year ended December 31, 2012 and
period from inception (August 9, 2010) through December 31, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (100,614)	$ (157,642)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	196,208	80,640
Amortization	5,082	0
Increase (decrease) in cash due to changes in:		
Tenants' security deposits	1,842	(19,769)
Real estate escrow	(44,504)	0
Insurance escrow	(11,896)	0
Accounts receivable	217	(601)
Prepaid expenses	(477)	(1,699)
Accounts payable	(5,335)	5,467
Accrued interest	2,132	3,864
Accrued real estate taxes	39,562	4,891
Other accrued expenses	22,504	16,910
Prepaid rents	1,945	13,887
Tenants' security deposits payable	1,301	15,700
Net cash provided by (used in) operating activities	107,967	(38,352)
CASH FLOWS FROM INVESTING ACTIVITIES		
Development and construction of rental property	(28,518)	(5,888,855)
Purchase of rental property	(4,503)	0
Net deposits to replacement reserve	(21,995)	0
Net deposits to operating reserve	(197,637)	0
Payment of development fee payable	(570,000)	0
Net cash used in investing activities	(822,653)	(5,888,855)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgage notes payable	1,246,519	5,219,417
Principal payments on mortgage notes payable	(1,080,936)	(3,830,000)
Payment of tax credit fees	(2,500)	(73,725)
Payment of loan costs	(36,507)	(26,631)
Payment of syndication costs	0	(6,950)
Subscription receipts	795,603	4,786,439
Net cash provided by financing activities	922,179	6,068,550
Change in cash and cash equivalents	207,493	141,343
Cash and cash equivalents:		
Beginning	141,343	0
Ending	$ 348,836	$ 141,343

The accompanying notes are an integral part of these financial statements.

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF CASH FLOWS (Continued)
Year ended December 31, 2012 and
period from inception (August 9, 2010) through December 31, 2011

	2012	2011
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest, net of capitalized interest of 2012 - $0; 2011 - $27,477	$ 44,113	$ 51,950
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Development fee payable capitalized into the building cost	$ 0	$ 570,000
Construction payable capitalized into the building cost	$ 0	$ 21,588
Construction payable capitalized into tax credit fees	$ 0	$ 2,500
Accrued real estate taxes, capitalized into the building cost	$ 0	$ 7,030
Capital subscriptions	$ 0	$ 5,582,042

The accompanying notes are an integral part of these financial statements.

NOTE A -- Nature of business and significant accounting policies

Nature of business

Burr Oaks Senior Housing, LLC (the company), a limited liability company, was organized on August 9, 2010, under the Wisconsin Limited Liability Company Act (the Act). It has constructed and is operating a 50-unit project called Burr Oaks Senior Housing (the project) located in Madison, Wisconsin. The project qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The project was placed in service July 27, 2011.

Under the operating agreement dated December 14, 2010, the company consists of two members with the following ownership:

Community Development Authority (CDA) of the City of Madison (managing member)	0.01%
Wachovia Affordable Housing Community Development Corporation (investor member)	99.99%
	100.00%

The company consists of one managing member and one investor member, and a to-be designated corporation as the special member, with rights, preferences and privileges as described in the operating agreement. Each member's liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable laws.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the accompanying financial statements do not include the personal or corporate assets and liabilities of the members, their obligation for income taxes on their distributive shares of the net income of the company or their rights to refunds on its net loss, nor any provision for income tax expense.

The company's income tax filings are subject to audit by various taxing authorities. Open periods subject to audit for federal and Wisconsin purposes are generally the previous three and four years of tax returns filed, respectively. There were no interest or penalties recorded for the periods ended December 31, 2012 and 2011.

The operating agreement states that the company shall be dissolved on or before December 31, 2053.

A summary of significant accounting policies follows:

Use of estimates

The preparation of financial statements 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. Actual results could differ from those estimates.

NOTE A -- Nature of business and significant accounting policies (Continued)

Cash and cash equivalents

For purposes of reporting cash flows, the company considers all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the project due to restrictions placed on it.

Accounts receivable and revenue recognition

The company utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements. Accounts receivable are written off when management determines an account is uncollectible.

Rental revenue is recognized when earned. The company leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis.

Rental property

Rental property is stated at cost. Depreciation of rental property is computed on the straight-line method based upon the following estimated useful lives of the assets:

	Years
Land improvements	15
Building and improvements	40
Furnishings and equipment	5 - 12

Maintenance and repairs of rental property are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of rental property, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Impairment of long-lived assets

The company reviews long-lived assets, including rental property and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Loan costs

Loan costs incurred by the company totaled $63,138. The company will amortize these costs into interest expense using the effective interest method over 16 years, the life of the permanent mortgage described in Note D.

Tax credit fees

In connection with obtaining an allocation of low-income housing tax credits, the company has paid fees totaling $76,225 to the Wisconsin Housing and Economic Development Authority (WHEDA). The company is amortizing these fees on the straight-line method over the related tax credit compliance period of 15 years.

NOTE A -- Nature of business and significant accounting policies (Continued)

Subsequent events

These financial statements have not been updated for subsequent events occurring after REPORT DATE, which is the date these financial statements were available to be issued. The company has no responsibility to update these financial statements for events and circumstances occurring after this date.

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	2012	2011
Tenants' security deposits	$ 17,927	$ 19,769
Real estate tax escrow	44,504	0
Insurance escrow	11,896	0
Operating reserve	197,637	0
Replacement reserve	21,995	0
	$ 293,959	$ 19,769

Operating reserve

The operating agreement requires the company to establish an operating reserve of at least $167,000. Funds from the operating reserve may be used to pay for operating or other expenses with the consent of the investor member after the managing member has fulfilled its obligations to fund operating deficit loans as described in Note F.

	2012	2011
Balance, beginning	$ 0	$ 0
Deposits	197,637	0
Interest earned	0	0
Balance, ending	$ 197,637	$ 0

NOTE B -- Restricted cash (Continued)

Replacement reserve

The operating agreement requires the company to establish and maintain a replacement reserve account commencing the earlier of December 10, 2012 or closing on the permanent loan described in Note D. Monthly deposits are required in an amount equal to $300 per unit per year for the first year, increasing by 3% each twelve-month period thereafter. Disbursements are restricted to fund capital improvements or any other use approved by the investor member.

	2012	2011
Balance, beginning	$ 0	$ 0
Monthly deposits	21,995	0
Interest earned	0	0
Balance, ending	$ 21,995	$ 0

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	2012	2011
Land	$ 302,980	$ 302,980
Land improvements	249,784	249,784
Building and improvements	5,619,578	5,616,303
Furnishings and equipment	319,634	318,406
	6,491,976	6,487,473
Less accumulated depreciation	276,848	80,640
	$ 6,215,128	$ 6,406,833

NOTE D -- Mortgage notes payable

	2012	2011
Wells Fargo Bank, National Association (Wells Fargo), affiliate of the investor member; construction mortgage note payable; beginning January 1, 2011, monthly interest only payments with a floating interest rate equal to the one-month LIBOR plus 3.05%, with a floor of 4.05%; loan was paid off in 2012 with proceeds from the permanent mortgage note payable described below; secured by guarantees of the managing member, Horizon Construction Group, Inc. (HCG), Horizon Development Group, Inc. (HDG), and personal guarantees of affiliates of HCG and HDG; collateralized by a mortgage, security agreement and fixture financing statement on the rental property, including the assignment of rents and leases; of the total interest incurred during the periods ended December 31, 2012 and 2011, respectively, $0 and $27,477 was capitalized and $39,449 and $55,814 was expensed; accrued interest was $0 and $3,864 as of December 31, 2012 and 2011, respectively.	$ 0	$ 1,040,905
Impact C.I.L., LLC (Impact), originally funded by Wells Fargo but assigned to Impact on November 27, 2012; permanent mortgage note payable; loan amount of $1,170,000; beginning January 1, 2013, monthly payments of $7,128, including interest at 6.15% per annum; due December 1, 2028; non-recourse; subject to a prepayment premium; collateralized by a mortgage, security agreement and fixture financing statement on the rental property, including the assignment of rents and leases	1,170,000	0
CDA; HOME loan; in an amount not to exceed $385,000; subordinated second mortgage note payable; non-interest bearing loan; due the earliest of December 31, 2040 or the sale, transfer, or discontinuance of the permitted use of the property; non-recourse; collateralized by a mortgage on the rental property, including the assignment of rents thereon.	385,000	348,512
	$ 1,555,000	$ 1,389,417

NOTE D -- Mortgage notes payable (Continued)

Repayment of principal on the mortgage notes payable as of December 31, 2012, is as follows:

Year ending December 31,	
2013	$ 13,970
2014	14,854
2015	15,794
2016	16,793
2017	17,855
Thereafter	1,475,734
	$ 1,555,000

NOTE E -- Capital contributions

The company's managing member is required to make contributions totaling $100. As of December 31, 2012, the managing member has made the contribution. The investor member is required to make installment contributions totaling $5,581,942. As of December 31, 2012, the investor member has contributed the entire amount. The maximum increase in the investor member's required capital contribution allowed under the operating agreement is $250,000. No such increases have been made as of December 31, 2012.

NOTE F -- Related-party transactions

Operating deficit guaranty

Under the operating agreement, the managing member is required to fund operating deficits through operating deficit loans. At any time during a minimum of 5 years after receipt of the final equity installment (until November 2017), the managing member's obligation to fund operating deficits through loans continues at an additional amount not to exceed $161,098 in the aggregate. If the company maintains a debt service coverage ratio of 1.2 for any twelve month period commencing with the 4 year anniversary of receipt of the final equity installment, and the operating reserve is fully funded, the managing member's obligation to fund operating deficits will be terminated. All operating deficit loans shall bear interest at the prime rate, compounded annually and be payable from available cash flow as defined in the operating agreement. There were no operating deficit loans as of December 31, 2012 and 2011.

Land purchase

The company acquired the land from the managing member for $300,000 during the period ended December 31, 2011.

NOTE F -- Related-party transactions (Continued)

Loan monitoring fee

The building loan agreement with Wells Fargo required the company to pay a monitoring fee in the amount of $3,000 per month commencing January 1, 2011 and ending December 1, 2011. The company incurred loan monitoring fees of $36,000 during the period ended December 31, 2011. The fee has been capitalized into the cost of the building.

Development fee

The company entered into a development services agreement with HDG and the managing member. The agreement provides for the company to pay a development fee of $735,000 ($450,000 to HDG and $285,000 to the managing member). The fee is payable from investor member capital contributions and mortgage loan proceeds. Development fee payable was $0 and $570,000 as of December 31, 2012 and 2011, respectively. The development fee has been capitalized into the cost of the building.

Asset management fees

The company is obligated to pay an annual cumulative asset management fee in the initial amount of $7,500 to the managing member commencing in 2012. The annual fee is payable from cash flow as defined in the operating agreement. The fee shall increase by 3% per annum beginning in 2013. Asset management fees incurred totaled $7,500 for the year ended December 31, 2012. Accrued asset management fees included in other accrued expenses on the balance sheets were $7,500 as of December 31, 2012.

The company is obligated to pay an annual cumulative asset management fee in the initial amount of $7,500 to the investor member commencing in 2012. The annual fee is payable from cash flow as defined in the operating agreement. The fee shall increase by 3% per annum beginning in 2013. Asset management fees incurred totaled $7,500 for the year ended December 31, 2012. Accrued asset management fees included in other accrued expenses on the balance sheets were $7,500 as of December 31, 2012.

NOTE G -- Commitments and contingencies

Property management fee

The company entered into a property management agreement with a third party. A management fee in the amount of 8% of the effective gross income (rental and other incidental income received on a cash basis) is payable on a monthly basis. A portion of the monthly management fee equal to 2% of effective gross income shall be deferred without interest and payable only out of available cash flow as defined in the operating agreement. The deferred management fee shall not exceed an annual amount of $7,500. Management fees incurred under this agreement totaled $29,951 and $9,577 for the periods ended December 31, 2012 and 2011, respectively. Of this amount, $9,882 and $2,394 have been deferred as of December 31, 2012 and 2011, respectively and are included in other accrued expenses on the balance sheets.

NOTE G -- Commitments and contingencies (Continued)

Land Use Restriction Agreement (LURA)

The company has entered into a LURA with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the company must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If the company fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits, and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributed capital of the investor member. The company is obligated to certify tenant eligibility.

HOME program agreement

The managing member received $385,000 from the City of Madison through the HOME program. This amount was subsequently loaned to the company by the managing member (see Note D). The company is subject to a HOME loan agreement and LURA which specifies that there shall be 11 HOME-assisted units in the project. Occupancy of these units is restricted to tenants whose income does not exceed a certain percentage of the published County Median Income (CMI), adjusted for family size. Certain rent limits also apply to these units. The agreement is in force until 20 years after the date of project completion.

Project Based Housing Assistance Payments Contract

The company entered into a Project Based Housing Assistance Payments Contract (the Agreement) with the managing member. The managing member has entered into a Consolidated Annual Contributions Contract with the U.S. Department of Housing and Urban Development (HUD) allowing its participation in HUD's Section 8 Project Based Housing Assistance Payments Program (the Program). The Agreement, approved by HUD, authorizes the CDA to set aside certificates for future residents of the project. Under terms of the Program, each household that holds a certificate pays 30% of its annual income for rents and utilities, provided that the rent and utilities do not exceed the CDA's payment standards.

SUPPLEMENTARY INFORMATION

BURR OAKS SENIOR HOUSING, LLC

SCHEDULES OF OTHER REVENUE AND EXPENSES
Year ended December 31, 2012 and
period from inception (August 9, 2010) through December 31, 2011

	2012	2011
Other revenue:		
Laundry	$ 788	$ 822
Tenant charges	4,230	1,555
Other	577	607
Total other revenue	$ 5,595	$ 2,984
Administrative:		
Advertising/marketing	$ 7,473	$ 27,574
Credit bureau expense	227	326
Office expense	5,717	3,838
Manager salaries	16,782	8,198
Property management fees	29,951	9,577
Administrative staff rent credit	11,280	4,700
Audit and accounting fees	9,376	6,750
Miscellaneous	4,920	1,758
State housing compliance fees	2,000	833
Leasing commissions	430	0
Total administrative	$ 88,156	$ 63,554
Utilities:		
Electricity	$ 16,576	$ 9,896
Water and sewer	11,787	4,469
Natural gas/oil	6,869	2,843
Total utilities	$ 35,232	$ 17,208
Operating and maintenance:		
Maintenance salaries	$ 8,196	$ 4,311
Security contract	1,580	303
Snow removal	3,271	250
Repairs and maintenance contracts	13,569	3,528
HVAC repairs and maintenance	423	100
Trash removal	4,465	2,704
Supplies	1,429	196
Total operating and maintenance	$ 32,933	$ 11,392

BURR OAKS SENIOR HOUSING, LLC
SCHEDULES OF OTHER REVENUE AND EXPENSES (Continued)
Year ended December 31, 2012 and
period from inception (August 9, 2010) through December 31, 2011

	2012	2011
Taxes and insurance:		
Real estate taxes	$ 44,453	$ 4,891
Property insurance	11,711	3,886
Total taxes and insurance	$ 56,164	$ 8,777
Interest expense:		
Interest expense - Wells Fargo	$ 39,449	$ 55,814
Interest expense - Impact	6,796	0
Total interest expense	$ 46,245	$ 55,814