

Burr Oaks Senior Housing, LLC

Financial Report

December 31, 2018

BURR OAKS SENIOR HOUSING, LLC

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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, 2018 and 2017, and the related statements of operations, members' equity, 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 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, 2018 and 2017, and the results of its operations, changes in members' equity, and its cash flows for the years 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 14 – 15, 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.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

February 18, 2019

BURR OAKS SENIOR HOUSING, LLC

BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 350,944	\$ 345,021
Restricted cash	443,728	425,024
Accounts receivable	4,035	3,516
Prepaid expenses	8,476	8,431
Rental property, net	5,058,639	5,243,484
Tax credit fees, net	40,654	45,735
TOTAL ASSETS	<u>\$ 5,906,476</u>	<u>\$ 6,071,211</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 1,417,387	\$ 1,431,895
Accounts payable	1,246	285
Accrued interest	5,493	5,590
Accrued real estate taxes	47,777	49,496
Other accrued expenses	37,103	36,803
Prepaid rents	18,070	19,178
Tenants' security deposits payable	19,664	19,440
Total liabilities	1,546,740	1,562,687
MEMBERS' EQUITY	<u>4,359,736</u>	<u>4,508,524</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 5,906,476</u>	<u>\$ 6,071,211</u>

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

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Rental income	\$ 426,388	\$ 417,976
Vacancies and concessions	(2,786)	(148)
Other revenue	<u>8,590</u>	<u>6,748</u>
Total revenues	432,192	424,576
Rental expenses:		
Administrative	79,277	85,640
Utilities	40,231	40,581
Operating and maintenance	85,783	73,085
Taxes and insurance	<u>60,681</u>	<u>63,494</u>
Total rental expenses	<u>265,972</u>	<u>262,800</u>
Net rental income	166,220	161,776
Financial income (expense):		
Interest income	233	138
Interest expense	<u>(70,931)</u>	<u>(72,141)</u>
Total financial income (expense)	<u>(70,698)</u>	<u>(72,003)</u>
Income before other expenses	95,522	89,773
Other expenses:		
Depreciation	184,845	190,949
Amortization	5,081	5,082
Asset management fees	<u>17,912</u>	<u>17,390</u>
Total other expenses	<u>207,838</u>	<u>213,421</u>
Net loss	<u><u>\$ (112,316)</u></u>	<u><u>\$ (123,648)</u></u>

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

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF MEMBERS' EQUITY Years ended December 31, 2018 and 2017

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Balances, December 31, 2016	\$ 1	\$ 4,660,240	\$ 4,660,241
Distributions	(3)	(28,066)	(28,069)
Net loss	<u>(12)</u>	<u>(123,636)</u>	<u>(123,648)</u>
Balances, December 31, 2017	(14)	4,508,538	4,508,524
Distributions	(4)	(36,468)	(36,472)
Net loss	<u>(11)</u>	<u>(112,305)</u>	<u>(112,316)</u>
Balances, December 31, 2018	<u>\$ (29)</u>	<u>\$ 4,359,765</u>	<u>\$ 4,359,736</u>
Percentage interest	<u>0.01%</u>	<u>99.99%</u>	<u>100%</u>

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

BURR OAKS SENIOR HOUSING, LLC**STATEMENTS OF CASH FLOWS**

Years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (112,316)	\$ (123,648)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	184,845	190,949
Amortization	5,081	5,082
Amortization of debt issuance costs	4,477	4,552
Increase (decrease) in cash due to changes in:		
Tenants' security deposits	(46)	(32)
Real estate escrow	(1,372)	451
Insurance escrow	334	(569)
Accounts receivable	(519)	1,808
Prepaid expenses	(45)	1,665
Accounts payable	961	(3,254)
Accrued interest	(97)	(92)
Accrued real estate taxes	(1,719)	1,057
Other accrued expenses	300	(4,452)
Prepaid rents	(1,108)	1,400
Tenants' security deposits payable	224	837
Net cash provided by operating activities	79,000	75,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Net deposits to replacement reserve	(17,620)	(17,031)
Net withdrawals from operating reserve	0	39
Purchase of rental property	0	(3,085)
Net cash used in investing activities	(17,620)	(20,077)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	(18,985)	(17,855)
Distributions	(36,472)	(28,069)
Net cash used in financing activities	(55,457)	(45,924)
Change in cash and cash equivalents	5,923	9,753
Cash and cash equivalents:		
Beginning	345,021	335,268
Ending	\$ 350,944	\$ 345,021
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 66,551	\$ 67,681

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

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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%
Wells Fargo Affordable Housing Community Development Corporation (investor member)	<u>99.99%</u>
	<u>100.00%</u>

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 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.

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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.

The company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

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:

	<u>Years</u>
Land improvements	15
Building and improvements	10 - 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.

Debt issuance costs

Debt issuance costs totaled \$67,276. The company is amortizing these costs into interest expense using the effective interest method over 16 years, the life of the permanent mortgage described in Note D.

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Amortized costs included in interest expense amounted to \$4,477 and \$4,552 for the years ended December 31, 2018 and 2017, respectively.

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.

Subsequent events

These financial statements have not been updated for subsequent events occurring after February 18, 2019, 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:

	<u>2018</u>	<u>2017</u>
Tenants' security deposits	\$ 20,486	\$ 20,440
Real estate tax escrow	48,049	46,677
Insurance escrow	6,554	6,888
Operating reserve	249,614	249,614
Replacement reserve	<u>119,025</u>	<u>101,405</u>
	<u>\$ 443,728</u>	<u>\$ 425,024</u>

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.

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 249,614	\$ 249,653
Deposits	0	0
Interest earned	0	0
Bank service charges	<u>0</u>	<u>(39)</u>
Balance, ending	<u>\$ 249,614</u>	<u>\$ 249,614</u>

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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.

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 101,405	\$ 84,374
Monthly deposits	17,433	16,925
Interest earned	187	106
Withdrawals	<u>0</u>	<u>0</u>
Balance, ending	<u>\$ 119,025</u>	<u>\$ 101,405</u>

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 302,980	\$ 302,980
Land improvements	249,784	249,784
Building and improvements	5,622,663	5,622,663
Furnishings and equipment	<u>319,634</u>	<u>319,634</u>
	6,495,061	6,495,061
Less accumulated depreciation	<u>1,436,422</u>	<u>1,251,577</u>
	<u>\$ 5,058,639</u>	<u>\$ 5,243,484</u>

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE D -- Mortgage notes payable, net

Mortgage notes payable, net consists of the following:

	<u>2018</u>	<u>2017</u>
Impact C.I.L., LLC (Impact); permanent mortgage note payable; original loan amount of \$1,170,000; 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; unamortized debt issuance costs associated with this note totaled \$39,363 and \$43,840 as of December 31, 2018 and 2017, respectively.	\$ 1,071,750	\$ 1,090,735
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.	<u>385,000</u>	<u>385,000</u>
Total mortgage notes payable	1,456,750	1,475,735
Less unamortized debt issuance costs	<u>39,363</u>	<u>43,840</u>
	<u>\$ 1,417,387</u>	<u>\$ 1,431,895</u>

Repayment of principal on the mortgage notes payable as of December 31, 2018, is as follows:

Year ending December 31,

2019	\$ 20,186
2020	21,463
2021	22,821
2022	24,264
2023	25,799
Thereafter	<u>1,342,217</u>
	<u>\$ 1,456,750</u>

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E -- Capital contributions

The company's managing member is required to make contributions totaling \$100. As of December 31, 2018 and 2017, the managing member has made the contribution. The investor member is required to make installment contributions totaling \$5,581,942. As of December 31, 2018 and 2017, 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. Additional equity totaling \$52,407 was contributed by the investor member in a previous year.

NOTE F -- Related-party transactions

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. The annual fee is payable from cash flow as defined in the operating agreement. The fee shall increase by 3% per annum. Asset management fees incurred totaled \$8,956 and \$8,695 for the years ended December 31, 2018 and 2017, respectively. Accrued asset management fees included in other accrued expenses on the balance sheets were \$8,956 and \$8,695 as of December 31, 2018 and 2017, respectively.

The company is obligated to pay an annual cumulative asset management fee in the initial amount of \$7,500 to the investor member. The annual fee is payable from cash flow as defined in the operating agreement. The fee shall increase by 3% per annum. Asset management fees incurred totaled \$8,956 and \$8,695 for the years ended December 31, 2018 and 2017, respectively. Accrued asset management fees included in other accrued expenses on the balance sheets were \$8,956 and \$8,695 as of December 31, 2018 and 2017, respectively.

Purchase option agreement

For one year after the close of the 15 year compliance period (right of first refusal period), the company may not sell the property to any third party that has made a bona fide purchase offer, without first offering the managing member the right of first refusal to purchase the property. The company shall offer the property to the managing member at a price equal to the greater of \$100 or the sum of the company's outstanding debt plus an amount sufficient to enable the company to make liquidation distributions pursuant to the operating agreement.

The company has granted the managing member an option to purchase the investor member's membership interest in the company for a 24 month period after the end of the right of first refusal period. The option price to purchase will be the balance of all unpaid amounts due to the investor member plus the greater of \$100 plus the amount of the company's outstanding debt plus an amount sufficient to make termination distributions pursuant to the operating agreement or the fair market value of the investor member's interest in the company.

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 \$33,432 and \$32,975 for the years ended December 31, 2018 and 2017, respectively. Of this amount, \$7,500 has been deferred as of December 31, 2018 and 2017, and is included in other accrued expenses on the balance sheets.

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
Years ended December 31, 2018 and 2017

	2018	2017
Other revenue:		
Laundry	\$ 1,895	\$ 1,483
Tenant charges	5,840	4,990
Other	855	275
	<u>855</u>	<u>275</u>
Total other revenue	<u>\$ 8,590</u>	<u>\$ 6,748</u>
Administrative:		
Advertising/marketing	\$ 3,658	\$ 3,853
Credit bureau expense	52	26
Office expense	9,351	9,808
Manager salaries	20,570	27,008
Property management fees	33,432	32,975
Audit and accounting fees	6,900	6,600
Bad debt expense	993	746
Miscellaneous	2,071	2,374
State housing compliance fees	2,250	2,250
	<u>2,250</u>	<u>2,250</u>
Total administrative	<u>\$ 79,277</u>	<u>\$ 85,640</u>
Utilities:		
Electricity	\$ 19,993	\$ 21,069
Water and sewer	12,314	12,107
Natural gas/oil	7,924	7,405
	<u>7,924</u>	<u>7,405</u>
Total utilities	<u>\$ 40,231</u>	<u>\$ 40,581</u>
Operating and maintenance:		
Maintenance salaries	\$ 19,479	\$ 17,057
Security contract	839	2,074
Snow removal	7,562	3,242
Repairs and maintenance contracts	35,841	36,734
HVAC repairs and maintenance	4,496	3,775
Trash removal	5,245	4,813
Supplies	12,321	5,390
	<u>12,321</u>	<u>5,390</u>
Total operating and maintenance	<u>\$ 85,783</u>	<u>\$ 73,085</u>

BURR OAKS SENIOR HOUSING, LLC
SCHEDULES OF OTHER REVENUE AND EXPENSES (Continued)
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Taxes and insurance:		
Real estate taxes	\$ 47,777	\$ 49,496
Property insurance	11,450	13,055
Sales tax	<u>1,454</u>	<u>943</u>
Total taxes and insurance	<u>\$ 60,681</u>	<u>\$ 63,494</u>
Interest expense:		
Interest expense - Impact	\$ 66,454	\$ 67,589
Debt issuance costs amortization	<u>4,477</u>	<u>4,552</u>
Total interest expense	<u>\$ 70,931</u>	<u>\$ 72,141</u>