

Burr Oaks Senior Housing, LLC

Financial Report

December 31, 2020

BURR OAKS SENIOR HOUSING, LLC

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	3
Statements of operations	4
Statements of members' equity	5
Statements of cash flows	6
Notes to financial statements	7
SUPPLEMENTARY INFORMATION	
Schedules of other revenue and expenses	15



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, 2020 and 2019, 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, 2020 and 2019, 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 15 – 16, 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 19, 2021

BURR OAKS SENIOR HOUSING, LLC

BALANCE SHEETS

December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 303,721	\$ 334,713
Restricted cash	482,843	459,949
Accounts receivable	1,162	2,766
Prepaid expenses	8,568	8,535
Rental property, net	4,753,117	4,904,793
Tax credit fees, net	30,490	35,572
TOTAL ASSETS	\$ 5,579,901	\$ 5,746,328
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 1,384,445	\$ 1,401,597
Accounts payable	0	300
Accrued interest	5,279	5,389
Accrued real estate taxes	52,607	50,244
Other accrued expenses	37,114	54,863
Prepaid rents	20,803	18,704
Tenants' security deposits payable	21,093	19,511
Total liabilities	1,521,341	1,550,608
MEMBERS' EQUITY	4,058,560	4,195,720
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 5,579,901	\$ 5,746,328

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

BURR OAKS SENIOR HOUSING, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues:		
Rental income	\$ 445,181	\$ 436,270
Vacancies and concessions	(6,149)	(2,625)
Other revenue	<u>9,692</u>	<u>8,621</u>
Total revenues	448,724	442,266
Rental expenses:		
Administrative	84,829	89,012
Utilities	37,686	40,511
Operating and maintenance	103,154	103,132
Taxes and insurance	<u>64,856</u>	<u>62,957</u>
Total rental expenses	<u>290,525</u>	<u>295,612</u>
Net rental income	158,199	146,654
Financial income (expense):		
Interest income	403	351
Interest expense	<u>(68,273)</u>	<u>(69,643)</u>
Total financial income (expense)	<u>(67,870)</u>	<u>(69,292)</u>
Income before other expenses	90,329	77,362
Other expenses:		
Depreciation	178,305	176,151
Amortization	5,082	5,082
Asset management fees	<u>19,004</u>	<u>18,450</u>
Total other expenses	<u>202,391</u>	<u>199,683</u>
Net loss	<u><u>\$ (112,062)</u></u>	<u><u>\$ (122,321)</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, 2020 and 2019

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Balances, December 31, 2018	\$ (29)	\$ 4,359,765	\$ 4,359,736
Distributions	(4)	(41,691)	(41,695)
Net loss	<u>(12)</u>	<u>(122,309)</u>	<u>(122,321)</u>
Balances, December 31, 2019	(45)	4,195,765	4,195,720
Distributions	(3)	(25,095)	(25,098)
Net loss	<u>(11)</u>	<u>(112,051)</u>	<u>(112,062)</u>
Balances, December 31, 2020	<u>\$ (59)</u>	<u>\$ 4,058,619</u>	<u>\$ 4,058,560</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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (112,062)	\$ (122,321)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	178,305	176,151
Amortization	5,082	5,082
Amortization of debt issuance costs	4,310	4,396
Increase (decrease) in cash due to changes in:		
Accounts receivable	1,604	1,269
Prepaid expenses	(33)	(59)
Accounts payable	(300)	(946)
Accrued interest	(110)	(104)
Accrued real estate taxes	2,363	2,467
Other accrued expenses	(17,749)	17,760
Prepaid rents	2,099	634
Tenants' security deposits payable	1,582	(153)
Net cash provided by operating activities	65,091	84,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of rental property	(26,629)	(22,305)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	(21,462)	(20,186)
Distributions	(25,098)	(41,695)
Net cash used in financing activities	(46,560)	(61,881)
Change in cash, cash equivalents, and restricted cash	(8,098)	(10)
Cash, cash equivalents, and restricted cash:		
Beginning	794,662	794,672
Ending	\$ 786,564	\$ 794,662
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO BALANCE SHEET		
Cash and cash equivalents	\$ 303,721	\$ 334,713
Restricted cash	482,843	459,949
Total cash, cash equivalents, and restricted cash	\$ 786,564	\$ 794,662
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 64,073	\$ 65,351

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

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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, 2020

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. Other revenue consists of various tenant charges and other services and is recognized when the service is complete.

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.

Amortized costs included in interest expense amounted to \$4,310 and \$4,396 for the years ended December 31, 2020 and 2019, respectively.

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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

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 19, 2021, 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>2020</u>	<u>2019</u>
Tenants' security deposits	\$ 21,569	\$ 20,535
Real estate tax escrow	48,374	45,998
Insurance escrow	7,197	6,575
Operating reserve	249,754	249,584
Replacement reserve	<u>155,949</u>	<u>137,257</u>
	<u>\$ 482,843</u>	<u>\$ 459,949</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>2020</u>	<u>2019</u>
Balance, beginning	\$ 249,584	\$ 249,614
Deposits	0	0
Interest earned	404	134
Bank service charges	<u>(234)</u>	<u>(164)</u>
Balance, ending	<u>\$ 249,754</u>	<u>\$ 249,584</u>

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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>2020</u>	<u>2019</u>
Balance, beginning	\$ 137,257	\$ 119,025
Monthly deposits	18,494	17,956
Interest earned	198	276
Withdrawals	<u>0</u>	<u>0</u>
Balance, ending	<u>\$ 155,949</u>	<u>\$ 137,257</u>

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 302,980	\$ 302,980
Land improvements	253,476	253,476
Building and improvements	5,667,905	5,641,276
Furnishings and equipment	<u>319,634</u>	<u>319,634</u>
	6,543,995	6,517,366
Less accumulated depreciation	<u>1,790,878</u>	<u>1,612,573</u>
	<u>\$ 4,753,117</u>	<u>\$ 4,904,793</u>

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE D -- Mortgage notes payable, net

Mortgage notes payable, net consists of the following:

	<u>2020</u>	<u>2019</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 \$30,657 and \$34,967 as of December 31, 2020 and 2019, respectively.	\$ 1,030,102	\$ 1,051,564
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	1,415,102	1,436,564
Less unamortized debt issuance costs	<u>30,657</u>	<u>34,967</u>
	<u>\$ 1,384,445</u>	<u>\$ 1,401,597</u>

Repayment of principal on the mortgage notes payable as of December 31, 2020, is as follows:

Year ending December 31,

2021	\$ 22,821
2022	24,264
2023	25,799
2024	27,431
2025	29,167
Thereafter	<u>1,285,620</u>
	<u>\$ 1,415,102</u>

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE E -- Capital contributions

The company's managing member is required to make contributions totaling \$100. As of December 31, 2020 and 2019, the managing member has made the contribution. The investor member is required to make installment contributions totaling \$5,581,942. As of December 31, 2020 and 2019, 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 \$9,502 and \$9,225 for the years ended December 31, 2020 and 2019, respectively. Accrued asset management fees included in other accrued expenses on the balance sheets were \$9,502 and \$9,225 as of December 31, 2020 and 2019, 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 \$9,502 and \$9,225 for the years ended December 31, 2020 and 2019, respectively. Accrued asset management fees included in other accrued expenses on the balance sheets were \$9,502 and \$9,225 as of December 31, 2020 and 2019, 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, 2020

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 \$34,423 and \$34,036 for the years ended December 31, 2020 and 2019, respectively. Of this amount, \$7,500 has been deferred as of December 31, 2020 and 2019, 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.

BURR OAKS SENIOR HOUSING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE G -- Commitments and contingencies (Continued)

Uncertainty

In March 2020, the World Health Organization (WHO) characterized the coronavirus disease (COVID-19) as a global pandemic. Since that time, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the company as of February 19, 2021, management believes that a material impact on the company's financial position and results of future operations is reasonably possible.

SUPPLEMENTARY INFORMATION

BURR OAKS SENIOR HOUSING, LLC
SCHEDULES OF OTHER REVENUE AND EXPENSES
Years ended December 31, 2020 and 2019

	2020	2019
Other revenue:		
Laundry	\$ 2,012	\$ 1,879
Tenant charges	5,755	5,562
Other	1,925	1,180
	<u>9,692</u>	<u>8,621</u>
Total other revenue	<u>\$ 9,692</u>	<u>\$ 8,621</u>
Administrative:		
Advertising/marketing	\$ 4,132	\$ 5,273
Credit bureau expense	130	136
Office expense	10,279	9,490
Manager salaries	26,863	22,995
Property management fees	34,423	34,036
Legal fees	0	154
Audit and accounting fees	200	7,450
Bad debt expense	4,457	4,447
Miscellaneous	2,095	2,781
State housing compliance fees	2,250	2,250
	<u>84,829</u>	<u>89,012</u>
Total administrative	<u>\$ 84,829</u>	<u>\$ 89,012</u>
Utilities:		
Electricity	\$ 17,998	\$ 19,670
Water and sewer	13,478	12,876
Natural gas/oil	6,210	7,965
	<u>37,686</u>	<u>40,511</u>
Total utilities	<u>\$ 37,686</u>	<u>\$ 40,511</u>
Operating and maintenance:		
Maintenance salaries	\$ 16,415	\$ 20,033
Security contract	1,537	2,251
Snow removal	4,410	8,293
Repairs and maintenance contracts	61,316	52,881
HVAC repairs and maintenance	3,811	5,281
Trash removal	7,114	6,701
Supplies	8,551	7,692
	<u>103,154</u>	<u>103,132</u>
Total operating and maintenance	<u>\$ 103,154</u>	<u>\$ 103,132</u>

BURR OAKS SENIOR HOUSING, LLC
SCHEDULES OF OTHER REVENUE AND EXPENSES (Continued)
Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Taxes and insurance:		
Real estate taxes	\$ 52,607	\$ 50,244
Property insurance	11,432	11,435
Sales tax	<u>817</u>	<u>1,278</u>
Total taxes and insurance	<u>\$ 64,856</u>	<u>\$ 62,957</u>
Interest expense:		
Interest expense - Impact	\$ 63,963	\$ 65,247
Debt issuance costs amortization	<u>4,310</u>	<u>4,396</u>
Total interest expense	<u>\$ 68,273</u>	<u>\$ 69,643</u>