

Beloit Road Senior Apartments, LLC

Financial Statements

December 31, 2022 and 2021

Beloit Road Senior Apartments, LLC

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Independent Auditors' Report

To the Members of
Beloit Road Senior Apartments, LLC

Opinion

We have audited the financial statements of Beloit Road Senior Apartments, LLC (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Milwaukee, Wisconsin
February 7, 2023

Beloit Road Senior Apartments, LLC

Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 138,459	\$ 217,353
Accounts receivable, tenant	13,203	3,887
Prepaid expenses	19,187	15,272
Total current assets	170,849	236,512
Deposits Held in Trust		
Tenant security deposits	30,946	33,547
Restricted Cash		
Reserve for replacements	210,533	182,037
Operating deficit reserve	345,550	345,523
Tax and insurance escrow	15,687	10,344
Total restricted cash	571,770	537,904
Net Property and Equipment	7,231,852	7,654,972
Total assets	<u>\$ 8,005,417</u>	<u>\$ 8,462,935</u>
Liabilities and Equity		
Current Liabilities		
Current maturities of long-term debt	\$ 46,619	\$ 43,368
Accounts payable	17,453	28,326
Accrued company management fee, related party	19,079	9,404
Prepaid tenant rents	3,747	539
Accrued asset management fee, related party	9,675	9,404
Total current liabilities	96,573	91,041
Deposits Held in Trust		
Tenant security deposits	30,354	32,829
Long-Term Liabilities		
Long-term debt	7,249,514	7,125,304
Total liabilities	7,376,441	7,249,174
Members' Equity		
	628,976	1,213,761
Total liabilities and equity	<u>\$ 8,005,417</u>	<u>\$ 8,462,935</u>

See notes to financial statements

Beloit Road Senior Apartments, LLC

Statements of Operations

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues		
Net rental revenue	\$ 847,708	\$ 848,109
Other revenue	<u>234</u>	<u>-</u>
Total revenues	<u>847,942</u>	<u>848,109</u>
Rental Expenses		
General and administrative	193,548	224,955
Utilities	43,742	44,100
Operating and maintenance	257,804	229,656
Taxes and insurance	<u>176,252</u>	<u>164,920</u>
Total rental expenses	<u>671,346</u>	<u>663,631</u>
Net rental income	<u>176,596</u>	<u>184,478</u>
Financial Income (Expense)		
Interest income	1,088	227
Interest expense	<u>(319,998)</u>	<u>(316,763)</u>
Income (loss) before other expenses	<u>(142,314)</u>	<u>(132,058)</u>
Other Expenses		
Depreciation	423,121	423,389
Asset management fee	9,675	9,404
Company management fee	<u>9,675</u>	<u>9,404</u>
Total other expenses	<u>442,471</u>	<u>442,197</u>
Net loss	<u><u>\$ (584,785)</u></u>	<u><u>\$ (574,255)</u></u>

See notes to financial statements

Beloit Road Senior Apartments, LLC

Statements of Members' Equity

Years Ended December 31, 2022 and 2021

	Managing Member	Special Member	Investment Member	Total
Balances, December 31, 2020	\$ (340)	\$ 10	\$ 1,833,346	\$ 1,833,016
Net loss	<u>(57)</u>	<u>-</u>	<u>(574,198)</u>	<u>(574,255)</u>
Balances, December 31, 2021	(397)	10	1,259,148	1,258,761
Net loss	<u>(58)</u>	<u>-</u>	<u>(584,727)</u>	<u>(584,785)</u>
Balances, December 31, 2022	<u>\$ (455)</u>	<u>\$ 10</u>	<u>\$ 674,421</u>	<u>673,976</u>
Less syndication costs				<u>(45,000)</u>
				<u>\$ 628,976</u>
Percentage Interest	<u>0.01 %</u>	<u>- %</u>	<u>99.99 %</u>	<u>100.00 %</u>

See notes to financial statements

Beloit Road Senior Apartments, LLC

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Cash received from tenants, agencies and other sources	\$ 839,359	\$ 846,971
Interest received	1,088	227
General and administrative expenses paid	(204,421)	(198,035)
Utilities paid	(43,742)	(44,100)
Operating and maintenance expenses paid	(257,804)	(229,656)
Taxes and insurance paid	(180,167)	(180,192)
Interest paid	(149,169)	(152,193)
Asset management fees paid	(9,404)	(8,789)
Company management fees paid	-	(8,789)
Net cash flows from operating activities	(4,260)	25,444
Cash Flows From Financing Activities		
Cash used to retire debt	(43,369)	(40,344)
Net change in cash, cash equivalents and restricted cash	(47,629)	(14,900)
Cash, Cash Equivalents and Restricted Cash, Beginning	788,804	803,704
Cash, Cash Equivalents and Restricted Cash, Ending	<u>\$ 741,175</u>	<u>\$ 788,804</u>
Reconciliation of Net Income (Loss) to Net Cash Flows From Operating Activities		
Net loss	\$ (584,785)	\$ (574,255)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Noncash items included in net loss:		
Depreciation	423,121	423,389
Interest expense added to principal balance of long-term debt	170,829	164,570
Changes in noncash components of working capital:		
Accounts receivable, tenant	(9,316)	737
Prepaid expenses	(3,915)	(15,272)
Accounts payable	(10,873)	26,920
Prepaid tenant rents	3,208	(799)
Tenant security deposits	(2,475)	(1,076)
Accrued asset management fee, related party	271	615
Accrued company management fee, related party	9,675	615
Net cash flows from operating activities	<u>\$ (4,260)</u>	<u>\$ 25,444</u>

See notes to financial statements

Beloit Road Senior Apartments, LLC

Notes to Financial Statements
December 31, 2022 and 2021

1. Summary of Significant Accounting Policies

Nature of Operations

Beloit Road Senior Apartments, LLC (the Company) was organized on September 2, 2011 to acquire, rehabilitate and operate a 104 unit, low-income housing project called Beloit Road Senior Apartments located in West Allis, Wisconsin. The rehabilitation of the property was substantially completed in October 2012.

Cash and Cash Equivalents

The Company considers depository accounts, money market accounts and investments with a maturity at the date of acquisition and expected usage of three months or less to be cash and cash equivalents.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statement of cash flows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 138,459	\$ 217,353
Tenant security deposits (Note 2)	30,946	33,547
Reserve for replacements (Note 3)	210,533	182,037
Operating deficit reserve (Note 3)	345,550	345,523
Tax and insurance escrow (Note 3)	15,687	10,344
	<u>\$ 741,175</u>	<u>\$ 788,804</u>

Accounts Receivable, Tenant

Accounts receivable, tenant have been adjusted for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary as of December 31, 2022 and 2021. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Bad debt expense totaled \$0 and \$2,221 for the years ended December 31, 2022 and 2021, respectively.

Impairment of Long-Lived Assets

The Company reviews long-lived assets, including property and equipment, 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.

Advertising

Advertising costs are charged to operations when incurred.

Beloit Road Senior Apartments, LLC

Notes to Financial Statements
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Property and Equipment

Property and equipment are being depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	15
Buildings and improvements	27.5
Furnishings and equipment	5

Property and equipment are stated at cost. Major expenditures for property and equipment are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Rental Revenue

The rental property is generally leased to tenants under one year noncancelable rental leases. Rental revenue is recognized on a straight-line basis over the terms of the lease.

Income Taxes

The Company is a limited liability company treated as partnership for federal and state income tax purposes. As such, the Company's income, losses and credits are included in the income tax returns of its members. Accordingly, no provision or benefit has been made for income taxes in the accompanying financial statements. While the Company is not taxed for federal or state income tax purposes, the Company's policy is to evaluate and review its tax positions on an ongoing basis to ensure compliance with the applicable portions of the Internal Revenue Code and the respective state laws and regulations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent Events

The Company has evaluated subsequent events occurring through February 7, 2023, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the Company's financial statements.

2. Tenant Security Deposits

The tenant security deposits are maintained in an interest bearing savings account separate from the operating account of the project. Withdrawals are restricted to reimbursements of tenants' security deposits.

Beloit Road Senior Apartments, LLC

Notes to Financial Statements
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3. Restricted Cash

Reserve for Replacements

The operating agreement requires the managing member to establish and maintain replacement reserves by making annual deposits of \$31,200. Disbursements are restricted to replacement of equipment, structural elements and other components of the project of a capital nature. The balance of the replacement reserve was \$210,533 and \$182,037 as of December 31, 2022 and 2021, respectively.

Operating Deficit Reserve

The operating agreement required the project to fund an operating deficit reserve in the amount of \$334,510. Funds held in the operating reserve may be released to pay operating expenses only after rental achievement and with reasonable approval of the special member. The operating reserve may be terminated by the managing member only after the end of the compliance period and distributed as cash flow in accordance with the operating agreement. The operating deficit reserve was funded in the amount of \$345,550 and \$345,523 as of December 31, 2022 and 2021.

Tax and Insurance Escrow

The Company has designated funds to be used to pay the insurance and property taxes on real estate owned by the Company. Payments are made to these funds monthly and disbursements are made as required to pay annual insurance policy premiums and property taxes. The balance of the tax and insurance escrow was \$15,687 and \$10,344 as of December 31, 2022 and 2021, respectively.

4. Property and Equipment

The major categories of property and equipment as of December 31 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 266,090	\$ 266,090
Land improvements	252,113	252,113
Buildings and improvements	11,164,021	11,164,021
Furnishings and equipment	<u>331,313</u>	<u>331,313</u>
Total property and equipment	12,013,537	12,013,537
Less accumulated depreciation	<u>(4,781,685)</u>	<u>(4,358,565)</u>
Net property and equipment	<u>\$ 7,231,852</u>	<u>\$ 7,654,972</u>

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Notes to Financial Statements
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5. Long-Term Debt

	<u>2022</u>	<u>2021</u>
Acquisition note payable to the City of West Allis, a related party, bears interest at 4%. Commencing April 2013 annual interest-only payments will be made to the extent of available cash flow, as defined by the operating agreement. Final principal and accrued interest are due December 2041. The note is secured by a mortgage on the property. Accrued interest on the note, included in the principal balance, was \$1,356,167 and \$1,196,284 as of December 31, 2022 and 2021, respectively.	\$ 4,110,356	\$ 3,997,091
HOME note payable to the City of West Allis, a related party, bears interest at 1%. Commencing April 2013 annual interest-only payments will be made to the extent of available cash flow, as defined by the operating agreement. Final principal and accrued interest are due December 2041. The note is secured by a mortgage on the property. Accrued interest on the note, included in the principal balance, was \$105,390 and \$94,445 as of December 31, 2022 and 2021, respectively.	1,105,391	1,094,445
Note payable to the City of West Allis, a related party, bears interest at 7.25% and monthly payments of \$16,045 are due through December 2041 to the extent of available cash flow, as defined in the operating agreement, calculated on a monthly basis. Final payment is due December 2041. The note is secured by a mortgage on the property.	<u>2,033,767</u>	<u>2,077,136</u>
Total	7,249,514	7,168,672
Less current portion	<u>(46,619)</u>	<u>(43,368)</u>
Long-term portion	<u>\$ 7,202,895</u>	<u>\$ 7,125,304</u>

Principal requirements on long-term debt for years ending after December 31, 2022 are as follows:

Years ending December 31:	
2023	\$ 46,619
2024	50,113
2025	53,870
2026	57,908
2027	62,248
2028 and thereafter	<u>6,978,756</u>
Total	<u>\$ 7,249,514</u>

Beloit Road Senior Apartments, LLC

Notes to Financial Statements
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6. Management Fees

Effective December 1, 2019, the Company entered into a management agreement with Ogden & Company, Inc. The agreement requires a monthly management fee of 5% of gross collected income, with a minimum of \$2,500 per month, and a leasing fee of \$350 per newly signed lease. Management fees incurred under this agreement were \$42,141 and \$42,440 for the years ended December 31, 2022 and 2021, respectively. There were no accrued management fees as of December 31, 2022 and 2021.

7. Related-Party Transactions

The Company has various notes payable to the City of West Allis, an affiliate of the managing member, as described in Note 5.

The Company is obligated to pay an annual asset management fee to the special member in the amount of \$7,800, increasing annually by the percentage increase in the consumer price index. The fee shall be payable only to the extent of available cash flow and unpaid fees accrue without interest until there is sufficient cash flow. Asset management fees incurred were \$9,675 and \$9,404 for the years ended December 31, 2022 and 2021, respectively. Accrued asset management fees were \$9,675 and \$9,404 as of December 31, 2022 and 2021, respectively.

The Company is obligated to pay an annual company management fee to the managing member in the amount of \$7,800, increasing annually by the percentage increase in the consumer price index. The fee shall be payable only to the extent of available cash flow and unpaid fees accrue without interest until there is sufficient cash flow. Company management fees incurred were \$9,675 and \$9,404 for the years ended December 31, 2022 and 2021, respectively. Accrued company management fees were \$19,079 and \$9,404 as of December 31, 2022 and 2021, respectively.

8. Low Income Housing Tax Credit

The Company was allocated low-income housing tax credits totaling \$7,546,704 by the State of Wisconsin. As of December 31, 2022, credits totaling \$7,524,097 have been allocated among the members in accordance with their respective shares of the Company. The expected availability of the remaining tax credits is as follows:

Years ending December 31:	
2023	\$ 22,607
2024	-
Total	<u>\$ 22,607</u>

9. Commitments and Contingencies

The Company has signed a regulatory agreement and covenant with the CDA as a condition to receiving funding under the HOME Program. Under this agreement, the Company must continuously comply with HOME Program regulations and additional requirements, policies and procedures issued by the United States Department of Housing and Urban Development (HUD). 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 as determined by HUD. If the Company fails to comply with this agreement, the funds may need to be repaid.

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Notes to Financial Statements
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The Company has signed a land use restriction agreement with Wisconsin Housing and Economic Development Authority (WHEDA) as a condition to receiving an allocation of low-income housing tax credits from WHEDA. Under this agreement, the partnership must continuously comply with Section 42 and other applicable sections of the Internal Revenue Code (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 partners may be required to recapture a portion of the tax credits previously claimed on their income tax returns.

10. Concentrations

Operations

The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company 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 any of these authorities. 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.

Cash and Cash Equivalents

The Company maintains cash accounts which, at various times, may exceed the federally insured limits of \$250,000 per bank. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risks.

11. Company Profits, Losses and Distributions

As defined by the terms of the operating agreement, profits and losses are allocated 0.01% to the managing member and 99.99% to the investment member, except that special allocation provisions apply in the event of a refinancing, sale or other disposition of property of the Company if the proceeds of such transactions are not reinvested or retained by the Company for the continuation of business.

Net operating cash flow, as defined in the operating agreement, is to be distributed as follows:

1. Payment to the investment member of the full amount (including interest) of any amounts due and owing to the investment member;
2. Payment of the asset management fee;
3. Payment of any unpaid portion of development fee;
4. Payment of the company management fee;
5. Repayment of the first mortgage loan;
6. Repayment of the HOME loan;
7. Repayment of the acquisition loan;
8. Repayment of any subordinated loans; and
9. The balance, if any, shall be distributed 0.01% to the managing member and 99.99% to the investment member.

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12. Members

As of December 31, 2022 and 2021, the managing member is Beloit Road Senior Apartments MM, LLC, the investment member is Boston Capital Corporate Tax Credit Fund XXXV, LP and the special member is BCCC Inc., with interests in the Company of 0.01%, 99.99% and 0.00%, respectively.