DRIFTWOOD POINT APARTMENTS LLLP

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2020

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FINNEY, NEILL & COMPANY, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To The Partners
Driftwood Point Apartments LLLP

We have audited the accompanying financial statements of Driftwood Point Apartments LLLP which compromise the balance sheet as of December 31, 2020, and the related statements of operations, partners' capital, and cash flows for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Driftwood Point Apartments LLLP as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Finney, Neill & Company, P.S.

Seattle, Washington
March 15, 2021

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DRIFTWOOD POINT APARTMENTS LLLP
Balance Sheet
December 31, 2020

Assets

Investment in real estate held for lease:	
Building and improvements	$ 7,226,237
Furniture and equipment	5,449
Less: accumulated depreciation and amortization	(294,782)
Net investment in real estate held for lease	6,936,904
Other assets:	
Cash and cash equivalents	344,766
Tenant receivables and other	7,553
Prepaid expenses	13,075
Security deposits	10,402
Restricted reserve accounts	173,346
Capitalized costs, net	141,463
Deferred land lease	317,630
Total other assets	1,008,235
	$ 7,945,139

Liabilities and Partners' Capital

Liabilities applicable to investment in real estate:	
Notes payable, net	$ 2,805,382
Accrued interest	79,327
Accounts payable	7,010
Accounts payable - related parties	20,813
Construction costs payable	20,000
Prepaid rents	4,914
Deferred developer fee	338,632
Asset management fee payable	2,700
Security deposits	10,402
Total liabilities applicable to investment in real estate	3,289,180
Partners' capital	4,655,959
	$ 7,945,139

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

DRIFTWOOD POINT APARTMENTS LLLP
Statement of Operations
For the Year Ended December 31, 2020

Income:	
Gross potential residential rent	$ 305,388
Less: residential vacancy loss	(14,204)
Net rent	291,184
Miscellaneous income	28,910
Interest income	5
Total income	320,099
Operating expenses:	
Administrative	106,387
Utilities	53,919
Operating and maintenance	35,663
Taxes and insurance	7,883
Total operating expenses	203,852
Operating income before company and financial expenses	116,247
Partnership and financial expenses:	
Asset management fee	2,700
Interest expense	150,696
Total partnership and financial expenses	153,396
Income (loss) before depreciation and amortization	(37,149)
Depreciation	260,798
Amortization	13,511
Net income (loss)	$ (311,458)

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

DRIFTWOOD POINT APARTMENTS LLLP
Statement of Partners' Capital
For the Year Ended December 31, 2020

	Limited Partner 99.990%	Managing General Partner 0.006%	Co-General Partner 0.004%	Total
Balance, January 1, 2020	$ 900,562	83,054	40	983,656
Capital contributions	3,983,761	-	-	3,983,761
Net income (loss)	(311,427)	(19)	(12)	(311,458)
Balance, December 31, 2020	$ 4,572,896	83,035	28	4,655,959

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

DRIFTWOOD POINT APARTMENTS LLLP
Statement of Cash Flows
For the Year Ended December 31, 2020

Cash flows from (used by) operating activities:	
Net income (loss)	$ (311,458)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation	260,798
Amortization	66,430
(Increase) decrease in assets:	
Accounts receivables	(5,045)
Prepaid expenses and other assets	(6,979)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(5,151)
Accrued interest	39,013
Prepaid rent	2,915
Security deposits	6,044
Due to general partner	(7,405)
Total adjustments	350,620
Net cash provided by (used in) operating activities	39,162
Cash flows from (used by) investing activities:	
Purchases of capital assets	(1,068,215)
Net cash provided by (used in) investing activities	(1,068,215)
Cash flows from (used by) financing activities:	
Principal payments on construction loan payable	(2,452,235)
Capital contributions	3,983,761
Net cash provided by (used in) financing activities	1,531,526
Net increase (decrease) in cash, cash equivalents, and restricted cash	502,473
Cash, cash equivalents, and restricted cash at beginning of year	26,041
Cash, cash equivalents, and restricted cash at end of year	$ 528,514
Reconciliation of cash, cash equivalents, and restricted cash:	
Cash and cash equivalents	$ 344,766
Security deposits	10,402
Restricted cash reserve	173,346
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 528,514
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 58,754

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Driftwood Point Apartments LLLP (the Partnership) is a Washington limited liability limited partnership which was formed in 2015 to acquire, maintain, and operate the Driftwood Point Apartments (the project), a 27-unit apartment project located in Long Beach, Washington. Pursuant to the Partnership Agreement: LHA Driftwood Point GP LLC, a Washington limited liability company solely owned by the Housing Authority of the City of Longview (dba Housing Opportunities of Southwest Washington), is the managing general partner (the "Managing General Partner"); Driftwood Point GP LLC, a Washington limited liability company solely owned by the Joint Pacific County Housing Authority (JPCHA), is the co-general partner (the “Co-General Partner”); and, US Bancorp Community Development Corporation is the limited partner (the "Limited Partner").

Pursuant to the terms of the Partnership Agreement, the Limited Partner is required to make capital contributions totaling $4,979,701, subject to adjustment based on the amount of low-income housing tax credits generated by the Partnership. The Managing General Partner is required to make $83,060 in capital contributions, and the Co-General Partner is required to make $40 in capital contributions. As of December 31, 2020, $4,979,701 in Limited Partner capital contributions and $83,100 in General Partner capital contributions had been received.

The Partnership received an allocation of Low-Income Housing Tax Credits (LIHTC) for its qualifying rental property. The benefits of the LIHTC are provided to the Partnership's partners through the Partnership's annual federal income tax return filing and are not reflected in the accompanying financial statements. The LIHTC is a 15-year credit that is generally claimed by the Partnership over a 10-year period. The credit is a certain percentage (as determined by the Internal Revenue Service) of the qualified basis of the property. The Partnership may only lease qualified units to tenants who meet certain income restrictions and whose rent payments also are restricted under guidelines set by the Internal Revenue Service.

Basis of Presentation

The financial statements of the Partnership are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Restricted Cash

Restricted cash accounts consist of security deposits held for tenants and reserve accounts.

Tenant Receivables

Tenant receivables are stated at the amount of unpaid rent and other tenant charges reduced by an allowance for bad debts. The allowance is established through a charge to operations and is established at the amount management believes is adequate to absorb uncollectible amounts. The allowance at December 31, 2020 was $0.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capitalized Costs
Capitalized costs of $153,394 consist of low-income housing tax credit fees, which are amortized over 15 years on a straight-line basis. For the year ended December 31, 2020, amortization expense was $10,226. As of December 31, 2020, accumulated amortization was $11,931.

Debt Issuance Costs
Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using the effective interest rate method.

Investment in Real Estate Held For Lease
Land, buildings and improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense is provided on a straight-line basis over the estimated useful lives of twenty-seven and a half years for the building, five years for equipment and fifteen years for site improvements. Depreciation expense for the year ended December 31, 2020 was $260,798.

Impairment of Long-Lived Assets
The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation techniques. There were no impairment losses recognized for the year ended December 31, 2020.

Rental Income
Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income from ancillary services is recorded when earned.

Federal Income Taxes
The Partnership is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the statements. Income from the Partnership is taxed to the member in its tax return.

The Partnership accounts for tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740, *Income Taxes*. With few exceptions, the Partnership is subject to U.S. federal income tax examinations by tax authorities for the prior three years. Management has reviewed the Partnership's tax positions and determined there were no uncertain tax positions as of December 31, 2020.

The Partnership recognizes income-tax related interest expense and penalties in operating expenses. During the year ended December 31, 2020, the Partnership recognized no income-tax related interest or penalties.

These footnotes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Economic Concentrations
The Partnership operates one property located in Long Beach, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

The Partnership's revenues are principally derived from rents received from qualifying tenants.

Accounting 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.

Advertising
The Partnership expenses all advertising costs as they are incurred.

Date of Management's Review
Subsequent events have been evaluated through March 15, 2021, which is the date the financial statements were available to be issued.

2. CONCENTRATION OF CREDIT RISK

The Partnership periodically has cash accounts in banks which exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Partnership has not experienced any losses with these accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

3. ALLOCATION OF PROFITS, LOSSES, AND DISTRIBUTIONS

Ordinary profits and losses are allocated 99.99% to the Limited Partner, 0.006% to the Managing General Partner, and 0.004% to the Co-General Partner.

Tax credits are allocated 99.99% to the Limited Partner, 0.006% to the Managing General Partner, and 0.004% to the Co-General Partner.

Capital profits and losses recognized by the Partnership shall be allocated as provided by the Partnership Agreement.

Distributable cash flow, as defined by the Partnership Agreement, is to be distributed in accordance with the terms provided by the Partnership Agreement.

4. RESTRICTED CASH ACCOUNTS

Security Deposits
Tenant security deposits are generally held until termination of the leases, at which time some or all deposits may be returned to the lessee.

Replacement Reserve
Pursuant to the Partnership Agreement, a Replacement Reserve is to be funded in the amount of $350 per unit per year, payable monthly in equal installments, beginning one month after the last day of the Stabilization Period, and shall increase by 10% on each fifth anniversary of the Replacement Reserve Commencement Date. The Replacement Reserve must be deposited into a segregated interest-bearing account with U.S. Bank National Association, and interest earned shall be added to the Replacement Reserve. The Replacement Reserve must maintain a minimum balance of at least six required monthly payments, and, to the extent necessary, additional payments required to maintain the minimum balance will be funded from Cash Flow as defined in the Partnership Agreement. Withdrawals from the Replacement Reserve must be used to fund repairs, capital expenditures, and other costs, and require prior consent from the Limited Partner.

Operating Reserve
Pursuant to the Partnership Agreement, the Partnership is required to establish an Operating Reserve of at least $117,042, to be funded on the date of the Third Capital Installment and deposited into a segregated, interest bearing Partnership Reserve Account at US Bank National Association. Interested earned shall be added to the Operating Reserve. The Operating Reserve shall be funded from Cash Flow, as defined in the Partnership Agreement, in order to maintain a balance of at least $117,042. Withdrawals from the Operating Reserve must be made with the prior consent of the Limited Partner.

Services Reserve
Pursuant to the Partnership Agreement, the Partnership is required to establish a Services Reserve on the date of the Third Capital Installment in the amount of $50,000. Interest earned shall be added to the Services Reserve. The Services Reserve will be used to fund expenses related to the Tenant Services Agreement and other supportive services required to be provided by the Partnership. Withdrawals from the Services reserve must be made only with the prior consent of the Limited Partner.

At December 31, 2020, the Partnership's restricted reserve accounts consisted of the following:

	Operating Reserve	Replacement Reserve	Services Reserve	Total
Balances at January 1, 2020	$ -	-	-	-
Additions	117,042	6,300	50,000	173,342
Interest	3	-	1	4
Disbursements	-	-	-	-
Balances at December 31, 2020	$ 117,045	6,300	50,001	173,346

These footnotes are an integral part of the financial statements.

5. NOTES PAYABLE

Notes payable consisted of the following at December 31, 2020:

Promissory note to WA Department of Commerce for $2,332,241 shall commence on February 1, 2019. The loan matures on January 31, 2059 with interest compounding at 1% per annum. Annual payments of principal and interest of $135,027 are due beginning January 31, 2037. Accrued interest as of December 31, 2020 was $44,935.	$ 2,332,241
Sponsor loan payable to JPCHA for $292,500 dated October 11, 2018. Payment shall be made from cash flow, as defined in the Partnership Agreement, commencing with the calendar year ending December 31, 2020. The note shall accrue interest at rate 2.99% per annum, and unpaid principal and interest are due on or before December 31, 2058. Accrued interest as of December 31, 2020 was $14,933.	224,458
Ground lease loan payable to JPCHA for initial payment on the ground lease with JPCHA for $292,500 dated October 11, 2018. Payments shall be made from cash flow as defined in the Partnership Agreement, commencing with the calendar year ending December 31, 2020. The note shall accrue interest at rate $2.99% per annum, and unpaid principal and interest are due on or before December 31, 2058. Accrued interest as of December 31, 2020 was $19,459.	292,500
	2,849,199
Less: debt issuance costs, net	(43,817)
Notes payable, net	$ 2,805,382

Future minimum principal payments for each of the next five years and thereafter are as follows for the years ending December 31:

2021	$	-
2022		-
2023		-
2024		-
2025		-
Thereafter		2,849,199
	$	2,849,199

These footnotes are an integral part of the financial statements.

6. RELATED PARTY TRANSACTIONS

Property Management
The Partnership has contracted with the Managing General Partner to provide property management services. Under the terms of the agreement, the property manager is responsible for leasing the residential units in compliance with tax credit requirements, maintaining and repairing the building, and paying building operating expenses in exchange for a management fee. The management fee is equal to 8% of gross receipts, as defined in the Property Management Agreement. Property management expense for the year ended December 31, 2020 was $23,931.

Asset Management Fee
Pursuant to the Partnership Agreement, the Limited Partner is entitled to an Asset Management Fee commencing in the amount of $2,700, increasing by 10% percent every five years. For the year ended December 31, 2020, the Partnership incurred an asset management fee of $2,700. The Asset Management Fee is payable annually from Cash flow, as defined in the Partnership Agreement. If not paid, the Asset Management Fee shall accrue without interest from year to year.

Partnership Management Fee
Pursuant to the Partnership Agreement, the Managing General Partner is entitled to a Partnership Management Fee not to exceed $10,000, not to exceed 90% of Cash Flow as defined in the Partnership Agreement. For the year ended December 31, 2020, the Partnership incurred Partnership Management Fee expense of $0. Payment of the Partnership Management Fee is to be made out of Cash Flow, as defined in the Partnership Agreement. If not paid, the partnership administration fee shall not accrue from year to year.

Accounts Payable to Related Parties
The Managing General Partner and the Co-General Partner have advanced funds to the Partnership to fund operations of the project. These advances are unsecured and do not bear interest. Pursuant to the Partnership Agreement, the General Partners are to be reimbursed for these amounts by the Partnership. As of December 31, 2020, advanced operating funds of $11,283, due to the Managing General Partner and of $9,530, due to the Co-General Partner were included in the accounts payable to related party balance.

Developer Fee
The Partnership has contracted with the Co-General Partner to provide project development services. Under the terms of the agreement the total developer fee was $677,263, of which 60% is payable to a third-party developer and 40% is payable to the Co-General Partner. Of the total fees, $33,862 was incurred in October 2018, with the balance earned by the developer on the Completion Date, which occurred in March 2020. Under the terms of the Development Services Agreement, the fee is payable out of the Capital Contributions of the Limited Partner, as defined in the Partnership Agreement, and any remaining balance will be deferred and shall be paid out of available Cash Flow on or before the 14th anniversary of the Completion Date, as defined in the Partnership Agreement.

As of December 31, 2020, the outstanding developer fees due and payable to the Co-General Partner and to the third-party developer totaled $8,000 and $12,000, respectively, which are recorded as construction costs payable in the balance sheet. Deferred developer fees, payable out of available cash flow, totaled $135,453 and $203,179 to the Co-General partner and to the third-party developer, respectively.

These footnotes are an integral part of the financial statements.

6. RELATED PARTY TRANSACTIONS, continued

Ground Lease

In 2018, the Partnership entered into a ground lease agreement (the "Ground Lease") with the Co-General Partner. The Ground Lease is for the period from October 11, 2018 through December 31, 2117. Pursuant to the Land Lease, the Partnership is required to pay base rent in the amount of $10 per annum, starting on January 1, 2019. In addition, the Partnership paid an initial down payment of $325,000 to the Co-General Partner, which will be amortized on a straight-line basis over the life of the lease. The Partnership financed $292,500 of the down payment through a Ground Lease Loan payable from the Co-General Partner that bears simple interest at a rate of 2.99% per annum, and is payable from Cash Flow as defined in the Partnership Agreement. Any unpaid principal and interest on the Ground Lease Loan are due and payable on or before December 31, 2058. Future minimum lease payments are $10 per year over the life of the lease. For the year ended December 31, 2020, lease amortization expense was $3,285.

Sponsor Loan

In 2018, the Partnership entered into a loan (the “Sponsor Loan”) with the Co-General Partner for $224,458 to finance development costs for the project. The Sponsor Loan bears interest at 2.99% per annum, and is payable annually out of Cash Flow, as defined in the Partnership Agreement. Any unpaid principal and interest on the Sponsor Loan are due and payable on or before December 31, 2058.

7. COMMITMENTS AND CONTINGENCIES

The Partnership expects to generate an aggregate of $5,442,840 of federal low-income housing tax credits (the “Tax Credits”). Generally, such Tax Credits are expected to become available for use by its partners pro rata over a ten-year period which began in 2019. In order to qualify for these Tax Credits, the Project must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation. The Partnership has also agreed to maintain and operate the Project as low-income housing for a total of 40 years. Because the Tax Credits are subject to complying with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized and failure to meet all such requirements may result in generating a lesser amount of Tax Credits than the expected amount.

The project is subject to the terms and conditions of various agreements with the Washington State Housing Finance Commission. The covenants contained in those agreements “run with the land” in the event of sale or other transfer of ownership interest. These agreements are necessary to satisfy the requirements of the parties involved and Internal Revenue Code Section 42 relating to the low-income housing tax credits awarded to this project.

7. COMMITMENTS AND CONTINGENCIES, continued

The Partnership Agreement provides for various agreements between the General Partners and the Limited Partner. These guarantees include operating deficit, recapture and required reserves, and provides for obligations on the part of the General Partners if certain conditions outlined in the agreements are not met. The Partnership Agreement provides for various obligations of the General Partners, including the General Partners' obligation to provide funds for operating deficits and reduced tax benefits.

In the event of an operating deficit, as defined in the agreement, the Partnership Agreement requires the General Partners to contribute capital in an amount equal to the amount of the operating deficit. The amount of the operating deficit contributions is limited as defined in the Partnership Agreement.

8. IMPACT of COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. A federal moratorium on evictions for nonpayment of rents was effective beginning in September 2020 and has been extended through at least March 31, 2021. In response to the pandemic, the Partnership has suspended some activities and moved others to teleconference or remote work only. Future potential impacts may include disruptions or restrictions on the property management staff's ability to work or the tenants' ability to pay the required monthly charges. Operating functions that may be impacted include applications, recertifications and maintenance. Changes to the operating environment may increase operating costs or disrupt revenue streams. The future effects and potential financial impacts of these events are unknown.