

DRIFTWOOD POINT APARTMENTS LLLP

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To The Partners
Driftwood Point Apartments LLLP

Opinion

We have audited the accompanying financial statements of Driftwood Point Apartments LLLP, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

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, 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. 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 Driftwood Point Apartments LLLP 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 Driftwood Point Apartments LLLP'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 auditor's 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 generally accepted auditing standards 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.

INDEPENDENT AUDITORS' REPORT, continued

In performing an audit in accordance with generally accepted auditing standards, 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 Driftwood Point Apartments LLLP'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 Driftwood Point Apartments LLLP'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.

Finney, Hill & Company, P.S.

Seattle, Washington
March 31, 2023

DRIFTWOOD POINT APARTMENTS LLLP
Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Investment in real estate held for lease:		
Building and improvements	\$ 7,226,237	7,226,237
Furniture and equipment	5,449	5,449
Less: accumulated depreciation and amortization	(829,849)	(562,318)
Net investment in real estate held for lease	6,401,837	6,669,368
Other assets:		
Cash and cash equivalents	207,283	253,955
Tenant receivables, net	7,715	2,738
Other receivables	17,575	4,162
Prepaid expenses	24,338	21,741
Security deposits	15,300	15,471
Restricted reserve accounts	192,267	182,807
Capitalized costs, net	120,296	131,238
Right-of-use leased asset	311,060	314,345
Total other assets	895,834	926,457
	\$ 7,297,671	7,595,825
Liabilities and Partners' Capital		
Liabilities applicable to investment in real estate:		
Notes payable, net	\$ 2,808,266	2,806,817
Accrued interest	157,586	118,339
Accounts payable	14,367	22,339
Accounts payable - related parties	7,109	7,143
Prepaid rents	410	1,665
Deferred developer fee	232,107	253,520
Asset management fee payable	2,700	2,700
Security deposits	16,718	15,365
Total liabilities applicable to investment in real estate	3,239,263	3,227,888
Partners' capital	4,058,408	4,367,937
	\$ 7,297,671	7,595,825

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

DRIFTWOOD POINT APARTMENTS LLLP
Statements of Operations
For the Years Ended December 31, 2022 and 2021

	2022	2021
Income:		
Gross potential residential rent	\$ 340,935	305,388
Less: residential vacancy loss	(13,665)	(22,390)
Net rent	327,270	282,998
Miscellaneous income	48,694	26,854
Interest income	9	10
Total income	375,973	309,862
Operating expenses:		
Administrative	94,938	96,470
Utilities	71,830	65,018
Operating and maintenance	57,009	54,605
Taxes and insurance	23,807	17,402
Bad debt expense	7,610	9,536
Total operating expenses	255,194	243,031
Operating income before partnership, financial, and other expens	120,779	66,831
Partnership, financial, and other expenses:		
Asset management fee	2,700	2,700
Interest expense	40,696	40,449
Other expenses	105,154	30,660
Total partnership, financial, and other expenses	148,550	73,809
Income (loss) before depreciation and amortization	(27,771)	(6,978)
Depreciation	267,531	267,533
Amortization	14,227	13,511
Net income (loss)	\$ (309,529)	(288,022)

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

DRIFTWOOD POINT APARTMENTS LLLP
Statement of Partners' Capital
For the Years Ended December 31, 2022 and 2021

	Limited Partner 99.990%	Managing General Partner 0.006%	Co-General Partner 0.004%	Total
Balance, January 1, 2021	\$ 4,572,896	83,035	28	4,655,959
Net income (loss)	(287,993)	(17)	(12)	(288,022)
Balance, December 31, 2021	\$ 4,284,903	83,018	16	4,367,937
Net income (loss)	(309,498)	(19)	(12)	(309,529)
Balance, December 31, 2022	\$ 3,975,405	82,999	4	4,058,408

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

DRIFTWOOD POINT APARTMENTS LLLP
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from (used by) operating activities:		
Net income (loss)	\$ (309,529)	(288,022)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	267,531	267,533
Amortization	15,676	14,946
(Increase) decrease in assets:		
Tenant and other accounts receivable	(18,390)	653
Prepaid expenses and other assets	(2,597)	(8,666)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(7,972)	15,331
Accrued interest	39,247	39,012
Prepaid rent	(1,255)	(3,249)
Security deposits	1,353	4,963
Due to general partner	(34)	(13,670)
Total adjustments	293,559	316,853
Net cash provided by (used in) operating activities	(15,970)	28,831
Cash flows from (used by) financing activities:		
Payments on deferred development fees	(21,413)	(105,112)
Net cash provided by (used in) financing activities	(21,413)	(105,112)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(37,383)	(76,281)
Cash, cash equivalents, and restricted cash at beginning of year	452,233	528,514
Cash, cash equivalents, and restricted cash at end of year	\$ 414,850	452,233
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 207,283	253,955
Security deposits	15,300	15,471
Restricted cash reserve accounts	192,267	182,807
Total cash, cash equivalents, and restricted cash on the statement of cash flows	\$ 414,850	452,233

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

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements
Years Ended December 31, 2022 and 2021

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, all required capital contributions had been paid.

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, 2022 and 2021 was \$7,343 and \$1,239, respectively.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

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 years ended December 31, 2022 and 2021, amortization expense was \$10,942 and \$10,226. As of December 31, 2022 and 2021, accumulated amortization was \$33,098 and \$22,156, respectively.

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 years ended December 31, 2022 and 2021 was \$267,531 and \$267,533, respectively.

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 years ended December 31, 2022 and 2021.

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, 2022 and 2021.

The Partnership recognizes income-tax related interest expense and penalties in operating expenses. During the years ended December 31, 2022 and 2021, the Partnership recognized no income-tax related interest or penalties.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Revenue Recognition

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 revenues, which result from fees earned for late payments, cleaning, damages, and laundry facilities, are recorded when earned. Advance receipts of rental income are deferred and classified as liabilities until earned.

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.

Reclassifications

Certain amounts in the financial statements may have been reclassified to conform to the current financial statement presentation.

New Accounting Pronouncement

In 2022, the Partnership adopted Accounting Standards Update (ASU) No. 2016-02, Leases, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Partnership elected not to restate the comparative period (2021). It also elected not to reassess at adoption: (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. The adoption did not result in a significant effect on amounts reported in the statement of operations for the year ended December 31, 2022.

Date of Management's Review

Subsequent events have been evaluated through March 31, 2023, 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.

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

These footnotes are an integral part of the financial statements.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

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. Interest 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.

These footnotes are an integral part of the financial statements.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

4. RESTRICTED CASH ACCOUNTS, continued

The Partnership's restricted reserve account activity for the years ended December 31, 2022 and 2021 consisted of the following:

	<u>Operating Reserve</u>	<u>Replacement Reserve</u>	<u>Services Reserve</u>	<u>Total</u>
Balances at January 1, 2021	\$ 117,045	6,300	50,001	173,346
Additions		9,450		9,450
Interest	7	1	3	11
Disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances at December 31, 2021	117,052	15,751	50,004	182,807
Additions	-	9,450	-	9,450
Interest	6	1	3	10
Disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balances at December 31, 2022	<u>\$ 117,058</u>	<u>25,202</u>	<u>50,007</u>	<u>192,267</u>

5. NOTES PAYABLE

Notes payable consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
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, 2022 and 2021 was \$92,281 and \$68,490, respectively.	\$ 2,332,241	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. 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, 2022 and 2021 was \$28,355 and \$21,644, respectively.	224,458	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. 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, 2022 and 2021 was \$36,950 and \$28,205, respectively.	<u>292,500</u>	<u>292,500</u>
	2,849,199	2,849,199
Less: debt issuance costs, net	<u>(40,933)</u>	<u>(42,382)</u>
Notes payable, net	<u>\$ 2,808,266</u>	<u>2,806,817</u>

These footnotes are an integral part of the financial statements.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

5. NOTES PAYABLE, continued

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

2023	\$	-
2024		-
2025		-
2026		-
2027		-
Thereafter		2,849,199
	\$	2,849,199

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 10% of gross receipts, as defined in the Property Management Agreement. Property management expense for the years ended December 31, 2022 and 2021 was \$32,039 and \$22,369, respectively.

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 years ended December 31, 2022 and 2021, the Partnership incurred an asset management fee of \$2,700 and \$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 years ended December 31, 2022 and 2021, the Partnership incurred Partnership Management Fee expense of \$0 and \$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, 2022 and 2021, advanced operating funds of \$7,069 and 7,113, due to the Managing General Partner and of \$40 and \$30, due to the Co-General Partner, were included in the accounts payable to related party balance.

These footnotes are an integral part of the financial statements.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

6. RELATED PARTY TRANSACTIONS, continued

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. 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.

At December 31, 2022, deferred developer fees, payable out of available cash flow, totaled \$92,842 and \$139,265 to the Co-General partner and to the third-party developer, respectively. At December 31, 2021, deferred developer fees, payable out of available cash flow, totaled \$101,407 and \$152,113 to the Co-General partner and to the third-party developer, respectively.

Ground Lease

In October 2018, the Partnership entered into a ground lease agreement (the "Ground Lease") with the Co-General Partner. The Ground Lease is classified as an operating lease and has a lease term ending December 31, 2117. Pursuant to the Ground Lease, the Partnership is required to pay base rent in the amount of \$10 per annum, starting on January 1, 2019, and is required to use the property primarily for the purpose of providing housing for low-income persons. In addition, the Partnership paid an initial down payment of \$325,000 to the Co-General Partner, which is shown in the balance sheet as a right-of-use lease asset and is amortized on a straight-line basis over the life of the lease. For the years ended December 31, 2022 and 2021, lease expense was \$3,285 and \$3,285, respectively, and was included in amortization expense in the statements of operations. Future minimum lease payments are \$10 per year 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.

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.

DRIFTWOOD POINT APARTMENTS LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2022 and 2021

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.

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.

The partnership has incurred vapor mitigation costs of \$105,154 and \$30,660 for the years ended December 31, 2022 and 2021, respectively. The Partnership has been informed that the Environmental Protection Agency may require ongoing monitoring and testing. The future cost, if any, cannot be estimated at this time.

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, the United States of America declared a state of emergency that was still in effect on December 31, 2022. 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. Ongoing changes to the operating environment may cause: increased operating costs, supply chain issues, staffing shortages, and/or disrupted revenue streams. The future effects and potential financial impacts of these events are unknown.