

Carver Park Tax Credit Limited Partnership

Financial Report

December 31, 2020

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

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INDEPENDENT AUDITOR'S REPORT

To the Partners
Carver Park Tax Credit Limited Partnership
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Carver Park Tax Credit Limited Partnership, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, partners' 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 Carver Park Tax Credit Limited Partnership as of December 31, 2020 and 2019, and the results of its operations, changes in partners' equity, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

May 17, 2021

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

BALANCE SHEETS

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 249,082	\$ 217,615
Restricted cash	666,855	630,279
Accounts receivable	234,392	79,362
Prepaid expenses	25,676	30,373
Rental property, net	<u>5,929,615</u>	<u>6,566,524</u>
TOTAL ASSETS	<u>\$ 7,105,620</u>	<u>\$ 7,524,153</u>
LIABILITIES AND PARTNERS' EQUITY		
LIABILITIES		
Accounts payable	52,084	37,098
Accrued expenses	204,000	153,000
Accrued real estate taxes	38,328	0
Prepaid rents	12,482	3,673
Tenants' security deposits payable	<u>58,582</u>	<u>57,643</u>
Total liabilities	365,476	251,414
PARTNERS' EQUITY	<u>6,740,144</u>	<u>7,272,739</u>
TOTAL LIABILITIES AND PARTNERS' EQUITY	<u>\$ 7,105,620</u>	<u>\$ 7,524,153</u>

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

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

STATEMENTS OF OPERATIONS

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue:		
Rental income	\$ 776,815	\$ 785,937
Operating subsidies	205,828	231,602
Vacancies and concessions	(73,377)	(66,210)
Other revenue	<u>11,730</u>	<u>11,460</u>
Total revenue	920,996	962,789
Rental expenses:		
Administrative	192,186	176,378
Utilities	154,492	150,876
Operating and maintenance	301,428	300,220
Taxes and insurance	<u>94,365</u>	<u>79,402</u>
Total rental expenses	<u>742,471</u>	<u>706,876</u>
Net rental income	178,525	255,913
Financial income (expense):		
Interest income	1,001	3,744
Interest expense	<u>0</u>	<u>(1,711)</u>
Total financial income (expense)	<u>1,001</u>	<u>2,033</u>
Income before other expenses	179,526	257,946
Other expenses:		
Depreciation	661,121	653,776
Authority oversight fee	<u>51,000</u>	<u>51,000</u>
Total other expenses	<u>712,121</u>	<u>704,776</u>
Net loss	<u><u>\$ (532,595)</u></u>	<u><u>\$ (446,830)</u></u>

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

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

STATEMENTS OF PARTNERS' EQUITY Years ended December 31, 2020 and 2019

	<u>General partner</u>	<u>Investor limited partner</u>	<u>Total</u>
Balance, December 31, 2018	\$ (1,529)	\$ (5,969,853)	\$ (5,971,382)
Contributions	0	13,690,951	13,690,951
Net loss	<u>(45)</u>	<u>(446,785)</u>	<u>(446,830)</u>
Balance, December 31, 2019	(1,574)	7,274,313	7,272,739
Net loss	<u>(53)</u>	<u>(532,542)</u>	<u>(532,595)</u>
Balance, December 31, 2020	<u>\$ (1,627)</u>	<u>\$ 6,741,771</u>	<u>\$ 6,740,144</u>
Ending Percentage Interest	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

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

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (532,595)	\$ (446,830)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	661,121	653,776
Increase (decrease) in cash due to changes in:		
Accounts receivable	(155,030)	(50,986)
Prepaid expenses	4,697	(5,372)
Accounts payable	14,986	(22,048)
Accrued expenses	51,000	51,000
Accrued real estate taxes	38,328	(33,395)
Prepaid rents	8,809	1,175
Tenants' security deposits payable	939	(5,019)
Net cash provided by operating activities	92,255	142,301
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of rental property	(24,212)	(77,579)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	0	(68,020)
Change in cash, cash equivalents, and restricted cash	68,043	(3,298)
Cash, cash equivalents, and restricted cash:		
Beginning	847,894	851,192
Ending	<u>\$ 915,937</u>	<u>\$ 847,894</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEET		
Cash and cash equivalents	\$ 249,082	\$ 217,615
Restricted cash	666,855	630,279
Total cash, cash equivalents, and restricted cash	<u>\$ 915,937</u>	<u>\$ 847,894</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 0</u>	<u>\$ 1,711</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH FINANCING ACTIVITIES		
Mortgage notes payable converted to equity	<u>\$ 0</u>	<u>\$ 7,424,698</u>
Accrued interest converted to equity	<u>\$ 0</u>	<u>\$ 6,266,253</u>

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

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE A -- Nature of business and significant accounting policies

Nature of business

Carver Park Tax Credit Limited Partnership (the partnership) was formed on February 10, 1999, as a limited partnership under the Wisconsin Uniform Limited Partnership Act. It has constructed and is operating two low-income housing apartment projects located in Milwaukee, Wisconsin, jointly called Carver Park Townhomes (the projects). The first property (hereafter referenced as Carver I) consists of 19 buildings totaling 64 units. The second property (hereafter referenced as Carver II) consists of 16 buildings totaling 58 units. The properties were placed in service by building between February 15, 2001 and December 31, 2001. The projects are eligible for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC).

The partnership consisted of one general partner and one investor limited partner. The partnership agreement calls for the partnership to dissolve on December 31, 2050.

A summary of significant accounting policies follows:

Personal and corporate assets, liabilities and income taxes of partners

In accordance with the generally accepted method of presenting partnership financial statements, the financial statements do not include the personal or corporate assets and liabilities of the partners, their obligation for income taxes on their distributive shares of the net income of the partnership or their rights to refunds on its net loss, nor any provision for income tax expense.

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.

Cash and cash equivalents

For purposes of reporting cash flows, the partnership 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 partnership due to restrictions placed on it.

The partnership maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The partnership 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 partnership 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 partnership leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis. Operating subsidies represent grants from governmental agencies to provide housing to tenants. These grants are recognized in revenue in the same period in which the partnership recognizes the related expenses for which the grants are intended to compensate. Other revenue consists of various tenant charges and other services and is recognized when the service is complete.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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

Rental property

Rental property is stated at cost. Depreciation of rental property is computed on the straight-line and declining balance methods based upon the following estimated useful lives of the assets:

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

Maintenance and repairs of rental property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of rental property and equipment, 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 partnership 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.

Current vulnerability due to certain concentrations

The project's operations are concentrated in the low-income, public housing residential real estate market. In addition, the project operates in a heavily regulated environment. The operations of the project are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to the Housing Authority of the City of Milwaukee (HACM) under the Regulatory & Operating Agreements (R&O Agreements) and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HACM or HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

Subsequent events

These financial statements have not been updated for subsequent events occurring after May 17, 2021, which is the date these financial statements were available to be issued. The partnership has no responsibility to update these financial statements for events and circumstances occurring after this date.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	2020	2019
Tenants' security deposits	\$ 72,940	\$ 70,358
Replacement reserve	165,741	132,677
Affordability reserve	231,125	230,623
Operating reserve	197,049	196,621
	\$ 666,855	\$ 630,279

Replacement reserve

The R&O Agreements and partnership agreement require the partnership to fund a replacement reserve on a monthly basis in the amount of \$250 per unit per year. Such amount is required to increase annually by the increase in the Consumer Price Index. The replacement reserve shall be used for replacing capital assets or providing capital improvements deemed necessary by the general partner. Withdrawals may be made only upon the approval of HACM.

	2020	2019
Balance, beginning	\$ 132,677	\$ 99,033
Annual deposits	33,000	33,000
Interest earned	64	644
Balance, ending	\$ 165,741	\$ 132,677

Affordability reserve

Under provisions of the R&O Agreements and the partnership agreement, the partnership has established an affordability reserve in the initial amount of \$165,000 (\$91,000 and \$74,000 for Carver I and Carver II, respectively). These reserve funds, including interest thereon, are restricted for the benefit of the public housing units to cover shortfalls in the event operating subsidy funds (see Note E) are not available.

	2020	2019
Balance, beginning	\$ 230,623	\$ 228,953
Interest earned	502	1,670
Balance, ending	\$ 231,125	\$ 230,623

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020

NOTE B -- Restricted cash (Continued)

Operating reserve

The R&O Agreements and partnership agreement required the partnership to fund an operating reserve in the initial amount of \$278,000 (\$144,000 and \$134,000 for Carver I and Carver II, respectively). The operating reserve, including interest thereon, is to be administered in accordance with the R&O Agreements and utilized primarily to fund operating deficits. Withdrawals are restricted to cover insufficient cash flow from the non-public housing units and to cover insufficient cash flow from the public housing units if the balance in the authority and affordability reserves is less than \$1. Withdrawals from the reserve require the consent of HACM.

	2020	2019
Balance, beginning	\$ 196,621	\$ 195,196
Interest earned	428	1,425
Balance, ending	\$ 197,049	\$ 196,621

Authority reserve

HACM was to establish an authority reserve solely for the benefit of the public housing units of Carver Park Townhomes in the amounts of \$100 for both Carver I and Carver II. Withdrawals are restricted to cover insufficient cash flow from the public housing units of Carver Park Townhomes.

The partnership is required to maintain deposits in the affordability, operating and authority reserves equal to two times the public housing shortfall, excluding the operating subsidy payments for the prior year. If at any time the aggregate balance in these reserves falls below that level, the project shall notify HACM in writing regarding the deficit and request HACM restore the reserve shortfall up to the minimum balance. The reserve shortfall must be deposited into the authority reserve. If at any time following the achievement of an occupancy rate of 97% the aggregate balance of the affordability, operating, and authority reserves exceeds three times the public housing shortfall, excluding the operating subsidy payments for the prior year plus six months of development operating expenses and certain conditions are met as defined in the R&O Agreements, the project shall notify HACM of its right to withdraw such reserve excess from the authority reserve.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 772,096	\$ 772,096
Land improvements	232,263	232,263
Buildings	17,051,501	17,051,501
Furnishings and equipment	<u>243,149</u>	<u>218,937</u>
	18,299,009	18,274,797
Less accumulated depreciation	<u>12,369,394</u>	<u>11,708,273</u>
	<u>\$ 5,929,615</u>	<u>\$ 6,566,524</u>

NOTE D -- Mortgage notes payable

Effective January 1, 2019, the limited partner entered into a capital contribution agreement with the partnership whereby the limited partner agreed to contribute the aggregate outstanding principal balance and accrued interest of the mortgage notes payable due in consideration for an increase in its investor limited partnership capital account. All of the mortgages on these notes were satisfied on April 16, 2019.

NOTE E -- Related-party transactions

Accounts payable

Accounts payable consists of amounts due to Friends of Housing Corporation (Friends), a member of the general partner, for payroll, property management fees, and other reimbursements totaling \$35,928 and \$18,938 as of December 31, 2020 and 2019, respectively.

Accounts payable consists of amounts due to HACM for reimbursement of expenses paid on behalf of the partnership totaling \$13,203 as of December 31, 2020 and 2019.

Management fee

The partnership entered into a management agreement with Friends. A management fee equal to \$30.00 per unit is payable on a monthly basis. Management fees incurred under this agreement totaled \$46,116 and \$46,116 for the years ended December 31, 2020 and 2019, respectively.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE E -- Related-party transactions (Continued)

Regulatory and operating agreement

The partnership has entered into R&O Agreements with HACM. Provisions of the agreements require the partnership to maintain 27 and 24 units as public housing units in Carver I and Carver II, respectively. The partnership shall use its best efforts to achieve and maintain tiers of persons with income of 30%, 50% and 60% of county median incomes residing in the public housing units. With regards to the public housing units, HACM is to pay operating subsidies to the partnership equal to primarily the allowable expense level determined by the U.S. Department of Housing and Urban Development annually, less rents received from tenants residing in the public housing units. The agreements expire on December 31, 2041. Operating subsidies totaling \$205,828 and \$231,602 were earned for the years ended December 31, 2020 and 2019, respectively. Included in accounts receivable on the balance sheets are operating subsidy receivable of \$178,020 and \$51,239 as of December 31, 2020 and 2019, respectively.

Authority oversight fee

The partnership is obligated to pay HACM an annual authority oversight fee to cover its asset management responsibilities in administering the operating subsidy in the amounts of \$27,000 and \$24,000 for Carver I and Carver II, respectively. HACM will forego the authority oversight fee to the extent of any public housing shortfall. Authority oversight fees totaling \$51,000 were incurred during each of the years ended December 31, 2020 and 2019. Included in accrued expenses on the balance sheets are accrued authority oversight fees of \$204,000 and \$153,000 as of December 31, 2020 and 2019, respectively.

NOTE F -- Commitments and contingencies

Affordable Housing Program (AHP) Recapture Agreement

In connection with the AHP notes with HACM, the partnership entered into Affordable Housing Program Recapture Agreements. Provisions of these agreements require the partnership to rent 27 and 24 units to low-income persons and 27 and 24 units to very-low-income persons in Carver I and Carver II, respectively.

Land Use Restriction Agreement (LURA)

The partnership has entered into a LURA with the Wisconsin Housing and Economic Development Authority (WHEDA) as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the partnership 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 partnership 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. In addition, noncompliance may require an adjustment to the contributed capital of the investor limited partner. The partnership is obligated to certify tenant eligibility.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE F -- 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 partnership as of May 17, 2021, management believes that a material impact on the partnership's financial position and results of future operations is reasonably possible.