

Carver Park Tax Credit Limited Partnership

Financial Report

December 31, 2019

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2019, the entity adopted new accounting standards. Our opinion is not modified with respect to this matter.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

September 25, 2020

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

BALANCE SHEETS

December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 217,615 | \$ 259,845 |
| Restricted cash | 630,279 | 591,347 |
| Accounts receivable | 79,362 | 28,376 |
| Prepaid expenses | 30,373 | 25,001 |
| Rental property, net | <u>6,566,524</u> | <u>7,142,721</u> |
| TOTAL ASSETS | <u><u>\$ 7,524,153</u></u> | <u><u>\$ 8,047,290</u></u> |
| | | |
| LIABILITIES AND PARTNERS' EQUITY | | |
| LIABILITIES | | |
| Mortgage notes payable | \$ 0 | \$ 7,492,718 |
| Accounts payable | 37,098 | 59,146 |
| Accrued interest | 0 | 6,266,253 |
| Accrued expenses | 153,000 | 102,000 |
| Accrued real estate taxes | 0 | 33,395 |
| Prepaid rents | 3,673 | 2,498 |
| Tenants' security deposits payable | <u>57,643</u> | <u>62,662</u> |
| Total liabilities | 251,414 | 14,018,672 |
| | | |
| PARTNERS' EQUITY | <u>7,272,739</u> | <u>(5,971,382)</u> |
| | | |
| TOTAL LIABILITIES AND PARTNERS' EQUITY | <u><u>\$ 7,524,153</u></u> | <u><u>\$ 8,047,290</u></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, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|---------------------|---------------------|
| Revenue: | | |
| Rental income | \$ 785,937 | \$ 790,749 |
| Operating subsidies | 231,602 | 155,121 |
| Vacancies and concessions | (66,210) | (10,396) |
| Other revenue | 11,460 | 19,324 |
| | <u>962,789</u> | <u>954,798</u> |
| Total revenue | 962,789 | 954,798 |
| Rental expenses: | | |
| Administrative | 176,378 | 167,213 |
| Utilities | 150,876 | 130,148 |
| Operating and maintenance | 300,220 | 279,800 |
| Taxes and insurance | 79,402 | 82,381 |
| | <u>706,876</u> | <u>659,542</u> |
| Total rental expenses | 706,876 | 659,542 |
| Net rental income | 255,913 | 295,256 |
| Financial income (expense): | | |
| Interest income | 3,744 | 17,567 |
| Interest expense | (1,711) | (559,215) |
| | <u>2,033</u> | <u>(541,648)</u> |
| Total financial income (expense) | 2,033 | (541,648) |
| Income (loss) before other expenses | 257,946 | (246,392) |
| Other expenses: | | |
| Depreciation | 653,776 | 639,798 |
| Authority oversight fee | 51,000 | 51,000 |
| | <u>704,776</u> | <u>690,798</u> |
| Total other expenses | 704,776 | 690,798 |
| Net loss | <u>\$ (446,830)</u> | <u>\$ (937,190)</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, 2019 and 2018

| | General partner | Investor limited partner | Former Special limited partner | Former Investor limited partner | Total |
|---|--------------------|--------------------------------|---|--|---------------------|
| Balance, December 31, 2017 | \$ (1,435) | \$ 0 | \$ 10 | \$ (5,032,767) | \$ (5,034,192) |
| Net loss - January 1, 2018 - April 30, 2018 | (32) | 0 | 0 | (312,397) | (312,429) |
| Transfer of partners' equity (see Note G) | <u>0</u> | <u>(5,345,154)</u> | <u>(10)</u> | <u>5,345,164</u> | <u>0</u> |
| Balance at transfer date | (1,467) | (5,345,154) | 0 | 0 | (5,346,621) |
| Net loss - May 1, 2018 - December 31, 2018 | <u>(62)</u> | <u>(624,699)</u> | <u>0</u> | <u>0</u> | <u>(624,761)</u> |
| Balance, December 31, 2018 | (1,529) | (5,969,853) | 0 | 0 | (5,971,382) |
| Contributions | 0 | 13,690,951 | 0 | 0 | 13,690,951 |
| Net loss | <u>(45)</u> | <u>(446,785)</u> | <u>0</u> | <u>0</u> | <u>(446,830)</u> |
| Balance, December 31, 2019 | <u>\$ (1,574)</u> | <u>\$ 7,274,313</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 7,272,739</u> |
| Ending Percentage Interest | <u>0.01%</u> | <u>99.99%</u> | <u>0.00%</u> | <u>0.00%</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, 2019 and 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (446,830) | \$ (937,190) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 653,776 | 639,798 |
| Increase (decrease) in cash due to changes in: | | |
| Accounts receivable | (50,986) | (5,442) |
| Prepaid expenses | (5,372) | 626 |
| Accounts payable | (22,048) | 33,322 |
| Accrued interest | 0 | 462,096 |
| Accrued expenses | 51,000 | 37,797 |
| Accrued real estate taxes | (33,395) | 33,395 |
| Prepaid rents | 1,175 | (7,645) |
| Tenants' security deposits payable | (5,019) | (3,124) |
| | 142,301 | 253,633 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of rental property | (77,579) | (32,899) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on mortgage notes payable | (68,020) | (64,937) |
| Change in cash, cash equivalents, and restricted cash | (3,298) | 155,797 |
| Cash, cash equivalents, and restricted cash: | | |
| Beginning | 851,192 | 695,395 |
| Ending | \$ 847,894 | \$ 851,192 |
| RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEET | | |
| Cash and cash equivalents | \$ 217,615 | \$ 259,845 |
| Restricted cash | 630,279 | 591,347 |
| Total cash, cash equivalents, and restricted cash | \$ 847,894 | \$ 851,192 |
| SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION | | |
| Cash payments for interest | \$ 1,711 | \$ 97,119 |
| SUPPLEMENTAL SCHEDULE(S) OF NONCASH FINANCING ACTIVITIES | | |
| Mortgage notes payable converted to equity | \$ 7,424,698 | \$ 0 |
| Accrued interest converted to equity | \$ 6,266,253 | \$ 0 |

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

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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, one investor limited partner, and one special limited partner. As described in Note G, the interests of the limited partner and special limited partner were purchased on May 15, 2018. Effective, May 16, 2018, the partnership consists 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.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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

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.

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.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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

New accounting standards adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which replaces numerous requirements in U.S. GAAP related to revenue recognition, including industry-specific requirements, and provides entities with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The entity was required to adopt this new accounting standard during its fiscal year ended December 31, 2019. The entity's only revenue subject to this new accounting standard is included in Other revenue. The adoption of this new standard has no effect on how Other revenue is recognized in the financial statements for the years ended December 31, 2019 and 2018.

In November 2016, FASB issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when recording the beginning and ending total amounts shown on the statement of cash flows.

The entity was required to adopt this new accounting standard during its fiscal year ended December 31, 2019 and retrospectively apply the amendments to all periods presented. As a result, net cash provided by operating activities previously reported increased \$2,376 and net cash used in investing activities previously reported decreased \$50,001 for the year ended December 31, 2018 to exclude the change in restricted cash.

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on the classification of eight cash flow issues to reduce the existing diversification in practice. Specific cash flow issues addressed in this ASU that could apply to the entity include a) debt prepayment or debt extinguishment costs; b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; c) proceeds from the settlement of insurance claims; and d) separately identifiable cash flows and application of the predominance principle.

The entity was required to adopt this new accounting standard during its fiscal year ended December 31, 2019 and retrospectively apply the amendments to all periods presented. The adoption of this new standard did not impact the entity's statements of cash flows.

Subsequent events

These financial statements have not been updated for subsequent events occurring after September 25, 2020, 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, 2019

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|-------------------|-------------------|
| Tenants' security deposits | \$ 70,358 | \$ 68,165 |
| Replacement reserve | 132,677 | 99,033 |
| Affordability reserve | 230,623 | 228,953 |
| Operating reserve | <u>196,621</u> | <u>195,196</u> |
| | <u>\$ 630,279</u> | <u>\$ 591,347</u> |

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.

| | <u>2019</u> | <u>2018</u> |
|--------------------|-------------------|------------------|
| Balance, beginning | \$ 99,033 | \$ 65,724 |
| Annual deposits | 33,000 | 32,463 |
| Interest earned | <u>644</u> | <u>846</u> |
| Balance, ending | <u>\$ 132,677</u> | <u>\$ 99,033</u> |

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.

| | <u>2019</u> | <u>2018</u> |
|--------------------|-------------------|-------------------|
| Balance, beginning | \$ 228,953 | \$ 220,089 |
| Interest earned | <u>1,670</u> | <u>8,864</u> |
| Balance, ending | <u>\$ 230,623</u> | <u>\$ 228,953</u> |

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 the limited partner.

| | <u>2019</u> | <u>2018</u> |
|--------------------|-------------------|-------------------|
| Balance, beginning | \$ 195,196 | \$ 187,368 |
| Interest earned | <u>1,425</u> | <u>7,828</u> |
| Balance, ending | <u>\$ 196,621</u> | <u>\$ 195,196</u> |

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, 2019

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

| | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Land | \$ 772,096 | \$ 772,096 |
| Land improvements | 232,263 | 232,263 |
| Buildings | 17,051,501 | 17,051,501 |
| Furnishings and equipment | 218,937 | 141,358 |
| | 18,274,797 | 18,197,218 |
| Less accumulated depreciation | 11,708,273 | 11,054,497 |
| | \$ 6,566,524 | \$ 7,142,721 |

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 (the HACM notes described below) 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.

Mortgage notes payable consist of the following:

| | 2019 | 2018 |
|---|------|-----------|
| BMO Harris; non-recourse; monthly payments of \$6,333, including interest at 4.9% commenced December 1, 2016; due November 1, 2019; prepayment of the note is subject to a prepayment premium; collateralized by Carver II rental property. The loan was repaid in full during 2019. | \$ 0 | \$ 68,020 |
| HACM, member of the general partner and the new investor limited partner, (Carver I Land note); non-recourse; annual payment of \$12,956, including interest at 5.31% to the extent of available cash flow; due November 2049; collateralized by Carver I land; accrued interest was \$0 and \$50,279 as of December 31, 2019 and 2018, respectively; interest expense totaled \$0 and \$11,321 for the years ended December 31, 2019 and 2018, respectively. | 0 | 213,195 |
| Balance carried forward | 0 | 281,215 |

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE D -- Mortgage notes payable (Continued)

| | <u>2019</u> | <u>2018</u> |
|---|-------------|----------------|
| Balance brought forward | \$ 0 | \$ 281,215 |
| HACM (Carver II Land note); non-recourse; annual payment of \$12,931, including interest at 5.31% to the extent of available cash flow; due November 2050; collateralized by Carver II land; accrued interest was \$0 and \$57,063 as of December 31, 2019 and 2018, respectively; interest expense totaled \$0 and \$11,380 for the years ended December 31, 2019 and 2018, respectively. | 0 | 214,322 |
| HACM (Carver I HOPE VI note); non-recourse; interest-only payments compounding annually at 5.31% to the extent of available cash flow; due November 2041; collateralized by Carver I rental property; accrued interest was \$0 and \$3,685,534 as of December 31, 2019 and 2018, respectively; interest expense was \$0 and \$319,415 for the years ended December 31, 2019 and 2018, respectively. | 0 | 2,649,224 |
| HACM (Carver II HOPE VI note); non-recourse; interest-only payments compounding annually at 5.31% to the extent of available cash flow; due November 2041; collateralized by Carver II rental property; accrued interest was \$0 and \$2,473,377 as of December 31, 2019 and 2018, respectively; interest expense was \$0 and \$212,372 for the years ended December 31, 2019 and 2018, respectively. | 0 | 1,738,463 |
| HACM (Carver I Predevelopment note); non-recourse; non-interest bearing; due November 2046; no prepayment allowed; collateralized by Carver I rental property. | 0 | 704,970 |
| HACM (Carver II Predevelopment note); non-recourse; non-interest bearing; due November 2046; no prepayment allowed; collateralized by Carver II rental property. | <u>0</u> | <u>504,524</u> |
| Balance carried forward | 0 | 6,092,718 |

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE D -- Mortgage notes payable (Continued)

| | <u>2019</u> | <u>2018</u> |
|--|-------------|---------------------|
| Balance brought forward | \$ 0 | \$ 6,092,718 |
| HACM (Carver I Development fee note); non-recourse; non-interest bearing; due the earlier of the sale of Carver I or January 1, 2019; collateralized by Carver I rental property. | 0 | 500,000 |
| HACM (Carver II Development fee note); non-recourse; non-interest bearing; due the earlier of the sale of Carver II or January 1, 2019; collateralized by Carver II rental property. | 0 | 500,000 |
| HACM (Carver I AHP note); non-recourse; non-interest bearing; due the earlier of the sale of Carver I or November 2041; collateralized by Carver I rental property. | 0 | 200,000 |
| HACM (Carver II AHP note); non-recourse; non-interest bearing; due the earlier of the sale of Carver II or November 2041; collateralized by Carver II rental property. | <u>0</u> | <u>200,000</u> |
| | <u>\$ 0</u> | <u>\$ 7,492,718</u> |

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 \$18,938 and \$21,394 as of December 31, 2019 and 2018, 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, 2019 and 2018.

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 for each of the years ended December 31, 2019 and 2018.

CARVER PARK TAX CREDIT LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 \$231,602 and \$155,121 were earned for the years ended December 31, 2019 and 2018, respectively. Included in accounts payable on the balance sheets are operating subsidy payables of \$0 and \$20,738 as of December 31, 2019 and 2018, respectively. Included in accounts receivable on the balance sheets are operating subsidy receivable of \$51,239 and \$0 as of December 31, 2019 and 2018, 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, 2019 and 2018. Included in accrued expenses on the balance sheets are accrued authority oversight fees of \$153,000 and \$102,000 as of December 31, 2019 and 2018, 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, 2019

NOTE F -- Commitments and contingencies (Continued)

Uncertainty

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), 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 September 25, 2020, management believes that a material impact on the partnership's financial position and results of future operations is reasonably possible.

NOTE G -- Assignment and Assumption of Limited Partner Interests

On May 15, 2018, HACM purchased and was assigned the investor limited partner and special limited partner interests in the partnership. Under the assignment agreement, the assignors were allocated losses during the year through April 30, 2018 and the assignee was allocated losses after April 30, 2018. In connection with the purchase, the former investor limited partner's and former special limited partner's equity balance at April 30, 2018 was transferred to the new limited partner. The net effect of the transfer on equity was \$0.