

Greenwood Terrace, LLC.

**Financial Statements and
Independent Auditors' Report**

December 31, 2020



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Independent Auditors' Report

The Governing Body of
Greenwood Terrace, LLC.

Report on the Financial Statements

We have audited the accompanying financial statements of Greenwood Terrace, LLC. (Agency) which comprise the balance sheet as of December 31, 2020, and the related statement of operations, changes in owners' equity, 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 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 the financial statements based on our audit. 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 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 Agency'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 Agency'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 the Agency as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Smith Marion & Co.

March 10, 2021
Redlands, CA

Greenwood Terrace, LLC.Balance Sheet
December 31, 2020**Assets**

Current assets:

Cash and cash equivalents - operations	\$	327,282
Tenant receivables (net of allowances)		14,480
Other receivables		1,649
Other due from related party		24,751
Prepaid expenses		46,481
Total current assets		<u>414,643</u>

Restricted deposits:

Tenant deposits held in trust		11,480
Family self-sufficiency escrow deposits		21,566
Operating reserve		424,715
Replacement reserve		519,010
Total restricted deposits		<u>976,771</u>

Property and equipment, at cost:

Buildings		5,786,866
Site-work		98,546
Rehabilitation		18,601
Total acquisition costs		5,904,013
Less: Accumulated depreciation		<u>(1,950,652)</u>
Property and equipment (net)		<u>3,953,361</u>

Intangible assets:

Start-up costs		84,444
Less: accumulated amortization		<u>(59,604)</u>
Intangible assets (net)		<u>24,840</u>

Total Assets**\$ 5,369,615**

Liabilities and Owners' Equity

Current liabilities:

Accounts payable - operations	\$	18,558
Accrued wages payable		7,859
Accrued vacation payable (short term)		2,307
Miscellaneous current liabilities		9,760
Prepaid rent		3,013
Total current liabilities		<u>41,497</u>

Tenant deposits held in trust (contra)		11,480
Family self-sufficiency escrow deposits (contra)		21,566

Long-term liabilities

Accrued vacation payable (net of short term)		6,921
Mortgage payable and accrued interest		<u>4,448,552</u>
Total long-term liabilities		<u>4,455,473</u>

Total liabilities		4,530,016
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Total owners' equity		<u>839,599</u>
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Total Liabilities and Owners' Equity	\$	<u><u>5,369,615</u></u>
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Greenwood Terrace, LLC.

Statement of Operations
Year Ended December 31, 2020

Income

Rental income	\$	367,207
Less: vacancy loss		<u>(6,500)</u>
Rental income (net)		360,707
Operating subsidy		447,374
Interest income		3,010
Other		<u>28,030</u>
Total income		<u>839,121</u>

Expenses

General and administrative		9,692
Property management fee		48,640
Asset management fee		7,343
Bad debt expense		23,861
Payroll and benefits		148,840
Utilities		241,567
Payments in lieu of taxes		8,410
Property insurance		45,960
Repairs and maintenance		84,892
Legal and other professional fees		10,331
Interest expense		<u>258,488</u>
Total expenses		<u>888,024</u>

Income (loss) from operations before depreciation and amortization		(48,903)
Depreciation		(151,706)
Amortization		<u>(4,812)</u>
Net Income (Loss)	\$	<u>(205,421)</u>

Greenwood Terrace, LLC.

Statement of Owners' Equity

	Managing Member	Special Member	Investor Member	Total Owners' Equity
Balance at December 31, 2019	\$ (216)	\$ (5)	\$ 1,045,241	\$ 1,045,020
Net income (loss)	(21)	-	(205,400)	(205,421)
Balance at December 31, 2020	<u>\$ (237)</u>	<u>\$ (5)</u>	<u>\$ 839,841</u>	<u>\$ 839,599</u>

Greenwood Terrace, LLC.Statement of Cash Flows
Year Ended December 31, 2020

Cash flows from operating activities:	
Net income (loss)	\$ (205,421)
Adjustments to reconcile net loss to net cash from operating activities:	
<i>Non-cash items:</i>	
Depreciation	151,706
Amortization	4,817
Accrued interest	258,437
<i>Changes in operating accounts:</i>	
Receivables	(924)
Prepays	(46,481)
Accounts payable - operating	16,876
Deposits held in trust	2,105
Accrued wages payable	5,570
Accrued vacation payable	7,744
Miscellaneous current liabilities	(34,413)
Prepaid rent	474
Net cash provided (used) by operating activities	<u>160,490</u>
Cash flows from investing activities:	
None	<u>-</u>
Net cash provided (used) by investing activities	<u>-</u>
Cash flows from financing activities:	
None	<u>-</u>
Net cash provided (used) by financing activities	<u>-</u>
Net increase (decrease) in cash and equivalents	160,490
Beginning cash and cash equivalents	<u>1,143,563</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,304,053</u></u>
Cash and cash equivalents - operations	\$ 327,282
Tenant deposits held in trust	11,480
Family self-sufficiency escrow deposits	21,566
Operating reserve	424,715
Replacement reserve	<u>519,010</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,304,053</u></u>

See accompanying notes.

Note 01 - Summary of Significant Accounting Policies

Introduction

Greenwood Terrace, LLC (the "Agency") was formed under the laws of the State of Tennessee to acquire, own, develop, lease and operate Greenwood Terrace (the "Property") located in Chattanooga, Tennessee. The Property consists of a 98-unit multifamily apartment complex developed and operated under the federal low-income housing tax credit program as provided for in Section 42 of the Internal Revenue Code ("Section 42").

The Agency is owned 99.99% by the investor member, Apollo Tax Credit Fund – 57 Limited Partnership (the "Investor Member"), 0.001% by the special member, Apollo Housing Manager II, Inc. (the "Special Member"), collectively, the "Investor Members", and 0.009% by the managing member, GWT – MM, Inc. (the "Managing Member").

Pursuant to the Amended and Restated Operating Agreement, dated June 21, 2007 (the "Operating Agreement"), profits and losses are generally allocated to the members based on their respective ownership percentages. Under the terms of the Operating Agreement, the Managing Member is required to provide equity contributions totaling \$100 and the Investor Members are required to provide equity contributions totaling \$4,474,807. The total equity contributions required pursuant to the Operating Agreement are subject to adjustment based on the amount of low-income housing tax credits allocated to the Agency. As of December 31, 2020, the Investor Members and the Managing Member had provided their total required equity contributions.

Basis of accounting

The Agency's policy is to prepare its financial statements on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles.

Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, 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 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 the statement of cash flows, cash equivalents include time deposits and all highly liquid debt instruments.

Property and equipment

Property and equipment are recorded at cost when purchased or appraised value if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Maintenance, repairs, and renewals that do not involve any substantial betterments are charged to expense when incurred. Expenditures that increase the useful life of the property are capitalized.

Capitalization

Management has established the threshold for capitalization of property and equipment for expenditures exceeding \$5,000.

Security deposits held in trust

In accordance with the Regulatory Agreement with HUD, the Agency is required to maintain a tenant security deposit trust account. The amount must at all times be equal to or exceed the aggregate of all outstanding obligations to tenants for refundable security deposits. The tenant security deposits fund consists of cash.

Concentration of credit risk

The Agency maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

Impairments

Current accounting standards requires that long-lived assets and certain identifiable intangibles held and used by an Agency be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. It is the Agency's policy to review long-lived assets for impairment at least annually or when events or circumstance indicate there is a possible impairment. No impairments related to long-lived assets were recognized in 2020.

Rental income and tenant receivables

Rental income is recognized as rents become due. Rental payments received in advance are deferred until earned. All tenant leases are operating leases. Allowance for losses on tenant receivables as of December 31, 2020 was \$10,132.

Income taxes

No provision is included in these statements for income taxes since the Agency operates as a limited liability company and has elected to be taxed as a partnership. Accordingly, each member is responsible for his or her respective share of the Agency's net income (loss) for the year.

Component unit

The Agency is considered a component unit of the Chattanooga Housing Authority (CHA). As a component unit of the Housing Authority, the financial activity of the Agency is also reported in the financial statements of the Housing Authority. The Housing Authority manages the daily operations of the organization. The Agency has no employees; however, the staff of the Housing Authority allocate part of their salary and benefit expenses to the Agency.

Subsequent event

We have evaluated subsequent events through March 10, 2021, the date the financial statements were available to be issued.

Note 02 - Reserve Deposits

Activity for reserve deposits that are restricted for operating deficit reserve and replacement reserve are as follows:

	01/01/20	Deposits/ Interest	Uses	12/31/20
Operating deficit reserve	\$ 423,342	\$ 1,373	-	\$ 424,715
Replacement reserve	\$ 472,004	\$ 47,006	-	\$ 519,010

Operating deficit reserve

The regulatory and operating agreement requires the Agency to establish an operating deficit reserve equal to \$399,876. The Agency is required to maintain a minimum balance of \$399,876. Funds in the operating deficit reserve may be used to pay operating deficits.

Replacement reserve

The regulatory and operating agreement requires funding of a replacement reserve based on an annual amount equal to \$325 per unit. Following the year of completion, the contribution amount is required to increase at an annual rate of 3%. Use of these funds is restricted to renovation, replacement and/or special maintenance of the Property.

Note 03 - Related Party TransactionsSponsor loan

Chattanooga Housing Authority (CHA) provided the Agency with a permanent loan in the amount of \$1,936,253. The loan bears interest at the greater of 6% or the applicable federal rate, compounded annually. The loan is secured by the Property. No repayments are required until maturity, September 8, 2048. As of December 31, 2020, the mortgage payable and related accrued interest balance was \$4,448,552.

Property management fee

CHA manages the Property pursuant to the property management agreement, dated March 1, 2007 (the "Management Agreement"). The Management Agreement provides for a management fee of 6% of annual gross revenues of the Property.

For the year ended December 31, 2020, a property management fee of \$48,640 was earned and is reflected on the accompanying statement of operations.

Asset management fee

Pursuant to the Operating Agreement, the Agency pays an annual asset management fee in an amount equal to \$5,000, increased annually by three percent, to the Investor Member. For the year ended December 31, 2020, \$7,343 was earned and is reflected on the accompanying statement of operations.

Ground lease

The Agency entered into a ground lease agreement with the Greenwood Terrace, LLC. on March 1, 2007. The lease requires annual payments of \$1 for a period of 99 years. The Agency is required to use and operate the Property to construct, develop and lease public housing apartments.

Operating subsidy

Pursuant to the regulatory and operating agreement entered with CHA, 98 units of the Property are eligible to receive public housing operating funds assistance equal to the excess of the project expense level over the actual rent paid by tenants occupying ACC - assisted units, as defined, plus the utility expense level, plus the payment in lieu of taxes with respect to the ACC - assisted units payable by the owner. Total operating subsidy income is limited to the extent of net cash flow from operations. Any surplus cash resulting from the operating subsidy is repaid to CHA.

For the year ended December 31, 2020, subsidy income totaled \$447,374 and is reflected on the accompanying statement of operations.

Due to/from related party

The CHA owes the Agency for expenses paid on the Agency's behalf. As of December 31, 2020, the balance was \$24,751 and is reflected on the accompanying balance sheet as due from related party.

Note 04 - Low-Income Housing Tax Credits

The Agency expects to generate an aggregate of \$4,707,000 of low-income housing tax credits ("Tax Credits"). Generally, such Tax Credits become available for use by its members pro-rata over a ten-year period, which began in 2007. The year in which the credit period begins is determined on a building-by-building basis within the Agency. In order to qualify for these credits, the Property 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 Agency has also agreed to maintain and operate the Property as low-income housing for an additional 15 years beyond the initial 15-year compliance period. Because the Tax Credits are subject to compliance 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 or to correct noncompliance within a specified time period may result in generating a lesser amount of Tax Credits than expected in future years and/or recapture of Tax Credits previously allocated. A reduction of future credits or recapture would require credit deficit payments to the Investor Member under the terms of the Operating Agreement.

As of December 31, 2020, the Agency has allocated all Tax Credits amounting to \$4,707,000.

Note 05 - Concentrations and Business Risks

Business environment

The Agency's operations are concentrated in the multifamily real estate market. In addition, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules, and regulations are subject to change by an Act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including additional administrative burden, to comply with a change.

Business disruption

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the orders. The Agency has adapted its methods for providing services in order to continue operations and serve its community and constituents. Management is carefully monitoring the situation and evaluating its options during this time. It is possible that this matter may negatively impact the Agency, however, the ultimate financial impact and duration cannot be estimated at this time, and no adjustments have been made to these financial statements as a result of this uncertainty.