NOVOGRADAC & COMPANY LLP®

The Highlands LLLP

Financial Statements with Report of Independent Auditors
December 31, 2022 and 2021

THE HIGHLANDS LLLP

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Report of Independent Auditors

To the Partners of
The Highlands LLLP:

Opinion

We have audited the accompanying financial statements of The Highlands LLLP, a Colorado limited liability limited partnership, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, changes in partners' equity, 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 The Highlands 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 The Highlands 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, The Highlands LLLP adopted accounting standards changes related to accounting for and disclosing leasing arrangements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 The Highlands 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 auditors’ 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, including omissions, 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.

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 The Highlands 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 The Highlands 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Cash Distribution (unaudited), which are the responsibility of management, are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Novogradac & Company LLP

San Francisco, California
April 14, 2023

THE HIGHLANDS LLLP

BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 42,700	$ 67,304
Restricted cash	273,706	253,284
Accounts receivable, net of allowance	849	-
Rental property, net	14,026,110	14,489,610
Other assets, net	70,080	77,589
Total assets	$ 14,413,445	$ 14,887,787
LIABILITIES AND PARTNERS' EQUITY		
Liabilities:		
Accounts payable	$ 10,958	$ 7,073
Due to affiliate	32,064	16,779
Asset management fee payable	5,796	5,628
GP asset management fee payable	5,463	4,992
Tenant deposits held in trust	44,700	41,369
Prepaid rent	1,311	5,986
Accrued interest	394,801	386,857
Long-term debt, net	2,302,326	2,322,667
Total liabilities	2,797,419	2,791,351
Partners' equity	11,616,026	12,096,436
Total liabilities and partners' equity	$ 14,413,445	$ 14,887,787

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

THE HIGHLANDS LLLP
STATEMENTS OF OPERATIONS
For the years ended December 31, 2022 and 2021

	2022	2021
REVENUE		
Rental revenue	$ 570,496	$ 536,712
Vacancies and concessions	(3,765)	(10,682)
Net rental income	566,731	526,030
Other revenue	37,643	38,497
Total revenue	604,374	564,527
OPERATING EXPENSES		
Salaries and employee benefits	99,062	47,994
Repairs and maintenance	61,356	55,956
Utilities	81,627	92,517
Property management fee	42,310	39,336
Insurance	37,251	33,696
General and administrative	149,148	125,056
Total operating expenses	470,754	394,555
Net operating income	133,620	169,972
OTHER INCOME AND (EXPENSES)		
Interest income	658	189
GP asset management fee	(5,632)	(5,304)
Asset management fee	(5,628)	(5,628)
Interest expense	(132,419)	(133,095)
Depreciation	(463,500)	(463,500)
Amortization	(7,509)	(7,509)
Net other income and (expenses)	(614,030)	(614,847)
NET LOSS	$ (480,410)	$ (444,875)

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

THE HIGHLANDS LLLP

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

For the years ended December 31, 2022 and 2021

	General Partner	Limited Partner	Total Partners' Equity
Balance, January 1, 2021	$ 254,241	$ 12,287,070	$ 12,541,311
Net loss	(44)	(444,831)	(444,875)
Balance, December 31, 2021	254,197	11,842,239	12,096,436
Net loss	(48)	(480,362)	(480,410)
Balance, December 31, 2022	$ 254,149	$ 11,361,877	$ 11,616,026

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

THE HIGHLANDS LLLP

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (480,410)	$ (444,875)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	463,500	463,500
Amortization	7,509	7,509
Amortization of debt issuance costs	2,593	2,593
Changes in assets and liabilities		
Accounts receivable, net of allowance	(849)	-
Accounts payable	3,885	1,391
Due to affiliate	15,285	(5,956)
Asset management fee payable	168	165
GP asset management fee payable	471	(158)
Tenant deposits held in trust	3,331	1,240
Prepaid rent	(4,675)	3,208
Accrued interest	7,944	76,346
Net cash provided by operating activities	18,752	104,963
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of developer fee payable	-	(108,445)
Payment of long-term debt, net	(22,934)	(22,029)
Net cash used in financing activities	(22,934)	(130,474)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(4,182)	(25,511)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	320,588	346,099
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	$ 316,406	$ 320,588
Cash and cash equivalents	$ 42,700	$ 67,304
Restricted cash	273,706	253,284
Total cash, cash equivalents and restricted cash	$ 316,406	$ 320,588
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ 121,882	$ 54,156

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

1. General

The Highlands LLLP (the "Partnership") is a Colorado limited liability limited partnership formed in February 2015, for the purpose of investment in real property and the provision of low-income housing through the construction, renovation, rehabilitation, operation and leasing of an apartment complex. The apartment complex is a 64-unit, multifamily rental housing development in Grand Junction, Colorado, for low to moderate-income residents. Pursuant to the Amended and Restated Agreement of Limited Partnership dated April 1, 2016 (the "Partnership Agreement"), the Partnership shall continue in full force and effect until December 31, 2085. The Partnership may be dissolved prior to such date if certain events occur, which are outlined in the Partnership Agreement.

The Project has qualified and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of the complex as to occupant eligibility and unit gross rent, among other requirements. The Project must meet the provisions of these regulations during each of 15 consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the limited partners. All units within this Project are subject to the rent restrictions and qualified tenant restrictions as required by the Low Income Housing Tax Credit Program.

Pursuant to the Partnership Agreement, income or loss of the Partnership is allocated 99.99% to Wells Fargo Affordable Housing Community Development Corporation (the "Investor Limited Partner") and 0.01% to The Grand Junction Housing Authority (the "General Partner"). The Partnership is generating low-income housing tax credits, which will be allocated in the same manner. Allocation of gain or loss from a sale of the Project, if applicable, is subject to different terms, as described in the Partnership Agreement.

As of December 31, 2022 and 2021, the General Partner has made its required capital contributions of $254,435. The Investor Limited Partner is required to provide capital contributions to the Partnership totaling $14,186,081, subject to adjustments based on the amount of low-income housing tax credits allocated to the Project in addition to other occurrences as more fully explained in the Partnership Agreement. As of December 31, 2022 and 2021, the Limited Partner has provided cumulative contributions of $14,295,887.

2. Summary of significant accounting policies and nature of operations

Basis of accounting
The Partnership prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, funding of operating deficits and repairs or improvements to the buildings which extend their useful lives.

Concentration of credit risk
The Partnership places its temporary cash investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Partnership has not experienced any losses in such accounts.

2. Summary of significant accounting policies and nature of operations (continued)

Accounts receivable
The Partnership recognizes credit losses on tenant accounts receivable as realized. Tenant accounts receivable are recorded at gross amount, less an allowance for doubtful accounts. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. The allowance for doubtful accounts was $0 and $1,002, respectively, as of December 31, 2022 and 2021.

Capitalization and depreciation
Land, buildings, land improvements, and equipment and furnishings are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized and expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gain or loss is reflected in the statements of operations. The estimated useful lives are as follows:

	Years
Building and improvements	40
Land improvements	20
Equipment and furnishings	10

Impairment of long-lived assets
The Partnership reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows 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 of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2022 or 2021.

Income taxes
Income taxes on Partnership income are levied on the partners at the partner level. Accordingly, all profits and losses of the Partnership are recognized by each partner on its respective tax return.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Partnership to report information regarding its exposure to various tax positions taken by the Partnership. The Partnership has determined whether any tax positions have met the recognition threshold and has measured the Partnership's exposure to those tax positions. Management believes that the Partnership has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Partnership are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Tax credit fees
In connection with obtaining an allocation of low-income housing tax credits, the Partnership paid fees totaling $112,630. The Partnership is amortizing these fees on the straight-line basis over the related tax credit compliance period of 15 years.

2. Summary of significant accounting policies and nature of operations (continued)

Revenue recognition for tenant leases and tenant charges
The Partnership is the lessor of the Project and accounts for tenant leases as operating leases. The Partnership determines if a contract is a lease or contains a lease at inception. At the commencement of an operating lease, no income is recognized; subsequently, lease payments received are recognized on a straight-line basis. Rental revenue attributable to tenant 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 revenue includes fees for late payments, cleaning, damages, laundry facilities and other tenant charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Advertising
Advertising costs are expensed as incurred.

Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations
The Partnership operates one property in Grand Junction, Colorado. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Subsequent events
Subsequent events have been evaluated through April 14, 2023, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Change in accounting principle
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 842, *Leases* ("FASB ASC 842") to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet by lessees and the disclosure of key information about leasing arrangements.

FASB ASC 842 was adopted January 1, 2022, and any adjustment necessary, if any, was recognized through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

With respect to tenant leases, FASB ASC 842 did not have a material impact on the financial statements.

3. Restricted cash

As of December 31, 2022 and 2021, restricted cash was comprised of the following:

	2022	2021
Tenants' security deposits	$ 45,005	$ 44,425
Replacement reserve	98,398	78,935
Operating reserve	130,303	129,924
Total restricted cash	$ 273,706	$ 253,284

3. Restricted cash (continued)

Replacement Reserve – In accordance with the terms of the Partnership Agreement, the Partnership is required to make deposits of $250 per unit per year to the replacement reserve commencing the earlier of twenty-four months after the closing date or permanent loan conversion. The required deposit increases each year by an inflation factor equal to three percent (3%) per year. The reserve was funded in 2018.

Operating Reserve – In accordance with the terms of the Partnership Agreement, the Partnership is required to establish and maintain an operating reserve in the initial amount of $125,763 upon permanent loan conversion. The reserve was funded in 2018.

4. Rental property, net

As of December 31, 2022 and 2021, the Partnership's rental property, net consisted of the following:

	2022	2021
Land	$ 390,335	$ 390,335
Building	14,551,290	14,551,290
Land improvements	1,425,099	1,425,099
Equipment and furnishings	284,626	284,626
Total rental property	16,651,350	16,651,350
Less: accumulated depreciation	(2,625,240)	(2,161,740)
Rental property, net	$ 14,026,110	$ 14,489,610

5. Other assets, net

As of December 31, 2022 and 2021, the Partnership's other assets, net consisted of the following:

	2022	2021
Tax credit fees	$ 112,630	$ 112,630
Less: accumulated amortization	(42,550)	(35,041)
Other assets, net	$ 70,080	$ 77,589

6. Long-term debt, net

Permanent loans

On March 28, 2018, the construction loan was repaid in part with the proceeds of a permanent loan from Bank of Colorado in the principal amount of $690,000. The Bank of Colorado loan bears interest at the rate of 5.50% and requires monthly payments of principal and interest in the amount of $3,953 until maturity on March 28, 2038, at which time all unpaid principal and interest shall be due. The loan is secured by a Deed of Trust on the property. Outstanding principal as of December 31, 2022 and 2021 was $642,324 and $653,633, respectively.

For the years ended December 31, 2022 and 2021, the effective interest rate was 6.0%. For the years ended December 31, 2022 and 2021, amortization expense of debt issuance costs was $2,593, and interest expense was $36,129 and $36,741, respectively.

6. Long-term debt, net (continued)

Permanent loans (continued)
On March 28, 2018, the construction loan was repaid in part with the proceeds of a permanent loan from Colorado Housing and Finance Authority in the principal amount of $500,000. The Colorado Housing and Finance Authority loan bears interest at the rate of 3.00% and requires monthly payments of principal and interest in the amount of $2,108 until maturity on April 1, 2035, at which time all unpaid principal and interest shall be due. The loan is secured by a Deed of Trust on the property. Outstanding principal as of December 31, 2022 and 2021 was $448,494 and $460,119, respectively.

For the years ended December 31, 2022 and 2021, interest expense was $13,671 and $13,963, respectively.

Grand Junction Housing Authority – Land Loan
On April 1, 2016, the Partnership entered into a loan with GJHA in the initial amount of $136,000. The loan bears interest at a rate equal to 5%. No payments are due until maturity on December 31, 2046, at which time all outstanding principal and accrued interest shall be due and payable. Outstanding principal as of December 31, 2022 and 2021 was $136,000. Outstanding interest as of December 31, 2022 and 2021 was $53,088 and $44,083, respectively. During the years ended December 31, 2022 and 2021, interest of $9,005 and $8,575, respectively, has been incurred.

Grand Junction Housing Authority – Sponsor Loan
On April 1, 2016, the Partnership entered into a loan with GJHA in the initial amount of $511,329. The loan bears interest at a rate equal to 5%. No payments are due until maturity on December 31, 2046, at which time all outstanding principal and accrued interest shall be due and payable. The amount of the loan drawn and outstanding as of December 31, 2022 and 2021, was $331,721. Outstanding interest as of December 31, 2022 and 2021 was $129,487 and $107,525, respectively. During the years ended December 31, 2022 and 2021, interest of $21,962 and $20,917, respectively, has been incurred.

Grand Junction Housing Authority – CDOH Loan
On April 1, 2016, the Partnership entered into a loan with GJHA in the initial amount of $800,000. The loan bears interest at a rate equal to 5%. No payments are due until maturity on December 31, 2046, at which time all outstanding principal and accrued interest shall be due and payable. The amount of the loan drawn and outstanding as of December 31, 2022 and 2021 was $800,000. Outstanding interest as of December 31, 2022 and 2021 was $212,226 and $235,249, respectively. During the years ended December 31, 2022 and 2021, interest of $49,059 and $49,297, respectively, has been incurred.

Long-term debt, net consists of the following as of December 31,

	2022	2021
Principal balance	$ 2,358,539	$ 2,381,473
Less: unamortized debt issuance costs	(56,213)	(58,806)
Long-term debt, net	$ 2,302,326	$ 2,322,667

Aggregate annual maturities of the long-term debt over each of the next five years and thereafter are as follows:

Year ending December 31,

2023	$ 23,966
2024	24,915
2025	26,108
2026	27,261
2027	28,468
Thereafter	2,227,821
Total	$ 2,358,539

7. Related party transactions

Management fee
The Partnership entered into a management agreement with the General Partner under which the Partnership is obligated to pay a management fee equal to 7 percent of gross rental receipts of the Project. Management fees incurred under this agreement totaled $42,310 and $39,336, respectively, for the years ended December 31, 2022 and 2021.

The General Partner is periodically reimbursed for various office expenses, caretaker payroll and benefits, and other maintenance costs incidental to the operations of the Project. As of December 31, 2022 and 2021, the Partnership owed the General Partner $32,064 and $16,779, respectively, for these expenses and unpaid management fees.

Developer fee
The Partnership entered into a development agreement with Grand Junction Housing Authority for a developer fee in the amount of $1,600,000. It is anticipated that the developer fee payable will be paid from available cash flow. The entire developer fee has been capitalized into the cost of the building and is required to be paid in entirety on or before May 5, 2032. The payable bears interest at 2.75% compounded annually. Developer fee payable was $0 as of December 31, 2022 and 2021. Accrued interest on the unpaid developer fee totaled $0 as of December 31, 2022 and 2021. For the years ended December 31, 2022 and 2021, interest expense was $0 and $1,009, respectively.

Asset management fee
Commencing on January 1, 2017, the Partnership is required to pay the Investor Limited Partner a cumulative annual Asset Management Fee in the amount of $5,000. The fee is payable out of cash flow, as defined in the Partnership Agreement, and must be paid before payments are made to the General Partner. The fee increases each year by an inflation factor of three percent (3%). For the years ended December 31, 2022 and 2021, $5,628 was incurred, and as of December 31, 2022 and 2021, $5,796 and $5,628, respectively, remains payable.

GP asset management fee
Commencing on January 1, 2017, the Partnership is required to pay the General Partner a cumulative annual GP asset management fee in the amount of $25,000. Pursuant to the First Amendment to GP Asset Management Fee Agreement dated April 24, 2019, the fee was reduced to $5,000 per year beginning January 1, 2019. The fee is payable out of cash flow, as defined in the Partnership Agreement. The fee increases each year by an inflation factor of three percent (3%). For the years ended December 31, 2022 and 2021, $5,632 and $5,304, respectively, has been incurred, and as of December 31, 2022 and 2021, $5,463 and $4,992, respectively, remains payable.

Notes payable - related party
The Partnership financed the Project, in part, with three 5 percent notes payable from the General Partner (see Note 6). The Partnership has a fourth note with the General Partner as detailed above for the Developer Fee.

Common area charges
McMahon Homeowners' Association (the "HOA"), of which the General Partner is a member, controls and operates a portion of the Project that is shared by another low-income housing tax credit apartment complex that is owned by an affiliate of the General Partner. The HOA charges the Partnership its proportional share of the HOA's operating expenses. For the years ended December 31, 2022 and 2021, the Partnership incurred and paid $95,123 and $87,786, respectively, in dues to the HOA, which is included in general and administrative on the accompanying statements of operations.

8. Low-income housing tax credits

The Partnership expects to generate an aggregate of $12,500,000 of federal low-income housing tax credits ("Tax Credits"). Generally, such credits become available for use by its partners pro-rata over a ten-year period, which began in 2017. The year in which the credit period begins is determined on a building-by-building basis within the Partnership. In order to qualify for these 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 an additional 25 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 Partner under the terms of the Partnership Agreement.

9. Vulnerability – Impact of COVID- 19

The severity of the impact of COVID-19 on the Partnership's operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Partnership's tenants, all of which are uncertain and cannot be predicted. The Partnership's future results could be adversely impacted by delays in rent collections. Management is unable to predict with absolute certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

SUPPLEMENTARY INFORMATION

THE HIGHLANDS LLLP
SCHEDULES OF EXPENSES
For the years ended December 31, 2022 and 2021

	2022	2021
Salaries and employee benefits		
Salaries - administrative	$ 58,753	$ 36,701
Salaries - service coordinator	19,161	-
Temporary labor	-	5
Health insurance and other benefits	19,765	10,622
Workmen's compensation insurance	1,383	666
Total salaries and employee benefits	$ 99,062	$ 47,994
Repairs and maintenance		
Exterminating	$ 364	$ 415
Grounds	515	1,546
Allocated labor and contracts	44,283	45,470
Supplies	5,884	7,185
Other repairs and maintenance	10,310	1,340
Total repairs and maintenance	$ 61,356	$ 55,956
Utilities		
Electricity	$ 36,339	$ 52,054
Water and sewer	30,263	29,676
Trash removal	4,842	4,800
Gas	10,183	5,987
Total utilities	$ 81,627	$ 92,517
Management fee		
Property management fee	$ 42,310	$ 39,336
General and administrative		
Advertising and marketing	$ -	$ 419
Professional fees	15,181	9,357
Accounting fees - internal	30,694	21,177
Rent	853	600
Bad debt	157	1,002
Office expenses	7,140	4,715
HOA dues	95,123	87,786
Total general and administrative	$ 149,148	$ 125,056
Interest expense		
Bank of Colorado - permanent loan	$ 36,129	$ 36,741
Grand Junction Housing Authority - Developer Fee	-	1,009
Grand Junction Housing Authority - Sponsor Loan	21,962	20,917
Grand Junction Housing Authority - CDOH Loan	49,059	49,297
Grand Junction Housing Authority - Land Loan	9,005	8,575
Amortization of debt issuance costs	2,593	2,593
CHFA - permanent loan	13,671	13,963
Total interest	$ 132,419	$ 133,095

Distribution of Cash Flow

Pursuant to the Partnership Agreement, cash flow of the Partnership shall be distributed in the following order of priority:

1. To the Investor Limited Partner, an amount equal to the unpaid credit adjuster payments
2. To the Investor Limited Partner, to repay any loans made to the Partnership
3. To the Investor Limited Partner, to pay the asset management fee
4. To fund the operating reserve until the balance is $125,763
5. To the General Partner to pay the GP asset management fee
6. To repay any amounts owed with respect to the developer fee payable
7. To the General Partner to repay any unpaid portion of any operating deficit loans and any deferred management fees
8. To pay interest and principal on the Second Mortgage DOLA Loan until paid in full
9. To pay interest and principal on the Third Mortgage GAP Loan until paid in full
10. 10% of the remaining balance shall be distributed to the Investor Limited Partner as a priority distribution of cash flow
11. To make additional deposits to the Replacement Reserve until the balance is $50,000
12. To pay interest and principal on the Fourth Mortgage Loan until paid in full
13. Any balance, 99.99% shall be distributed to the Investor Limited Partner and 0.01% to the General Partner

	2022	2021
Total Revenue		
Net rental income	$ 566,731	$ 526,030
Other income	37,643	38,497
Interest income (excluding partnership reserves)	35	8
Change in accounts receivable	(849)	-
Change in prepaid rent	(4,675)	3,208
Total Operating Revenue	598,885	567,743
Operating expenses	470,754	306,769
Change in accounts payable	(3,885)	(1,391)
Actual change in replacement reserve	19,463	32,804
Required debt service (Bank of Colorado)	47,438	47,438
Required debt service (CHFA)	25,296	25,296
Total Expenses	559,066	498,702
Net Cash Flow	$ 39,819	$ 69,041
Available cash	$ 39,819	$ 69,041
Less: Amount available for Investor Limited Partner for asset management fee	(5,796)	(5,628)
Less: Amount available for General Partner for GP asset management fee	(5,632)	(5,304)
Less: Payments on developer fee payable and interest	-	(1,009)
Less: Payments on DOLA loan	(28,391)	(57,100)
Remaining cash	$ -	$ -