

The Highlands LLLP

**Financial Statements and Supplementary Information
with Report of Independent Auditors
December 31, 2023 and 2022**

THE HIGHLANDS LLLP

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NOVOGRADAC
& COMPANY LLP®

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, 2023 and 2022, 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, 2023 and 2022, 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.

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
March 27, 2024

THE HIGHLANDS LLLP**BALANCE SHEETS**

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 131,103	\$ 42,700
Restricted cash	297,594	273,706
Accounts receivable, net of allowance	8,834	849
Rental property, net	13,562,610	14,026,110
Other assets, net	<u>62,572</u>	<u>70,080</u>
Total assets	<u>\$ 14,062,713</u>	<u>\$ 14,413,445</u>
LIABILITIES AND PARTNERS' EQUITY		
Liabilities:		
Accounts payable	\$ 75	\$ 10,958
Due to affiliate	32,264	32,064
Asset management fee payable	11,766	5,796
GP asset management fee payable	11,264	5,463
Tenant deposits held in trust	45,002	44,700
Prepaid rent	-	1,311
Accrued interest	477,926	394,801
Long-term debt, net	<u>2,280,957</u>	<u>2,302,326</u>
Total liabilities	2,859,254	2,797,419
Partners' equity	<u>11,203,459</u>	<u>11,616,026</u>
Total liabilities and partners' equity	<u>\$ 14,062,713</u>	<u>\$ 14,413,445</u>

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

THE HIGHLANDS LLLP
STATEMENTS OF OPERATIONS
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
REVENUE		
Rental revenue	\$ 607,458	\$ 570,496
Vacancies and concessions	(3,662)	(3,765)
Net rental income	<u>603,796</u>	<u>566,731</u>
Other revenue	<u>45,486</u>	<u>37,643</u>
Total revenue	649,282	604,374
OPERATING EXPENSES		
Salaries and employee benefits	88,978	99,062
Repairs and maintenance	36,659	61,356
Utilities	66,213	81,627
Property management fee	45,450	42,310
Insurance	64,742	37,251
General and administrative	<u>148,029</u>	<u>149,148</u>
Total operating expenses	<u>450,071</u>	<u>470,754</u>
Net operating income excluding depreciation and amortization	199,211	133,620
OTHER INCOME AND (EXPENSES)		
Interest income	5,467	658
GP asset management fee	(5,801)	(5,632)
Asset management fee	(5,970)	(5,628)
Interest expense	(134,466)	(132,419)
Depreciation	(463,500)	(463,500)
Amortization	<u>(7,508)</u>	<u>(7,509)</u>
Net other income and (expenses)	<u>(611,778)</u>	<u>(614,030)</u>
NET LOSS	<u>\$ (412,567)</u>	<u>\$ (480,410)</u>

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, 2023 and 2022

	General Partner	Limited Partner	Total Partners' Equity
	<u> </u>	<u> </u>	<u> </u>
Balance, January 1, 2022	\$ 254,197	\$ 11,842,239	\$ 12,096,436
Net loss	<u>(48)</u>	<u>(480,362)</u>	<u>(480,410)</u>
Balance, December 31, 2022	254,149	11,361,877	11,616,026
Net loss	<u>(41)</u>	<u>(412,526)</u>	<u>(412,567)</u>
Balance, December 31, 2023	<u>\$ 254,108</u>	<u>\$ 10,949,351</u>	<u>\$ 11,203,459</u>

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

THE HIGHLANDS LLLP
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (412,567)	\$ (480,410)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	463,500	463,500
Amortization	7,508	7,509
Amortization of debt issuance costs	2,592	2,593
Changes in assets and liabilities		
Accounts receivable, net of allowance	(7,985)	(849)
Accounts payable	(10,883)	3,885
Due to affiliate	200	15,285
Asset management fee payable	5,970	168
GP asset management fee payable	5,801	471
Tenant deposits held in trust	302	3,331
Prepaid rent	(1,311)	(4,675)
Accrued interest	83,125	7,944
Net cash provided by operating activities	<u>136,252</u>	<u>18,752</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of long-term debt, net	<u>(23,961)</u>	<u>(22,934)</u>
Net cash used in financing activities	<u>(23,961)</u>	<u>(22,934)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	112,291	(4,182)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>316,406</u>	<u>320,588</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u><u>\$ 428,697</u></u>	<u><u>\$ 316,406</u></u>
Cash and cash equivalents	\$ 131,103	\$ 42,700
Restricted cash	<u>297,594</u>	<u>273,706</u>
Total cash, cash equivalents and restricted cash	<u><u>\$ 428,697</u></u>	<u><u>\$ 316,406</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	<u><u>\$ 48,749</u></u>	<u><u>\$ 121,882</u></u>

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

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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.

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 as of December 31, 2023 and 2022.

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:

	<u>Years</u>
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 2023 or 2022.

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.

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 March 27, 2024, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

As of December 31, 2023 and 2022, restricted cash was comprised of the following:

	<u>2023</u>	<u>2022</u>
Tenants' security deposits	\$ 45,462	\$ 45,005
Replacement reserve	118,372	98,398
Operating reserve	<u>133,760</u>	<u>130,303</u>
Total restricted cash	<u>\$ 297,594</u>	<u>\$ 273,706</u>

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.

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

4. Rental property, net

As of December 31, 2023 and 2022, the Partnership's rental property, net consisted of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 390,335	\$ 390,335
Building	14,551,290	14,551,290
Land improvements	1,425,099	1,425,099
Equipment and furnishings	<u>284,626</u>	<u>284,626</u>
Total rental property	16,651,350	16,651,350
Less: accumulated depreciation	<u>(3,088,740)</u>	<u>(2,625,240)</u>
Rental property, net	<u>\$ 13,562,610</u>	<u>\$ 14,026,110</u>

5. Other assets, net

As of December 31, 2023 and 2022, the Partnership's other assets, net consisted of the following:

	<u>2023</u>	<u>2022</u>
Tax credit fees	\$ 112,630	\$ 112,630
Less: accumulated amortization	<u>(50,058)</u>	<u>(42,550)</u>
Other assets, net	<u>\$ 62,572</u>	<u>\$ 70,080</u>

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, 2023 and 2022 was \$630,369 and \$642,324, respectively.

For the years ended December 31, 2023 and 2022, the effective interest rate was 6.0%. For the years ended December 31, 2023 and 2022, amortization expense of debt issuance costs was \$2,592, and interest expense was \$35,458 and \$36,129, respectively.

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, 2023 and 2022 was \$436,488 and \$448,494, respectively.

For the years ended December 31, 2023 and 2022, interest expense was \$13,291 and \$13,671, 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, 2023 and 2022 was \$136,000. Outstanding interest as of December 31, 2023 and 2022 was \$62,542 and \$53,088, respectively. During the years ended December 31, 2023 and 2022, interest of \$9,454 and \$9,005, respectively, has been incurred.

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

6. Long-term debt, net (continued)

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, 2023 and 2022, was \$331,721. Outstanding interest as of December 31, 2023 and 2022 was \$152,547 and \$129,487, respectively. During the years ended December 31, 2023 and 2022, interest of \$23,060 and \$21,962, 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, 2023 and 2022 was \$800,000. Outstanding interest as of December 31, 2023 and 2022 was \$262,837 and \$212,226, respectively. During the years ended December 31, 2023 and 2022, interest of \$50,611 and \$49,059, respectively, has been incurred.

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

	<u>2023</u>	<u>2022</u>
Principal balance	\$ 2,334,578	\$ 2,358,539
Less: unamortized debt issuance costs	(53,621)	(56,213)
Long-term debt, net	<u>\$ 2,280,957</u>	<u>\$ 2,302,326</u>

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

Year ending December 31,	
2024	\$ 24,915
2025	26,108
2026	27,261
2027	28,468
2028	29,643
Thereafter	<u>2,198,183</u>
Total	<u>\$ 2,334,578</u>

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 \$45,450 and \$42,310, respectively, for the years ended December 31, 2023 and 2022.

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, 2023 and 2022, the Partnership owed the General Partner \$32,264 and \$32,064, respectively, for these expenses and unpaid management fees.

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

7. Related party transactions (continued)

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, 2023 and 2022, \$5,970 was incurred, and as of December 31, 2023 and 2022, \$11,766 and \$5,796, 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, 2023 and 2022, \$5,801 and \$5,632, respectively, has been incurred, and as of December 31, 2023 and 2022, \$11,264 and \$5,463, 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, 2023 and 2022, the Partnership incurred and paid \$91,855 and \$95,123, 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.

THE HIGHLANDS LLLP
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Salaries and employee benefits		
Salaries - administrative	\$ 53,576	\$ 58,753
Salaries - service coordinator	16,419	19,161
Health insurance and other benefits	17,756	19,765
Workmen's compensation insurance	1,227	1,383
Total salaries and employee benefits	<u>\$ 88,978</u>	<u>\$ 99,062</u>
Repairs and maintenance		
Exterminating	\$ 1,145	\$ 364
Grounds	513	515
Allocated labor and contracts	35,843	44,283
Supplies	7,605	5,884
Net hazard cleanup (insurance proceeds) expense	(8,447)	10,310
Total repairs and maintenance	<u>\$ 36,659</u>	<u>\$ 61,356</u>
Utilities		
Electricity	\$ 26,889	\$ 36,339
Water and sewer	31,330	30,263
Trash removal	4,568	4,842
Gas	3,426	10,183
Total utilities	<u>\$ 66,213</u>	<u>\$ 81,627</u>
Management fee		
Property management fee	<u>\$ 45,450</u>	<u>\$ 42,310</u>
General and administrative		
Advertising and marketing	\$ 899	\$ -
Professional fees	6,231	15,181
Accounting fees - internal	32,741	30,694
Rent	853	853
Bad debt	11,748	157
Office expenses	3,702	7,140
HOA dues	91,855	95,123
Total general and administrative	<u>\$ 148,029</u>	<u>\$ 149,148</u>
Interest expense		
Bank of Colorado - permanent loan	\$ 35,458	\$ 36,129
Grand Junction Housing Authority - Sponsor Loan	23,060	21,962
Grand Junction Housing Authority - CDOH Loan	50,611	49,059
Grand Junction Housing Authority - Land Loan	9,454	9,005
Amortization of debt issuance costs	2,592	2,593
CHFA - permanent loan	13,291	13,671
Total interest	<u>\$ 134,466</u>	<u>\$ 132,419</u>

See report of independent auditors

THE HIGHLANDS LLLP
SCHEDULES OF CASH AVAILABLE FOR DISTRIBUTION (UNAUDITED)
December 31, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Total Revenue		
Net rental income	\$ 603,796	\$ 566,731
Other income	45,486	37,643
Interest income (excluding partnership reserves)	201	35
Change in accounts receivable	(7,985)	(849)
Change in prepaid rent	<u>(1,311)</u>	<u>(4,675)</u>
Total Operating Revenue	640,187	598,885
Operating expenses	450,071	470,754
Change in accounts payable	10,883	(3,885)
Net deposits to replacement reserve	18,548	19,463
Required debt service (Bank of Colorado)	47,438	47,438
Required debt service (CHFA)	<u>25,296</u>	<u>25,296</u>
Total Expenses	<u>552,236</u>	<u>559,066</u>
Net Cash Flow	<u>\$ 87,951</u>	<u>\$ 39,819</u>
Available cash	\$ 87,851	\$ 39,819
Less: Amount available for Investor Limited Partner for asset management fee	(5,970)	(5,796)
Less: Amount available for General Partner for GP asset management fee	(5,801)	(5,632)
Less: Payments on DOLA loan	<u>(76,180)</u>	<u>(28,391)</u>
Remaining cash	<u>\$ -</u>	<u>\$ -</u>

See report of independent auditors