

LILAC PLACE LLLP

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2023 AND 2022

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1 - 2
Financial Statements:	
Balance Sheets	3
Statements of Operations	4
Statements of Partners' Capital	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 – 15
Independent Auditors' Report on Supplementary Information	16
Supplementary Information:	
Schedules of Operating Expenses.....	17

INDEPENDENT AUDITORS' REPORT

To The Partners
Lilac Place LLLP

Opinion

We have audited the accompanying financial statements of Lilac Place LLLP, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in partners' capital, 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 Lilac Place 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 Lilac Place 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Lilac Place 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 auditor's 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 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.

INDEPENDENT AUDITORS' REPORT, continued

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 Lilac Place 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 Lilac Place 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.

Finney, Neill & Company, P.S.

Seattle, Washington
March 29, 2024

LILAC PLACE LLLP
Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets		
Investment in real estate held for lease:		
Land	\$ 308,313	308,313
Building and improvements	7,100,407	7,100,407
Land improvements	615,439	615,439
Furniture and equipment	227,935	227,935
Less: accumulated depreciation and amortization	(3,059,675)	(2,760,449)
Net investment in real estate held for lease	5,192,419	5,491,645
Other assets:		
Cash and cash equivalents	149,529	131,766
Tenant and other receivables, net	4,263	626
Prepaid expenses	101	18,933
Security deposits	18,175	16,226
Restricted reserve accounts	378,782	364,322
Capitalized costs, net	23,265	27,918
Total other assets	574,115	559,791
	\$ 5,766,534	6,051,436
Liabilities and Partners' Capital		
Liabilities applicable to investment in real estate:		
Loans and notes payable, net	\$ 1,139,320	1,162,684
Notes payable - General Partner	389,137	404,467
Accounts payable	10,694	8,974
Accounts payable - affiliate	47,761	20,290
Accrued interest	18,093	87,161
Prepaid rents	3,799	2,386
Asset management fee payable	5,500	11,000
Security deposits	18,750	17,875
Total liabilities applicable to investment in real estate	1,633,054	1,714,837
Partners' capital		
Partners equity	4,194,468	4,397,587
Syndication costs	(60,988)	(60,988)
Total partners' capital	4,133,480	4,336,599
	\$ 5,766,534	6,051,436

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

LILAC PLACE LLLP
Statements of Operations
For the Years Ended December 31, 2023 and 2022

	2023	2022
Rental operating revenue:		
Gross potential residential rent	\$ 523,831	503,680
Less: residential vacancy loss	(16,937)	(20,549)
Net rent revenues	506,894	483,131
Laundry and vending	5,430	4,322
Tenant charges	11,038	5,142
Other income	417	79
Total income	523,779	492,674
Rental operating expenses:		
Administrative	130,060	124,674
Utilities	79,124	50,559
Operating and maintenance	59,671	53,232
Taxes and insurance	57,294	54,196
Tenant services	25,862	21,177
Total operating expenses	352,011	303,838
Operating income before partnership and financial expenses	171,768	188,836
Partnership and financial expenses:		
Asset management fee	5,500	5,500
Partnership management fee	514	159
Interest expense	64,994	65,895
Total partnership and financial expenses	71,008	71,554
Income before depreciation and amortization	100,760	117,282
Depreciation	299,226	299,226
Amortization	4,653	4,653
Net income (loss)	\$ (203,119)	(186,597)

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

LILAC PLACE LLLP
Statement of Changes in Partners' Capital
For the Years Ended December 31, 2023 and 2022

	General Partner 0.01%	Limited Partner 99.99%	Total
Balance, January 1, 2022	\$ 266,373	4,317,811	4,584,184
Net income (loss)	(19)	(186,578)	(186,597)
Balance, December 31, 2022	266,354	4,131,233	4,397,587
Net income (loss)	(20)	(203,099)	(203,119)
Balance, December 31, 2023	\$ 266,334	3,928,134	4,194,468

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

LILAC PLACE LLLP
Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from (used by) operating activities:		
Net income (loss)	\$ (203,119)	(186,597)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	303,879	303,879
Amortization of debt issuance costs	2,789	2,789
(Increase) decrease in assets:		
Accounts receivable	(3,637)	2,102
Prepaid expenses and other assets	18,832	(2,458)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(3,780)	5,162
Accounts payable - affiliate	27,471	8,786
Accrued interest	(69,068)	(17,035)
Prepaid rent	1,413	1,854
Security deposits	875	975
Total adjustments	278,774	306,054
Net cash provided by (used in) operating activities	75,655	119,457
 Cash flows from (used by) financing activities:		
Payments on loans and notes payable	(41,483)	(22,070)
Net cash provided by (used in) financing activities	(41,483)	(22,070)
Net increase (decrease) in cash, cash equivalents, and restricted cash	34,172	97,387
Cash, cash equivalents, and restricted cash at beginning of year	512,314	414,927
Cash, cash equivalents, and restricted cash at end of year	\$ 546,486	512,314
 Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 149,529	131,766
Security deposits	18,175	16,226
Restricted cash reserve	378,782	364,322
Total cash, cash equivalents, and restricted cash on statement of cash flows	\$ 546,486	512,314
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 131,273	80,141

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

LILAC PLACE LLLP
Notes to the Financial Statements
Years Ended December 31, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lilac Place LLLP (the Partnership) is a Washington limited liability limited partnership which was formed in 2011 to construct, lease, and operate the Lilac Place Apartments (the project), a 38-unit newly constructed apartment project located in Woodland, Washington. The project was placed into service in July 2014.

The Partnership Agreement specifies a perpetual term for the Partnership, unless terminated in accordance with the agreement. Pursuant to the Partnership Agreement: Lilac Place GP LLC, a Washington limited liability company, whose sole member is the Housing Authority of the City of Longview dba Housing Opportunities of SW Washington (“HOSWWA”), is the General Partner (the "General Partner") with an ownership interest of 0.01%, and U.S. Bancorp Community Development Corporation (“USBCDC”) was the limited partner with an ownership interest of 99.99%. As of June 24, 2015, USBCDC permitted assignment of its interest in the Partnership to USB LIHTC Fund 2015-3, LLC (the “Limited Partner”). The Partnership is considered a component unit of HOSWWA, and its financial results are discretely presented in HOSWWA’s annual report.

Pursuant to the Partnership Agreement, the General Partner and Limited Partner are required to provide capital contributions totaling \$266,600 and \$6,584,086, respectively, which can be adjusted depending on the amount and timing of the delivery of tax credits. All capital contributions were received in 2016.

Effective July 1, 2014, the Partnership entered into a Housing Assistance Payment (HAP) contract with HOSWWA. Lower rental charges to tenants are recovered by the Partnership through rent subsidies provided by HOSWWA. The initial term of the contract is 15 years. For the years ended December 31, 2023 and 2022, rental assistance received totaled \$345,449 and \$364,296, representing 66% and 74% of total income, respectively.

The Partnership received an allocation of Low-Income Housing Tax Credits (LIHTC) for its qualifying rental property. The benefits of the LIHTC are provided to the Partnership's partners through the Partnership's annual federal income tax return filing and are not reflected in the accompanying financial statements. The LIHTC is a 15-year credit that is generally claimed by the Partnership over a 10-year period. The credit is a certain percentage (as determined by the Internal Revenue Service) of the qualified basis of the property. The Partnership may only lease qualified units to tenants who meet certain income restrictions and whose rent payments also are restricted under guidelines set by the Internal Revenue Service. The Partnership has agreed to maintain 100 percent of the apartment units as both rent restricted and occupied by low-income tenants for a minimum period of 40 years beginning in 2015.

Basis of Presentation

The financial statements of the Partnership are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Cash

Restricted cash accounts consist of security deposits held for tenants and reserve accounts.

Tenant Receivables and Bad Debt

Tenant receivables are stated at the amount of unpaid rent and other tenant charges reduced by an allowance for credit losses of \$1,854 and \$1,433 at December 31, 2023 and 2022, respectively. The allowance is established through a charge to operations and is established at the amount management believes is adequate to absorb uncollectible amounts. Management evaluates the allowance separately for balances due from tenants which is considered higher risk and balances due from subsidies provided by government agencies, which is considered lower risk. The allowance considers historical experience in collecting amounts due, current conditions including the tenant's status as a current or past tenant, and reasonable and supportable forecasts including management's knowledge of the tenant's ability to pay and subsidy changes that have been determined.

Capitalized Costs

Capitalized costs of \$69,794 consist of low-income housing tax credit fees, which are amortized over 15 years on a straight-line basis. For the years ended December 31, 2023 and 2022, amortization expense was \$4,653 and \$4,653, respectively. As of December 31, 2023 and 2022, accumulated amortization was \$46,529 and \$41,876, respectively.

Debt Issuance Costs

Debt issuance (loan) costs, net of accumulated amortization, related to a recognized debt liability are presented in the balance sheets as a direct deduction from the carrying amount of that debt liability. Amortization of debt issuance costs is reported as a component of interest expense. Debt issuance costs are amortized over the period the obligation is outstanding using the straight-line method. This does not result in a significant difference from the effective interest rate method.

Investment in Real Estate Held for Lease

Land, buildings, and improvements are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for the years ended December 31, 2023 and 2022 was \$299,226 and \$299,226, respectively.

Depreciation expense is provided on a straight-line basis over the estimated useful lives of the related assets as follows:

Building and improvements	27.5 years
Land improvements	15 years
Furniture and equipment	5 years

These footnotes are an integral part of the financial statements.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continue

Impairment of Long-Lived Assets

The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow 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 exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation techniques. There were no impairment losses recognized for the years ended December 31, 2023 and 2022.

Advertising

The Partnership expenses all advertising costs as they are incurred.

Revenue Recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. All leases between the Partnership and the tenants of the property are operating leases. Leases are for periods of up to one year, with rental payments due monthly. Other revenues, which result from fees earned for late payments, cleaning, damages, and laundry facilities, are recorded when earned. Advance receipts of rental income are deferred and classified as liabilities until earned.

Federal Income Taxes

The Partnership is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the statements. Income from the Partnership is taxed to the member in its tax return.

The Partnership accounts for tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740, *Income Taxes*. With few exceptions, the Partnership is subject to U.S. federal income tax examinations by tax authorities for the prior three years. Management has reviewed the Partnership's tax positions and determined there were no uncertain tax positions as of December 31, 2023 and 2022.

The Partnership recognizes income-tax related interest expense and penalties in operating expenses. During the years ended December 31, 2023 and 2022, the Partnership recognized no income-tax related interest or penalties.

Economic Concentrations

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

The Partnership's revenues are principally derived from rents received from qualifying tenants.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Reclassifications

Certain amounts in the financial statements may have been reclassified to conform to the current financial statement presentation. The reclassifications had no effect on net income (loss) or partners' capital (deficit) as previously stated.

New Accounting Pronouncement

On January 1, 2023, the Partnership adopted Accounting Standards Update (ASU) No. 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurements of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss methodology with an expected loss methodology by introducing the Current Expected Credit Loss (CECL) model, which requires entities to measure credit losses based on historical experience, current conditions, and reasonable supportable forecasts. The Partnership adopted ASC 326 prospectively, resulting in no cumulative adjustment to retained earnings. The Partnership has not restated comparative information for 2022 and, therefore, the comparative information for 2022 is reported under the old model and is not comparable to the information presented for 2023.

Date of Management's Review

Subsequent events have been evaluated through March 29, 2024, which is the date the financial statements were available to be issued.

2. CONCENTRATION OF CREDIT RISK

The Partnership periodically has cash accounts in banks which exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Partnership has not experienced any losses with these accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Partnership's revenues are principally derived from rents received directly from or on behalf of qualifying tenants.

3. RESTRICTED CASH ACCOUNTS

Security Deposits

Tenant security deposits are generally held until termination of the leases, at which time some or all deposits may be returned to the lessee.

These footnotes are an integral part of the financial statements.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

3. RESTRICTED CASH ACCOUNTS, continued

Replacement Reserve

In accordance with the partnership agreement, the Partnership is required to maintain a replacement reserve account to be funded in the amount of \$300 per unit per year, payable monthly in equal monthly installments, and increasing annually by three percent. Withdrawals are subject to approval by the Limited Partner. In addition, the mortgage note requires an annual deposit of not less than \$11,400 annually beginning in 2015, increasing annually by three percent, in a replacement reserve account, which is pledged to lender. Withdrawals are subject to approval by the lender.

Operating Reserve

In accordance with the Partnership Agreement, the Partnership is required to fund a reserve in the amount of \$135,467 upon payment of the third installment from the Limited Partner's capital contribution. Withdrawals are subject to the approval of the Limited Partner. The General Partner is obligated to fund the reserve, from cash flow, in an amount equal to keep the balance of the reserve at \$135,457. In addition, the mortgage note agreement with Columbia Bank requires the Partnership to fund the operating reserve in the amount of \$135,457. Withdrawals are subject to approval of Columbia Bank. In 2016, the third installment of the limited partner's capital contribution was received and used to fund the reserve.

Services Reserve

In accordance with the partnership agreement, the Partnership is required to fund a reserve up to an amount equal to \$114,300 from available cash flow. Withdrawals are subject to consent of the Limited Partner. The reserve began to be funded in 2016 and was fully funded as of December 31, 2022.

During the years ended December 31, 2023 and 2022, the Partnership's restricted reserve accounts' activity consisted of the following:

	<u>Operating Reserve</u>	<u>Replacement Reserve</u>	<u>Services Reserve</u>	<u>Total</u>
Balances at January 1, 2022	\$ 135,717	100,240	90,696	326,653
Additions	-	14,021	23,634	37,655
Interest	6	4	4	14
Disbursements	-	-	-	-
Balances at December 31, 2022	<u>135,723</u>	<u>114,265</u>	<u>114,334</u>	<u>364,322</u>
Additions	-	14,441	-	14,441
Interest	7	6	6	19
Disbursements	-	-	-	-
Balances at December 31, 2023	<u><u>\$ 135,730</u></u>	<u><u>128,712</u></u>	<u><u>114,340</u></u>	<u><u>378,782</u></u>

These footnotes are an integral part of the financial statements.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

4. LOANS AND NOTES PAYABLE – THIRD-PARTIES

1st Mortgage - Columbia Bank

On January 13, 2015, the Partnership closed on its permanent loan with WCRA, which was purchased by Columbia Bank in 2019. The original loan amount is \$900,334 and bears interest at 6% per annum. The promissory note requires that principal and interest shall be payable in consecutive monthly installments of \$5,398 beginning March 1, 2015. The loan matures on February 1, 2030. Substantially all of the rental property and equipment is pledged as collateral on the loan. As of December 31, 2023 and 2022, the note payable totaled \$778,211 and \$794,976, respectively. As of December 31, 2023 and 2022, accrued interest totaled \$4,056 and \$4,056, respectively. During 2023 and 2022, interest expense totaled \$48,017 and \$48,878, respectively.

2nd Mortgage - Clark County

The Partnership received \$225,000 in pass-through funding from Clark County. The loan accrues interest at 0.5% per annum for a term of 44 years. Beginning January 31, 2015, annual payments of \$5,389 are required. The loan matures on January 31, 2058. Substantially all of the rental property and equipment is pledged as collateral on the loan. As of December 31, 2023 and 2022, the outstanding principal on the loan totaled \$182,728 and \$187,491, respectively. As of December 31, 2023 and 2022, accrued interest payable totaled \$770 and \$799, respectively. During 2023 and 2022, interest expense totaled \$907 and \$962, respectively. The amount was funded by the HOME investment Partnership Program, which restricts 3 residential units to low-income eligible tenants through January 31, 2058.

Deferred Loan - Clark County

The Partnership received \$200,000 in pass-through funding from Clark County. The loan does not accrue interest and payment is deferred until January 31, 2058, at which time payment is due in full. Substantially all of the rental property and equipment is pledged as collateral on the loan. The amount was funded by the HOME investment Partnership Program, which restricts 3 residential units to low-income eligible tenants through January 31, 2058.

The loans and notes payable outstanding as of December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
1st Mortgage - Columbia Bank	\$ 778,211	794,976
2nd Mortgage - Clark County	182,728	187,491
Deferred Loan - Clark County	<u>193,946</u>	<u>198,571</u>
	1,154,885	1,181,038
Less: debt issuance costs, net	<u>(15,565)</u>	<u>(18,354)</u>
Notes payable, net	<u>\$ 1,139,320</u>	<u>1,162,684</u>

These footnotes are an integral part of the financial statements.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

4. LOANS AND NOTES PAYABLE, continued

Future minimum principal payments on the loans and notes payable for each of the next five years and thereafter are as follows for the years ending December 31:

2024	\$ 23,476
2025	24,653
2026	25,901
2027	27,224
2028	28,628
Thereafter	<u>1,025,003</u>
	<u>\$ 1,154,885</u>

5. RELATED PARTY AND AFFILIATE TRANSACTIONS

Asset Management Fee

According to the Partnership Agreement, the Partnership is obligated to pay the Limited Partner an Asset Management Fee of \$5,000, increasing by 10% percent every five years, for the annual review of the operations and credit compliance of the Partnership. The Asset Management Fee is payable annually from net cash flow, as defined in the Partnership Agreement. If not paid, the Asset Management Fee shall accrue without interest from year to year. For the years ended December 31, 2023 and 2022, the Partnership incurred an asset management fee of \$5,500 and \$5,500, respectively.

Partnership Management Fee

According to the Partnership Agreement, the Partnership is obligated to pay the General Partner a Partnership Management Fee in an amount not to exceed \$20,000 or 12% of gross collected rents in a year, payable from 10% of remaining cash flow at the payment priority level specified in the Partnership Agreement. Payment of the Partnership Management Fee is to be made out of Cash Flow, as defined in the Partnership Agreement. If not paid, the partnership administration fee shall not accrue from year to year. For the years ended December 31, 2023 and 2022, the Partnership incurred Partnership Management Fee expense of \$514 and \$159, respectively.

Note Payable to Affiliate of General Partner

The Partnership executed a note payable with HOSWWA, an affiliate of the General Partner, for \$404,467, bearing simple interest at 3.28% per annum. The note matures on January 31, 2058. Payments are subject to availability of net cash flow, as defined in the Partnership Agreement. As of December 31, 2023 and 2022, the outstanding balance on the loan totaled \$389,137 and \$404,467, respectively. As of December 31, 2023 and 2022, accrued interest on the loan totaled \$13,267 and \$82,306, respectively, which is included in accrued interest payable on the balance sheets. Interest charged during 2023 and 2022 totaled \$13,267 in both years. The note is secured by a deed of trust.

Future minimum principal payments on the outstanding principal balance of \$389,137 are due in January 2058 or out of available cash flow, as defined in the Partnership Agreement.

These footnotes are an integral part of the financial statements.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

5. RELATED PARTY AND AFFILIATE TRANSACTIONS, continued

Property Management

The Partnership has contracted with HOSWWA, sole member of the General Partner, to provide property management services. Under the terms of the agreement, the property manager is responsible for leasing the residential units in compliance with tax credit requirements, maintaining and repairing the building, and paying building operating expenses in exchange for a management fee. The management fee is equal to 8% of gross receipts, as defined in the Property Management Agreement. Property management expense for the years ended December 31, 2023 and 2022 was \$50,630 and \$48,261, respectively.

Accounts Payable to Affiliate

As of December 31, 2023 and 2022, the Partnership owed HOSWWA, sole member of the General Partner, \$47,761 and \$20,290, respectively, for management fees and other operating expenses paid on its behalf.

6. COMMITMENTS AND CONTINGENCIES

The Partnership expects to generate an aggregate of \$7,080,370 of federal low-income housing tax credits (the "Tax Credits"). Generally, such Tax Credits are expected to become available for use by its partners pro rata over a ten-year period which began in 2015. In order to qualify for these Tax 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 a total of 40 years. Because the Tax Credits are subject to complying 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 may result in generating a lesser amount of Tax Credits than the expected amount.

The project is subject to the terms and conditions of various agreements with the Washington State Housing Finance Commission. The covenants contained in those agreements "run with the land" in the event of sale or other transfer of ownership interest. These agreements are necessary to satisfy the requirements of the parties involved and Internal Revenue Code Section 42 relating to the low-income housing tax credits awarded to this project.

The Partnership Agreement provides for various agreements between the General Partners and the Limited Partner. These guarantees include operating deficit, recapture and required reserves, and provides for obligations on the part of the General Partners if certain conditions outlined in the agreements are not met. The Partnership Agreement provides for various obligations of the General Partners, including the General Partners' obligation to provide funds for operating deficits and reduced tax benefits.

In the event of an operating deficit, as defined in the agreement, the Partnership Agreement requires the General Partners to contribute capital in an amount equal to the amount of the operating deficit. The amount of the operating deficit contributions is limited as defined in the Partnership Agreement.

LILAC PLACE LLLP
Notes to the Financial Statements, continued
Years Ended December 31, 2023 and 2022

7. PROPERTY TAX EXEMPTION

The property had an exemption from real estate taxes during the years ended December 31, 2023 and 2022.

8. ALLOCATION OF PROFITS, LOSSES, AND DISTRIBUTIONS

Ordinary profits and losses are allocated 99.99% to the Limited Partner and 0.01% to the General Partner. Tax credits are allocated 99.99% to the Limited Partner and 0.01% to the General Partner.

Capital profits and losses recognized by the Partnership shall be allocated as provided by the Partnership Agreement.

Distributable cash flow, as defined by the Partnership Agreement, is to be distributed in accordance with the terms provided by the Partnership Agreement, in the following priority:

1. To pay the asset management fee.
2. To fund any credit deficiencies or tax equivalency payments.
3. As directed by the Limited Partner, to pay any default cash priority as defined in the partnership agreement.
4. To make required payments to the replacement reserve and to replenish the operating reserve to the required amount.
5. To the Limited Partner to repay and loans or other advances.
6. To pay the unpaid developer fee up to 50% of available cash flow.
7. To the General Partner to repay any development advance, operating deficit advance, credit adjuster advance or development fee advance then payable.
8. To fund a supportive service reserve up to \$114,300 from 85% of remaining cash flow
9. To pay applicable principal and interest on the fourth mortgage loan, from 95% of remaining cashflow.
10. To the General Partner to pay the partnership management fee.
11. At the option of the General Partner to provide additional funding to the operating reserve and/or replacement reserve.
12. At the option of the General Partner, to pay accrued interest and principal on the third mortgage loan.
13. The balance to the General Partner and Limited Partner in accordance with their ownership interests.

Independent Auditors' Report on Supplementary Information

To the Partners
Lilac Place LLLP

We have audited the financial statements of Lilac Place LLLP as of and for the years ended December 31, 2023 and 2022, and our report thereon dated March 29, 2024, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operating 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.

Finney, Neill & Company, P.S.

Seattle, Washington
March 29, 2024

LILAC PLACE LLLP
Schedules of Operating Expenses
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Administrative expenses:		
Onsite manager	\$ 45,457	48,034
Travel and mileage	2,284	1,732
Bad debt expense	4,674	1,861
Fees and memberships	2,070	2,105
Rental management fees	50,630	48,261
Auditing fees	8,250	8,150
Marketing and leasing fees	598	573
Telephone and internet	10,504	10,213
Office supplies and postage	1,303	2,572
Other	4,290	1,173
Total administrative expenses	<u>\$ 130,060</u>	<u>124,674</u>
Utility expenses:		
Electricity	\$ 6,609	8,267
Water and sewer	56,659	28,963
Garbage	13,995	12,718
Gas/Other	1,861	611
Total utility expenses	<u>\$ 79,124</u>	<u>50,559</u>
Operating and maintenance expenses:		
Maintenance salaries	\$ 18,786	18,760
Maintenance materials	16,151	13,428
Maintenance contracts	24,734	21,044
Total operating and maintenance expenses	<u>\$ 59,671</u>	<u>53,232</u>
Taxes and insurance expenses:		
Employee taxes and benefits	\$ 34,039	33,057
Property and liability insurance	18,832	16,475
Other taxes and licenses	4,423	4,664
Total taxes and insurance expenses	<u>\$ 57,294</u>	<u>54,196</u>

See independent auditors' report on supplementary information.