

AUDREY HEIGHTS DEVELOPMENT, L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

AUDREY HEIGHTS DEVELOPMENT, L.P.

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INDEPENDENT AUDITORS' REPORT

To the Partners
Audrey Heights Development, L.P.

Report on the Financial Statements

We have audited the accompanying financial statements of Audrey Heights Development, L.P., (a Louisiana Limited Partnership), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Audrey Heights Development, L.P. as of December 31, 2020 and 2019, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 20 through 22 is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2021, on our consideration of Audrey Heights Development, L.P.' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Audrey Heights Development, L.P.' internal control over financial reporting and compliance.



Monroe, Louisiana
February 16, 2021

AUDREY HEIGHTS DEVELOPMENT, L.P.
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,417	\$ 164
Accounts Receivable - Tenants	5,217	-
Prepaid Expenses	8,267	8,083
Total Current Assets	<u>19,901</u>	<u>8,247</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Replacement Reserve Escrow	83,739	61,639
Operating Deficit Reserve	116,128	115,592
Tenants' Security Deposits	10,286	9,908
Real Estate Tax and Insurance Escrow	27,565	26,749
Total Restricted Deposits and Funded Reserves	<u>237,718</u>	<u>213,888</u>
PROPERTY AND EQUIPMENT		
Buildings	7,059,569	7,059,569
Land Improvements	178,436	178,436
Furniture and Equipment	211,747	211,747
Total	<u>7,449,752</u>	<u>7,449,752</u>
Less: Accumulated Depreciation	<u>(2,247,434)</u>	<u>(2,061,912)</u>
Net Depreciable Assets	5,202,318	5,387,840
Land	753,490	753,490
Total Property and Equipment	<u>5,955,808</u>	<u>6,141,330</u>
OTHER ASSETS		
Permanent Closing Fees	17,366	17,366
Tax Credit Fees	33,962	33,962
Less: Accumulated Depreciation	<u>(30,830)</u>	<u>(27,987)</u>
Net Amortizable Assets	<u>20,498</u>	<u>23,341</u>
Syndication Costs	22,000	22,000
Utility Deposits	1,290	1,290
Total Other Assets	<u>43,788</u>	<u>46,631</u>
TOTAL ASSETS	<u>\$ 6,257,215</u>	<u>\$ 6,410,096</u>

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

AUDREY HEIGHTS DEVELOPMENT, L.P.
BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

LIABILITIES AND PARTNERS' EQUITY

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES		
Accounts Payable	\$ -	\$ 2,776
Prepaid Rent	1,048	826
Accrued Interest Payable	5,099	5,209
Current Portion of Long-Term Debt	24,623	22,933
Total Current Liabilities	<u>30,770</u>	<u>31,744</u>
DEPOSITS		
Tenants' Security Deposits	10,286	9,908
Total Deposits	<u>10,286</u>	<u>9,908</u>
LONG-TERM LIABILITIES		
Mortgage Payable	1,032,569	1,055,873
Notes Payable - NEF	1,106,240	1,113,350
Accrued Interest - NEF	343,785	309,262
Development Fee Payable	720,000	720,000
Asset Management Fees Payable	34,509	34,509
Partnership Management Fees Payable	227,979	204,057
Total Long-Term Liabilities	<u>3,465,082</u>	<u>3,437,051</u>
Total Liabilities	<u>3,506,138</u>	<u>3,478,703</u>
PARTNERS' EQUITY		
Partners' Equity (Deficit)	<u>2,751,077</u>	<u>2,931,393</u>
TOTAL LIABILITIES AND PARTNERS' EQUITY	<u><u>\$ 6,257,215</u></u>	<u><u>\$ 6,410,096</u></u>

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

AUDREY HEIGHTS DEVELOPMENT, L.P.
 STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
REVENUE		
Tenant Rents	\$ 322,449	\$ 323,061
Less Vacancies, Concessions, Etc.	(6,737)	(30,666)
Late Fees, Deposit Forfeitures, Etc.	11,837	14,479
Other Income	5,649	-
Total Revenue	<u>333,198</u>	<u>306,874</u>
EXPENSES		
Maintenance and Repairs	46,081	86,943
Utilities	13,141	15,998
Administrative	57,144	55,851
Management Fees	19,691	18,492
Taxes	10,626	3,332
Insurance	38,088	37,854
Interest	113,149	114,883
Depreciation and Amortization	188,364	209,429
Total Expenses	<u>486,284</u>	<u>542,782</u>
OTHER INCOME AND (EXPENSES)		
Interest Income	724	1,307
Entity Expense - Partnership & Asset Management Fees	(27,954)	(27,257)
Total Other Income (Expense)	<u>(27,230)</u>	<u>(25,950)</u>
Net Income (Loss)	<u>\$ (180,316)</u>	<u>\$ (261,858)</u>

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

AUDREY HEIGHTS DEVELOPMENT, L.P.
 STATEMENTS OF PARTNERS' EQUITY (DEFICIT)
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>Total</u>	<u>GENERAL PARTNER Covington Community GP, LLC</u>	<u>LIMITED PARTNER NEF Assignment Corporation</u>
Partners' Equity (Deficit), January 1, 2019	\$ 3,193,251	\$ (148)	\$ 3,193,399
Net Income (Loss)	<u>(261,858)</u>	<u>(26)</u>	<u>(261,832)</u>
Partners' Equity (Deficit), December 31, 2019	\$ 2,931,393	\$ (174)	\$ 2,931,567
Net Income (Loss)	<u>(180,316)</u>	<u>(18)</u>	<u>(180,298)</u>
Partners' Equity (Deficit), December 31, 2020	<u>\$ 2,751,077</u>	<u>\$ (192)</u>	<u>\$ 2,751,269</u>
Profit and Loss Percentages	<u>100.00%</u>	<u>0.01%</u>	<u>99.99%</u>

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

AUDREY HEIGHTS DEVELOPMENT, L.P.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (180,316)	\$ (261,858)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	188,364	209,429
(Increase) Decrease in:		
Accounts Receivable - Tenants	(5,217)	2,645
Prepaid Expense	(184)	420
Utility Deposits	-	(400)
Increase (Decrease) in:		
Accounts Payable	(2,776)	(21,959)
Prepaid Rent	222	41
Accrued Interest Payable	(110)	(101)
Tenants' Security Deposits	377	918
Net Cash Provided (Used) by Operating Activities	360	(70,865)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Mortgage Payable	(22,962)	(21,361)
Payments on NEF Loans	(7,110)	-
Interest on Loan Fees	1,348	1,374
Increase (Decrease) in Asset Management Fee Payable	-	4,032
Increase (Decrease) in Partnership Management Fee Payable	23,922	23,225
Increase in Accrued Interest - NEF Loans	34,523	34,651
Net Cash Provided (Used) by Financing Activities	29,721	41,921
Net Increase (Decrease) in Cash and Restricted Cash	30,081	(28,944)
Cash and Restricted Cash, Beginning of Year	214,052	242,997
Cash and Restricted Cash, End of Year	\$ 244,135	\$ 214,052
Reconciliation of cash and restricted cash reported within the balance sheets that sum to the total of the same such amounts in the statements of cash flows.		
Cash and Cash Equivalents	\$ 6,417	\$ 164
Replacement Reserve Escrow	83,739	61,639
Operating Deficit Reserve	116,128	115,592
Tenants' Security Deposits	10,286	9,908
Real Estate Tax and Insurance Escrow	27,565	26,749
Total Cash and Restricted Cash	\$ 244,135	\$ 214,052

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

AUDREY HEIGHTS DEVELOPMENT, L.P.
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	<u>\$ 77,388</u>	<u>\$ 80,333</u>

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

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE A – ORGANIZATION

Audrey Heights Development LP (the Partnership) was organized in 2007 as a limited partnership chartered under the laws of the State of Louisiana to develop, construct, own, maintain and operate a thirty-six-unit housing complex intended for rental to persons of low and moderate income. The complex is located in Covington, Louisiana and is collectively known as Audrey Heights (the Complex). The Complex has qualified and been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42) which regulates the use of the Complex as to occupant eligibility and unit gross rent, among other requirements. The major activities of the Partnership are governed by the Amended and Restated Articles of Partnership in Commendam, including amendments (Partnership Agreement) and are subject to the administrative directives, rules, and regulations of federal and state regulatory agencies, including but not limited to, the state housing finance agency. Such administrative directives, rules, and regulations are subject to change by federal and state agencies.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statement follows.

Basis of Accounting

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

Change in Accounting Principle

In November 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-18 on Restricted Cash to eliminate inconsistencies in its presentation in the statement of cash flows, thereby reducing the diversity in practice. This ASU amended prior guidance on the presentation of restricted cash and now requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown in the statements of cash flows. This ASU also requires an entity to disclose information about the nature of restricted cash, as well as provide a reconciliation of cash, cash equivalents and restricted cash between the balance sheet and the statement of cash flows. ASU 2016-18 was adopted retrospectively during the year ended December 31, 2019.

Use of 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents represent unrestricted cash and all highly liquid and unrestricted debt instruments purchased with a maturity of three months or less.

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Other Deposits

The Partnership has various checking, escrow and other deposits at various financial institutions. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2020, the Partnership had no uninsured deposits.

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. Tenants who are evicted or moved out are charged with damages or cleaning fees, if applicable. Tenant receivable consists of amounts due for rental income, security deposit, or the charges for damages and cleaning fees. The Partnership does not accrue interest on the tenant receivable balances.

The Partnership provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Partnership's estimate is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that the Partnership's estimate of the allowance for doubtful accounts will change. At December 31, 2020 and 2019, accounts receivable are presented net of an allowance for doubtful accounts of \$0 and \$0, respectively.

Capitalization and Depreciation

Land, buildings and improvements 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, while 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 gains and losses are reflected in the statement of operations. Estimated useful lives used for depreciation purposes are as follows:

Buildings	40 years
Land Improvements	20 years
Furniture and Equipment	10 years

Amortization

Permanent closing fees resulting from legal costs incurred during closing to permanent financing are amortized over the term of the loan using the straight-line method.

Organization costs are expensed as incurred.

Tax credit monitoring fees are amortized over the fifteen year Low-Income Tax Credit Compliance period, using the straight-line method.

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using the interest method.

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

Income Taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure.

Impairment of Long-Lived Assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than their carrying amounts, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2020 and 2019.

Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the partnership through February 16, 2021 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

NOTE C – RESTRICTED DEPOSITS AND FUNDED RESERVES

Operating Reserve

The General Partner shall establish the Operating Reserve Account and fund it with the Operating Reserve Target Amount of \$141,760 out of loan and/or equity proceeds at the time of payment of the Fourth Installment. The Operating Reserve will be held in the Operating Reserve Account, under the control of the General Partner (or a Project lender, if required), and the Partnership will maintain this account from the date of the Fourth Installment until the end of the Compliance Period. Withdrawals from the Operating

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE C – RESTRICTED DEPOSITS AND FUNDED RESERVES (CONTINUED)

Operating Reserve (Continued)

Reserve Account will require the written approval of the Asset Manager. So long as funds remain in the Operating Reserve, such funds will be used to fund Project operating and debt service deficits. Any excess funds remaining in the Operating Reserve at the end of the Compliance Period shall be released from the Operating Reserve and used by the Partnership to first pay the Limited Partner's exit taxes due upon sale or dissolution. Funding amounted to \$536 in 2020 and \$1,164 in 2019. Withdrawals amounted to \$0 in 2020 and \$24,735 in 2019. At December 31, 2020 and 2019, the balance of this account was \$116,128 and \$115,592, respectively.

Replacement Reserve

The General Partner shall establish the Replacement Reserve at the time of payment of the Third Installment. The Replacement Reserve will be held in the Replacement Reserve Account, under the control of the General Partner (unless the Account is under the control of one of the Project Lenders), and the Partnership will maintain this account from the date of payment of the Third Installment until the end of the Compliance Period. Withdrawals from the Replacement Reserve Account in excess of \$3,000 in the aggregate in any given month (unless such withdrawal was provided for in the approved Project budget) will require the written approval of the Asset Manager. The General Partner will also be required to fund the Replacement Reserve Account on a cumulative basis, in the amount of \$300 per unit per year (to be increased annually by 3%) from Project cash flow. Any excess funds remaining in the Replacement Reserve at the end of the Compliance Period shall be released from the Replacement Reserve and applied by the Partnership in the case of a sale or dissolution of the Partnership. Funding amounted to \$22,100 in 2020 and \$18,415 in 2019. Withdrawals amounted to \$0 in 2020 and \$23,095 in 2019. At December 31, 2020 and 2019, the balance of this account was \$83,739 and \$61,639, respectively.

Real Estate Tax and Insurance Escrow

Transfers of sufficient sums are to be made to this account for payment of insurance and real estate taxes. Funding amounted to \$35,664 in 2020 and \$40,356 in 2019. Withdrawals amounted to \$34,848 in 2020 and \$38,868 in 2019. At December 31, 2020 and 2019, the balance of this account was \$27,565 and \$26,749, respectively.

Outside Pledged Operating Reserve

The General Partner shall establish the Outside Pledged Operating Reserve in the amount of \$142,380 out of General Partner's own funds no later than May 1, 2009. The Outside Pledged Operating Reserve will be held in the Outside Pledged Operating Reserve Account under the control of the General Partner. The Partnership will maintain this account until the later of (i) the third anniversary of the achievement of Breakeven Operations or (ii) the date the Project has maintained a Debt Service Coverage Ratio of 1.15 for a period of not less than twelve consecutive months, based upon the average Debt Service Coverage Ratio during such period. Withdrawals from the Outside Pledged Operating Reserve Account require written notice to the Asset Manager which shall include the purpose for which such withdrawal was made. The Outside Pledged Operating Reserve will be used to fund operating and debt service deficits and for other uses benefiting the Project. On the date that the Partnership achieves the benchmarks set forth above, if there are funds remaining in the Outside Pledged Operating Reserve Account, the General Partner may request to the Asset Manager that such funds be released to the General Partner. At December 31, 2020, this account had not been funded.

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE C – RESTRICTED DEPOSITS AND FUNDED RESERVES (CONTINUED)

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account in the name of the Partnership. At December 31, 2020, this account was funded in an amount equal to the security deposit liability.

NOTE D – CAPITAL LEASE

The Partnership leases the land from Covington Community Corporation, an affiliate of the general partner, under an agreement that is classified as a capital lease. The Partnership made one advance term rental payment in the amount of \$753,490. The term of the lease commenced in December 2007 and expires on a date which is ninety-nine years from the date the leased premises become available for occupancy, unless sooner terminated as provided by the lease. There are no future minimum lease payments required under the capital lease agreement.

NOTE E – PARTNERS' CAPITAL

The Partnership has one General Partner – Covington Community GP, LLC and one Limited Partner – NEF Assignment Corporation. The Partnership records capital contributions as received.

NOTE F – LONG-TERM DEBT

Mortgage Payable

The Partnership received permanent financing from Pacific Life in February of 2011. The permanent loan was in the original amount of \$1,241,500 and bears an interest rate of 7.12%. The loan has an eighteen (18) year term and an amortization period of thirty (30) years, with a maturity date of March 1, 2029 and a monthly principal and interest payment of \$8,360. The loan is non-recourse and is collateralized by a first mortgage on the Partnership's land, buildings and equipment. For the years ended December 31, 2020 and 2019, the partnership maintained a debt service coverage ratio of 104% and 90%, respectively. At December 31, 2020, the balance of the loan was \$1,074,310 and accrued interest was \$5,099.

Debt issuance costs, net of accumulated amortization, of \$17,120 and \$18,467 as of December 31, 2020 and 2019, respectively, are amortized using an imputed interest rate of 1.47%.

Notes Payable - NEF

During 2010, the Partnership received a workout loan from National Equity Fund 2007 Limited Partnership (an affiliate of the Limited Partner) in an amount up to \$150,000. Interest accrues on the principal of the loan at a rate of 3.11%. Payments of interest are to be paid annually out of surplus cash and payments of principle shall be made annually to the extent of any surplus cash remaining after the payment of interest. In the event surplus cash is insufficient to pay any such interest for such year, then such interest shall be paid to the extent of any surplus cash and the balance of such interest shall be accrued and paid if, as, and when there is surplus cash after payment of current interest hereunder. Unless sooner paid, the outstanding principal balance of this note and all interest thereon shall be due and payable upon and to the extent of

AUDREY HEIGHTS DEVELOPMENT, L.P.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020 AND 2019

NOTE F – LONG-TERM DEBT (CONTINUED)

Notes Payable – NEF (Continued)

receipt of surplus cash from net proceeds of sale of all or substantially all of the assets of the maker. As of December 31, 2020, the balance of the loan was \$84,795 and accrued interest was \$28,026.

During 2011, the Partnership received a second workout loan from National Equity Fund 2007 Limited Partnership in the amount of \$1,000,000. The interest rate on this note is 3.15% and the terms and conditions are the same as the previously mentioned note. At December 31, 2020, the balance of this note was \$1,000,000 and accrued interest was \$311,289.

During 2012, the Partnership received a third workout loan from National Equity Fund 2007 Limited Partnership in the amount of \$50,000. The interest rate on this note is 1.80% and the terms and conditions are the same as the previously mentioned note. At December 31, 2020, the balance of this note was \$21,445 and accrued interest was \$4,470.

Maturities of long-term debt for the next five years and thereafter are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2021	\$ 24,623
2022	26,434
2023	28,379
2024	30,467
2025	32,708
Thereafter	\$ 931,700

NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Developer Fee

The Partnership has entered into a development services agreement in the amount of \$870,000 with the Covington Housing Authority, an affiliate of the General Partner, to render services for overseeing the construction and development of the complex. The developer fee is capitalized in the basis of the building. During the years ended December 31, 2020 and 2019, no developer fees were paid and the balance of developer fee payable was \$720,000.

Asset Management Fee

The Partnership shall pay to the Asset Manager an annual asset management fee on a cumulative basis in the amount of \$3,000, to be increased annually by three percent (3%) and priority specified in Section 5.1(a) of the partnership agreement, for property management oversight, tax credit compliance monitoring and related services. During years ended December 31, 2020 and 2019, asset management fees were paid in the amount of \$4,032 and \$0 and the balance of asset management fees payable was \$34,509 and \$34,509, respectively.

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (CONTINUED)

Partnership Management Fee

The Partnership shall pay to the General Partner an annual partnership management fee on a cumulative basis in the amount of \$17,800, to be increased annually by three percent (3%) and priority specified in Section 5.1(a) of the partnership agreement, for managing the Partnership's operations and assets and coordinating the preparation of the required State Housing Finance Agency, federal, state and local taxes and other required filings and financial reports. During the years ended December 31, 2020 and 2019, no partnership management fees were paid and the balance of partnership management fees payable was \$227,979 and \$204,057, respectively.

NOTE H – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

NOTE I – PARTNERSHIP PROFITS AND LOSSES AND DISTRIBUTIONS

All profits and losses, other than from capital transactions detailed in the Amended and Restated Partnership Agreement, are allocated .01% to the General Partner and 99.99% to the Limited Partner.

Distribution of distributable cash from operations for each fiscal year will be made as follows:

- (i) To the Limited Partner to the extent of any amount which the Limited Partner is entitled to receive to satisfy any Credit Reduction Payment required pursuant to Section 6.9;
- (ii) Payment of any accrued and payable Asset Management Fees to the Asset Manager;
- (iii) To the Sponsor to pay any unpaid balance of the Deferred Development Fee;
- (iv) To the Operating Reserve Account until such time as such account is equal to the Operating Reserve Target Amount;
- (v) To the Real Estate Tax Reserve Account until such time as such account is equal to the Real Estate Tax Reserve Target Amount;
- (vi) To pay any accrued and unpaid interest and unpaid principal on loans made by the Limited Partner pursuant to Section 3.7;

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE I – PARTNERSHIP PROFITS AND LOSSES AND DISTRIBUTIONS (CONTINUED)

- (vii) To pay any accrued and unpaid interest and unpaid principal on loans made by the General Partner pursuant to Section 3.7;
- (viii) To pay the Partnership Management Fee, on a cumulative basis;
- (ix) To the General Partner (in the order of loans made, with earlier loans repaid in full before subsequent loans are repaid) to repay any amounts treated as loans to the Partnership (without interest) by the General Partner pursuant to Section 6.4(f)(i) or Section 6.4 (f)(ii) and net yet repaid.

NOTE J – TAXABLE INCOME (LOSS)

A reconciliation of financial statement net income (loss) to taxable income (loss) of the Partnership for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Financial Statement Net Income (Loss)	\$ (180,316)	\$ (261,858)
Adjustments:		
Excess of depreciation and amortization for financial reporting purposes over income tax purposes	<u>49,520</u>	<u>70,584</u>
Taxable Income (Loss) as Shown on Tax Return	<u>\$ (130,796)</u>	<u>\$ (191,274)</u>

NOTE K – CONTINGENCY

The apartment complex’s low-income housing tax credits are contingent on the ability of the Partnership to maintain compliance with applicable sections of Section 42 of the Internal Revenue Code. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest.

NOTE L – MANAGEMENT AGENT

The Partnership has entered into an agreement with Tower Management, LLC to provide services in connection with rent-up, leasing and operation of the project. Management fees are charged in an amount equal to the greater of \$800 or 6% of gross rents received per month. Management fees incurred for the years ended December 31, 2020 and 2019 were \$19,691 and \$18,492, respectively.

AUDREY HEIGHTS DEVELOPMENT, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE M – ADVERTISING

The Partnership incurred advertising costs of \$759 in 2020 and \$853 in 2019. These costs are expensed as incurred.

SUPPLEMENTAL INFORMATION

AUDREY HEIGHTS DEVELOPMENT, L.P.
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
MAINTENANCE AND REPAIRS		
Maintenance Supplies	1,809	5,461
General Maintenance and Repairs	26,980	63,486
Grounds Maintenance	13,600	14,915
Pest Control	3,692	3,081
Total Maintenance and Repairs	<u>\$ 46,081</u>	<u>\$ 86,943</u>
UTILITIES		
Electricity	2,382	4,012
Water and Sewer	2,323	3,252
Garbage Trash Removal	8,436	8,734
Total Utilities	<u>\$ 13,141</u>	<u>\$ 15,998</u>
ADMINISTRATIVE		
Advertising	759	853
Office Supplies	6,382	5,315
Supportive Services	193	175
Bad Debt Expense	2,055	1,164
Accounting and Auditing	7,250	7,000
Legal	100	350
Administrative Salaries	37,000	36,542
Miscellaneous	590	2,059
Telephone	2,815	2,393
Total Administrative	<u>\$ 57,144</u>	<u>\$ 55,851</u>
MANAGEMENT FEES		
Management Fee	19,691	18,492
Total Management Fees	<u>\$ 19,691</u>	<u>\$ 18,492</u>

AUDREY HEIGHTS DEVELOPMENT, L.P.
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
TAXES		
Payroll Taxes & Workers Comp	3,297	3,332
Real Estate Tax	<u>7,329</u>	<u>-</u>
Total Taxes	<u>\$ 10,626</u>	<u>\$ 3,332</u>
INSURANCE		
Property Insurance	33,039	32,838
Workers Comp	1,320	1,484
Health Other Emp Benefits	<u>3,729</u>	<u>3,532</u>
Total Insurance	<u>\$ 38,088</u>	<u>\$ 37,854</u>
INTEREST		
Interest	77,278	78,858
Interest - NEF	34,523	34,651
Interest - Loan Fees	<u>1,348</u>	<u>1,374</u>
Total Interest	<u>\$ 113,149</u>	<u>\$ 114,883</u>
DEPRECIATION AND AMORTIZATION		
Depreciation	185,521	206,586
Amortization	<u>2,843</u>	<u>2,843</u>
Total Depreciation and Amortization	<u>\$ 188,364</u>	<u>\$ 209,429</u>

AUDREY HEIGHTS DEVELOPMENT, L.P.
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
AGENCY HEAD OR CHIEF EXECUTIVE OFFICER
FOR THE YEAR ENDED DECEMBER 31, 2020

Agency Head Name: Tammie Groover, Executive Director of the Covington Housing
Authority for the year ended December 31, 2020.

<u>Purpose</u>	<u>Amount</u>
Salary	\$0
Benefits	\$0
Auto/Mileage	\$0
Travel	\$0
Meals	\$0
Continuing Education, Per Diem, Etc.	\$0
Unvouchered Expenses	\$0

**B&T BOND &
TOUSIGNANT, LLC**
CERTIFIED PUBLIC ACCOUNTANTS

1500 Lamy Lane, Monroe, LA 71201-3734 • P. O. Box 14065, Monroe, LA 71207-4065
Phone: (318) 323-0717 • Fax: (318) 323-0719

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Partners
Audrey Heights Development, L.P.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Audrey Heights Development, L.P., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Audrey Heights Development, L.P.' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Audrey Heights Development, L.P.' internal control. Accordingly, we do not express an opinion on the effectiveness Audrey Heights Development, L.P.' control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Audrey Heights Development, L.P.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bond + Jousignant, LLC

Monroe, Louisiana
February 16, 2021