LEGEND OAKS, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

dba LEGEND OAKS

REPORT ON AUDITED
FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

Dauby O'Connor & Zaleski, LLC
A Limited Liability Company
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of
Legend Oaks, LLC
(A Nebraska Limited Liability Company)

Report on the Financial Statements

We have audited the accompanying financial statements of Legend Oaks, LLC, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in Members' 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Legend Oaks, LLC'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 Legend Oaks, LLC'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legend Oaks, LLC as of December 31, 2019 and 2018, 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.

Dauby O'Connor & Zaleski, LLC

February 29, 2020
Carmel, Indiana

Dauby O'Connor & Zaleski, LLC
Certified Public Accountants

LEGEND OAKS, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash and cash equivalents		
Cash in bank	$ 21,012	$ 29,760
Operating reserve	98,847	98,118
Reserve for replacements	72,597	64,723
Total cash and cash equivalents	**192,456**	**192,601**
Other assets	6,594	5,867
Property and equipment, net	1,558,881	1,657,381
Unamortized costs, net	677	2,301
	$ 1,758,608	**$ 1,858,150**

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

	2019	2018
Accounts payable	$ 11,357	$ 15,241
Accrued interest	21,994	21,148
Accrued real estate taxes	-	1,354
Resident security deposits	9,637	9,309
Mortgage notes and loans payable	549,848	528,700
Total liabilities	**592,836**	**575,752**
Members' equity (deficit)	**1,165,772**	**1,282,398**
	$ 1,758,608	**$ 1,858,150**

LEGEND OAKS, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Revenues		
Rental income	$ 106,306	$ 112,389
Interest	1,650	649
Other	-	31,307
Total revenues	**107,956**	**144,345**
Expenses		
Depreciation and amortization	101,228	101,277
Administrative	29,067	30,704
Operating and maintenance	28,709	27,484
Taxes and insurance	43,584	56,572
Interest expense	21,994	21,148
Total expenses	**224,582**	**237,185**
Net income (loss)	**$ (116,626)**	**$ (92,840)**

LEGEND OAKS, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Investor Member	Special Member	Managing Member	Total
Balance, January 1, 2018	**$ 1,253,253**	**$ 10**	**$ 121,975**	**$ 1,375,238**
Net income (loss)	(92,831)	-	(9)	(92,840)
Balance, December 31, 2018	**1,160,422**	**10**	**121,966**	**1,282,398**
Net income (loss)	(116,614)	-	(12)	(116,626)
Balance, December 31, 2019	**$ 1,043,808**	**$ 10**	**$ 121,954**	**$ 1,165,772**
Ownership Percentage	99.99%	0.00%	0.01%	100.00%

LEGEND OAKS, LLC
(A NEBRASKA LIMITED LIABILITY COMPANY)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Reconciliation of net income (loss) to net cash provided by (used in) operating activities		
Net income (loss)	**$ (116,626)**	**$ (92,840)**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	101,228	101,277
Capitalization of interest into mortgage notes and loans payable	21,148	20,334
Changes in:		
Other assets	(727)	(47)
Accounts payable	(3,884)	(5,120)
Accrued interest	846	814
Accrued real estate taxes	(1,354)	(16,284)
Resident security deposits liability	328	11
Total adjustments	**117,585**	**100,985**
Net cash provided by (used in) operating activities	**959**	**8,145**
Cash flow from investing activities		
Purchase of property and equipment	**(1,104)**	**-**
Change in cash and cash equivalents	**(145)**	**8,145**
Cash and cash equivalents at beginning of year	**192,601**	**184,456**
Cash and cash equivalents at end of year	**$ 192,456**	**$ 192,601**
Supplemental disclosure		
Interest paid	$ -	$ -

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Legend Oaks, LLC (the "Company") is a Nebraska Limited Liability Company formed to acquire, develop, and construct a 21 unit multifamily residential rental community known as Legend Oaks (the "Property") located in Lexington, Nebraska. The Company has qualified 100% of the units in the Property for low-income housing credits in accordance with Section 42 of the Internal Revenue Code as enacted by the Tax Reform Act of 1986. Generally, the low-income housing credit is computed as a percentage of the qualified basis of the property and is allowed annually during a period of ten years commencing with the year the building is placed in service. The applicable units must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the credits. The Company has received an annual maximum allocation of credits of $324,331. The final year of tax credits is 2020.

The ownership of the Company is as follows:

The Housing Authority of the City of Lexington, Nebraska (the "Managing Member")	00.01%
Nebraska Fund XIV, L.P. (the "Investor Member")	99.99%
Midwest Housing Assistance Corporation (the "Special Member")	00.00%
	100.00%

The term of the Company shall extend in perpetuity, unless sooner terminated as provided in the Operating Agreement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the financial statements

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

New accounting pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Update* ("ASU") 2016-02, Leases, which once implemented will result in lessees recognizing most leased assets and corresponding lease liabilities on the Balance Sheets. The standard is effective January 1, 2021 for the Company.

The Company is subject to the provisions of the Revenue from Contracts with Customers topic of the FASB ASU 2014-09. The FASB ASU 2014-09 amended the existing accounting standards for revenue recognition. The new standard (i) provides guidance for all revenue arising from contracts with customers and (ii) provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property, including real estate. The Company adopted the FASB ASU 2014-09 on January 1, 2019 and there was no cumulative effect recognized.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting pronouncements (continued)

The Company is subject to the provisions of the Statement of Cash Flows topic of the FASB ASU 2016-18. The FASB ASU 2016-18 amended the existing accounting standards for the Statement of Cash Flows. The new standard requires cash, cash equivalents, and restricted cash be included when reconciling the beginning of period and end of period cash in the Statements of Cash Flows. The Company adopted the FASB ASU 2016-18 on January 1, 2019 and there was no cumulative effect recognized.

Cash

For the Statements of Cash Flows, all unrestricted investments with original maturities of three months or less are cash equivalents. At December 31, 2019 and 2018, cash consists of operating checking and savings accounts.

Resident receivable and bad debt policy

Resident rent charges for the current month are due on the first of the month. Residents who are evicted or move-out are charged with damages or cleaning fees, if applicable. Resident receivables consist of amounts due for rental income or the charges for damages and/or cleaning fees. The Company does not accrue interest on the resident receivable balances.

The Company reviews its outstanding resident receivables on a regular basis and records an allowance for the outstanding resident receivables over 60 days. There were no bad debts expensed for the years ended December 31, 2019 and 2018.

Property and equipment

Property and equipment is recorded at cost. Depreciation is provided principally on the straight line method over the remaining estimated useful lives of the assets, which range from 5 to 27.5 years. Expenditures for repairs and betterments, which do not materially extend the life of the asset, are charged to expense.

The Company is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB *Accounting Standards Codification* ("ASC") 360-10. Impairment or Disposal of Long-Lived Assets has no retroactive impact on the Company's financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment losses were recognized for the years ended December 31, 2019 and 2018.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized costs

Unamortized costs consist of costs to obtain the tax credits. These costs are being amortized over the credit period on a straight line basis.

Revenue recognition

Rental revenue attributable to residential operating leases is recorded when due from residents, generally upon the first day of each month for periods of up to one year, and are considered operating leases. Advance receipts of rental income will be deferred until earned. Other income results from fees for late payments, cleaning, damages and laundry facilities and is recorded when earned.

Advertising costs

Advertising costs are expensed as incurred and are included in administrative expenses in the Statements of Operations.

Property taxes

Property taxes are expensed in the year of the lien such that twelve months of expense are recorded.

Concentration of credit risk

The Company places its temporary cash investments with high credit quality financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At times, the account balances may exceed the FDIC insurance limits.

The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by regulatory agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, if any, to comply with a change.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value

The Company is subject to the provisions of the Fair Value Measurement topic of the FASB ASC 820-10 which provides guidance for assets and liabilities which are required to be measured at fair value and requires expanded disclosure for fair value measurement. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value and does not require any new fair value measurements. The Fair Value Measurement did not have a material impact on the Company's financial statements for the years ended December 31, 2019 and 2018.

Accounting for uncertainty in income taxes

The Company is 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 Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company 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 Company has no other tax positions which it must consider for disclosure. There has been no interest or penalties recognized in the Statements of Operations or Balance Sheets for the years ended December 31, 2019 and 2018. Generally, the federal and state returns are subject to examination for three years after the later of the original or extended due date or the date filed with the applicable tax authorities.

Subsequent events

Management performed an evaluation of the Company's activity through February 29, 2020, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through the date these financial statements were available to be issued.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. These reclassifications had no effect on the reported net income (loss) of the Company.

NOTE 2-UNAMORTIZED COSTS

Unamortized costs consist of costs for obtaining the tax credits. These costs are amortized over the credit period. The following summarizes the cost:

	2019	2018
Tax credit fees	$ 16,244	$ 16,244
Accumulated amortization	(15,567)	(13,943)
Unamortized costs, net	**$ 667**	**$ 2,301**

Amortization expense for the years ended December 31, 2019 and 2018 totaled $1,624 and $1,625, respectively.

Estimated amortization expense for each of the next five years and thereafter is as follows:

2020	$ 677
2021	-
2022	-
2023	-
2024	-
Thereafter	-
	$ 677

NOTE 3-PROPERTY AND EQUIPMENT

Property and equipment have been recorded at cost and consist of the following:

	2019	2018
Land	$ 10,006	$ 10,006
Buildings	2,494,813	2,493,709
Furniture and equipment	299,719	299,719
Subtotal	2,804,538	2,803,434
Accumulated depreciation	(1,245,657)	(1,146,053)
Property and equipment, net	**$ 1,558,881**	**$ 1,657,381**

For the years ended December 31, 2019 and 2018, depreciation expense totaled $99,604 and $99,652, respectively.

NOTE 4-MORTGAGE NOTES AND LOANS PAYABLE

Mortgage notes and loans payable consist of the following at December 31:

Description of debt	Interest Rate	Payments	Maturity	Principal Balance 2019	Principal Balance 2018
Nebraska Department of Economic Development, HOME funds, in the original principal amount of $392,941, collateralized by a security interest in Legend Oaks, LLC.	4%, compounding annually	Due at maturity	January 1, 2026	$ 594,848	$ 528,700
				$ 595,848	**$ 528,700**

For the years ended December 31, 2019 and 2018, interest expense totaled $21,994 and $21,148, respectively. At December 31, 2019 and 2018, accrued interest totaled $21,994 and $21,148, respectively.

Principal payments related to the mortgage notes and loans payable for the next five years and thereafter are as follows:

2020	$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	549,848
	$ 549,848

The property and equipment and other assets are pledged as collateral on the mortgage notes and loans payable.

NOTE 5-RELATED PARTIES

The Company has entered into an agreement with an affiliated entity (the "Agent") for management of the rental operations of the Property. For the years ended December 31, 2019 and 2018, management fees totaled $10,631 and $11,299, respectively. These expenses are included in administrative expenses on the Statements of Operations.

Midwest Housing Equity Group, Inc., an affiliate of the Investor Member, earned a compliance monitoring and consulting service fee of $2,510 and $2,461 for the years ended December 31, 2019 and 2018, respectively. This fee is included in administrative expenses on the Statements of Operations. At December 31, 2019 and 2018, $2,510 and $2,461 remained payable, respectively. These amounts are included in accounts payable on the Balance Sheets.

NOTE 5-RELATED PARTIES (CONTINUED)

Incentive management fee

In consideration for the efficient management of the Company and business, the Company shall pay to the Managing Member an annual non-cumulative incentive management fee of 100% of cash flow remaining after certain payments, as defined, to the extent that the Company has net cash flow available for payment of such fee. In no year will the incentive management fee exceed 12% of gross rental receipts. For the years ended December 31, 2019 and 2018, no incentive management fees were earned.

NOTE 6-MEMBERS' EQUITY (DEFICIT)

Except as otherwise provided in the Operating Agreement, all net profits, net losses, net cash flow and each item of income, gain, loss, deduction and/or low income housing tax credit shall be allocated 99.99% to the Investor Member and .01% to the Managing Member.

As of December 31, 2019 and 2018, the Investor Member has contributed $2,688,694, in accordance with the Operating Agreement.

NOTE 7-CONTINGENCY

The Company expects to generate an aggregate of $3,243,310 of low-income housing tax credits ("Tax Credits") issued by Nebraska Investment Finance Authority. Generally, such low-income housing credits become available for use by its Members pro-rata over a ten-year period that began in 2010. 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. Also, low-income housing tax credits are contingent on the Company's ability to maintain compliance with Section 42 of the Internal Revenue Code. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct non-compliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the capital contributed by the Investor Member, which could reduce the fair value of the property.

Extended Use Agreement and Declaration of Restrictive Covenants

The Company has entered into an Extended Use Agreement and Declaration of Restrictive Covenants with the Nebraska Investment Finance Authority, which restricts the use of the Property to low-income and very low-income families, as defined, for twenty years after the close of the compliance period, as defined.

NOTE 8-PROPERTY TAX REFUND

The Company successfully challenged the property taxes assessed on the Property in prior years. As a result, during the year ended December 31, 2018, the Property received refunds of previously paid property taxes in the amount of $29,748. This amount has been reported in other income on the Statements of Operations.