City Lights Associates I, LP

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2016

CohnReznick
Accounting • Tax • Advisory

City Lights Associates I, LP

Index

Independent Auditor's Report

To the Partners
City Lights Associates I, LP

Report on the Financial Statements

We have audited the accompanying financial statements of City Lights Associates I, LP, which comprise the balance sheet as of December 31, 2016, and the related statement of operations, partners' equity (deficit) and cash flows for the period from December 30, 2014 (date of investor entry) through December 31, 2016, 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 audit. We conducted our audit 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 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 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 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 City Lights Associates I, LP as of December 31, 2016, and the results of its operations and its cash flows for the period from December 30, 2014 (date of investor entry) through December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2016 supplementary information on page 17 and 18 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 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.

CohnReznick LLP

Atlanta, Georgia
March 7, 2017

City Lights Associates I, LP

Balance Sheet
December 31, 2016

Assets

Current assets	
Cash	$ 114,109
Tenant accounts receivable, net	90
Prepaid expenses	24,542
Total current assets	138,741
Restricted deposits and funded reserves	
Tenant security deposits	21,610
Replacement reserve	10,000
Real estate tax and insurance escrow	265
Operating deficit reserve	385,296
Other reserves	15,570
Total restricted deposits and funded reserves	432,741
Rental property	
Building and improvements	10,849,910
Land improvements	760,867
Furniture and equipment	953,427
	12,564,204
Accumulated depreciation	(191,270)
	12,372,934
Land	556,670
Total rental property	12,929,604
Other assets	
Tax credit monitoring fees, net	80,406
Other assets	4,270
Total other assets	84,676
Total assets	$ 13,585,762

See Notes to Financial Statements.

City Lights Associates I, LP

Balance Sheet
December 31, 2016

Liabilities and Partners' Equity (Deficit)

Current liabilities	
Accounts payable	$ 246
Accrued expenses	4,971
Property management fee payable	14,121
Accrued interest payable - first mortgage	14,741
Current maturities of long-term debt - first mortgage	59,328
Real estate taxes payable	65,905
Construction and development costs payable	162,624
Total current liabilities	321,936
Deposits and prepaid liability	
Tenant security deposits	21,610
Prepaid rent	547
Total deposits and prepaid liability	22,157
Long-term liabilities	
Mortgages payable - first mortgage	4,734,793
Mortgages payable - other mortgages	2,214,200
Accrued interest payable - other mortgages - noncurrent	9,045
Deferred developer fee payable	936,550
Due to related parties	2,813
Total long-term liabilities	7,897,401
Commitments and contingencies	-
Partners' equity (deficit)	5,344,268
Total liabilities and partners' equity (deficit)	$ 13,585,762

See Notes to Financial Statements.

City Lights Associates I, LP

Statement of Operations
Period from December 30, 2014 (date of investor entry)
through December 31, 2016

Revenue	
Rental income	$ 400,001
Vacancies and concessions	(85,942)
Other operating income	1,023
Total revenue	315,082
Operating expenses	
Salaries and employee benefits	86,313
Repairs and maintenance	18,950
Utilities	36,141
Property management fee	15,873
Real estate taxes	30,219
Property insurance	18,671
Miscellaneous operating expenses	294,262
Total operating expenses	500,429
Net operating income (loss)	(185,347)
Other income (expense)	
Interest income	296
Interest expense - first mortgage	(84,201)
Interest expense - other loans	(93,510)
Asset management fee	(2,813)
Depreciation	(191,270)
Amortization	(2,534)
Total other income (expense)	(374,032)
Net loss	$ (559,379)

See Notes to Financial Statements.

City Lights Associates I, LP

Statement of Partners' Equity (Deficit)
Period from December 30, 2014 (date of investor entry)
through December 31, 2016

	General partner	Federal limited partner	State limited partner	Total partners' equity (deficit)
December 30, 2014 (date of investor entry)	$ -	$ -	$ -	$ -
Net loss	(56)	(553,729)	(5,594)	(559,379)
Contributions	-	4,183,612	1,720,035	5,903,647
Balance, December 31, 2016	$ (56)	$ 3,629,883	$ 1,714,441	$ 5,344,268
Partners' percentage of partnership losses	0.01%	98.99%	1.00%	100.00%

See Notes to Financial Statements.

City Lights Associates I, LP

Statement of Cash Flows
Period from December 30, 2014 (date of investor entry)
through December 31, 2016

Cash flows from operating activities		
Net loss	$	(559,379)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation		191,270
Amortization		2,534
Amortization of debt issuance costs		48,620
Changes in:		
Tenant accounts receivable		(90)
Prepaid expenses		(24,542)
Other assets		(4,270)
Accounts payable		246
Accrued expenses		4,971
Property management fee payable		14,121
Accrued interest payable - first mortgage		14,741
Accrued interest payable - other mortgages		9,045
Real estate taxes payable		65,905
Prepaid rent		547
Due to related parties		2,813
Net cash used in operating activities		(233,468)
Cash flows from investing activities		
Expenditures on rental property		(12,021,700)
Change in real estate tax and insurance escrows		(265)
Change in reserve for replacements		(10,000)
Change in operating deficit reserves		(385,296)
Change in other reserves		(15,570)
Tax credit monitoring fees paid		(82,940)
Net cash used in investing activities		(12,515,771)
Cash flows from financing activities		
Principal payments on mortgage payable - other mortgages		(376,670)
Proceeds from mortgage payable - other mortgages		7,336,371
Contributions from partners		5,903,647
Net cash provided by financing activities		12,863,348
Net increase in cash		114,109
Cash, beginning		-
Cash, end	$	114,109
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized of $221,910	$	105,305
Supplemental schedule of non-cash investing and financing activities		
Expenditures on rental property	$	(1,099,174)
Deferred developer fee payable		936,550
Construction and development costs payable		162,624
	$	-

See Notes to Financial Statements

Note 1 - Organization and nature of operations

City Lights Associates I, LP (the Partnership) was formed as a limited partnership under the laws of the State of Georgia on October 25, 2013, for the purpose of developing, constructing, owning, maintaining, and operating the project. The project consists of 80 rental units located in Atlanta, Georgia and operates under the name of City Lights Apartments (the Project).

The Project expects to qualify for and be allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. The Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the tax credits. In addition, City Lights Associates I, LP, has executed a land use restriction agreement, which requires the utilization of the Project pursuant to Section 42 for a minimum of 20 years, even if the Partnership disposes of the project.

Effective December 30, 2014, the partnership agreement was amended for the withdrawal of the limited partner and to admit the federal limited partner and the state limited partner. The Partners of City Lights Associates I, LP are City Lights GP I, LLC, the General Partner; Community Equity Fund XIX Limited Partnership, the Federal Limited Partner; and Georgia Fund 2014 IX LLC, the State Limited Partner.

Profits and losses and federal tax credits are allocated to the Partners as follows:

General partner	0.01%
Federal limited partner	98.99%
State limited partner	1.00%
	100.00%

Note 2 - Significant accounting policies

Accounts receivable and bad debts

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Investment in real estate

Rental property is recorded at cost. Depreciation is provided for in amounts sufficient to relate the costs of depreciable assets of operation over their estimated service life using the straight-line method.

Estimated service lives for financial reporting purposes are as follows:

Building and improvements	40 years
Land improvements	20 years
Furniture and equipment	10 years

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 its carrying amount, 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 for the period from December 30, 2014 (date of investor entry) through December 31, 2016.

Interest cost
Interest incurred during the period of construction of the Project is capitalized as part of the cost of construction in progress. As of December 31, 2016, $221,910 of interest cost incurred was capitalized to rental property.

Tax credit monitoring fees
Tax credit monitoring fees are amortized over the 15 year compliance period using the straight-line method. Accumulated amortization at December 31, 2016 was $2,534, and amortization expense for the period from December 30, 2014 (date of investor entry) through December 31, 2016 was $2,534. Estimated amortization expense for each of the ensuing five years is expected to be $5,529, annually.

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

Debt issuance costs
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

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. The Partnership is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2013. 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.

Use of estimates
The preparation of financial statements in conformity with GAAP requirements 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 3 - Escrow deposits and reserves

Replacement reserve

The general partner shall cause the Partnership to establish a reserve to be used solely for substantial repairs, capital expenditures, and replacement of the capital assets of the Partnership. The replacement reserve shall be funded initially in the amount of $40,000, no later than the date of the fifth installment, and thereafter monthly from cash flow at an annualized rate of $500 per unit per year, increasing at a rate of three percent 3.0% per year. As of December 31, 2016, the replacement reserve had a balance of $10,000.

Tax and insurance escrow

In accordance with the terms of the loan agreement, the Partnership is required to make monthly deposits to the tax and insurance escrows. The balance of the tax and insurance escrows as of December 31, 2016 was $265.

Operating reserve

The general partner shall cause the Partnership to establish and maintain a reserve for operations in the amount equal to the greater of 385,000, the amount required by GHFA, or the amount required by any lender. The reserve shall be funded no later than the date of the first installment, as defined, and used to fund operating costs and expenses of the Partnership. As of December 31, 2016, the operating reserve had a balance of $385,296.

Lease up reserve

The general partner shall cause the Partnership to establish and maintain a lease up reserve no later than the date of the third installment, as defined, in the amount of $225,000 used to pay operating expenses and lease up costs to the extent funds are not available from other sources. As of December 31, 2016, the lease up reserve had a balance of $570.

Insurance deductible reserve

The general partner shall cause the Partnership to establish a reserve beginning no later than the date of the third installment, as defined, in the amount of $15,000. The reserve shall be used to pay the costs of any insurance deductible in excess of $10,000. As of December 31, 2016, the insurance deductible reserve had a balance of $15,000.

Note 4 - Related party transactions

Property management fee

The Partnership entered into a property management agreement with Wingate Management Company, LLC, an affiliate of the general partner. The agreement provides for the payment of a management fee equal to 5.00 percent of gross income collected for the current month. As of December 31, 2016, property management fees of $15,873 have been incurred and $14,121 remain payable.

Development fee

On December 30, 2014, the Partnership entered into a development agreement with the New Affordable Housing Partners, LLC and Wingate Capital Partners, LLC. The agreement provides for a development fee of $1,249,000 for services performed in connection with the development of the Project. As of December 31, 2016, $1,249,000 has been incurred, of which $936,550 remains payable.

Asset management fee

The partnership agreement provides for the payment of an annual asset management fee of $4,500 to the federal limited partner. The fee shall commence upon the date in which the project was placed in service and shall increase 3 percent per annum. For the period from December 30, 2014 (date of investor entry) through December 31, 2016, asset management fees of $1,875 have been incurred and remain payable.

The partnership agreement provides for the payment of an annual asset management fee of $2,250 to the state limited partner. The fee shall commence upon the date in which the project was placed in service and shall increase 3 percent per annum. For the period from December 30, 2014 (date of investor entry) through December 31, 2016, asset management fees of $938 have been incurred and remain payable.

Incentive management fee

The partnership agreement provides for the payment of a non-cumulative annual incentive management fee to the general partner. The fee shall equal one hundred percent of net cash flows up to a maximum of $80,000 per year to the extent of net cash flows remaining after net cash flow distributions. For the period from December 30, 2014 (date of investor entry) through December 31, 2016 no incentive management fees have been incurred.

Note 5 - Partners' capital contributions

The partnership agreement requires the limited partners to make five capital contributions in the amount of $6,914,242 subject to any low-income housing tax credit adjustments as outlined in the partnership agreement. As of December 31, 2016, the federal limited partner has made capital contributions of $4,183,612 and the state limited partner has made $1,720,035 of capital contributions. As of December 31, 2016, contributions receivable is $1,010,595.

Note 6 - Partnership profits and losses

Net cash flow is defined in the partnership agreement as excess, if any, of cash receipts for such period over cash expenditures for such period.

Net cash flow is payable annually as follows:

a) to reimburse the federal limited partner and the state limited partner for any credit deficiency and then to repay any loans made by the federal limited partner and/or the state limited partner to the partnership;

b) to replenish the operating reserve and the insurance deductible reserve to the amount specified in the partnership agreement;

c) to pay the deferred developer fee;

d) seventy-five percent (75%) of the amount remaining to pay amounts due under the City of Atlanta HOME loan;

e) seventy-five percent (75%) of the amount remaining to pay amounts due under the Urban Residential Finance Authority of City of Atlanta, Georgia HOME loan;

f) to repay the general partner for any development advances, operating deficit loans, asset management fee guaranty advances, and other loans made by the general partner to the partnership;

g) to distribute ten percent (10%) of the amount remaining after distributions in accordance with the partnership agreement to the federal limited partner;

h) to pay the incentive management fee in accordance with the partnership agreement; and

i) to distribute the balance to the partners according to their percentage interests as provided in the partnership agreement.

During 2016, there were no distributions to the partners.

Note 7 - Mortgages and bonds payable

Prudential loan

The Partnership entered into a loan agreement with Prudential Huntoon Paige Associates, LLC on December 1, 2014 in the original amount of $5,500,000. The mortgage requires monthly payments of principal and interest and bears interest at 3.48 percent. The mortgage is secured by the mortgage and other loan documents and the collateral mortgage, pledged, encumbered or assigned thereto. The loan matures on September 1, 2056. As of December 31, 2016, the balance of the loan was $4,989,400. Total interest incurred on the loan for the period from December 30, 2014 (date of investor entry) through December 31, 2016 was $274,828, which includes $7,236 of amortization of debt issuance costs. $190,627 of interest incurred was capitalized into building and improvements. As of December 31, 2016, accrued interest was $14,741.

Debt issuance costs, net of accumulated amortization, totaled $195,279 as of December 31, 2016 and are related to the first mortgage. Debt issuance costs on the above note are being amortized using an imputed rate of 3.88%.

GHFA HOME loan

The Partnership entered into a loan agreement with the Georgia Housing Finance Authority on December 29, 2014. The mortgage does not bear interest during the term of the construction period. Commencing upon the expiration of the construction period, the loan will bear interest at 1.0 percent. No payments of principal or interest are due or payable during the construction period. The loan is secured by the underlying real estate. The loan matures on December 1, 2056. As of December 31, 2016, the balance of the loan was $1,044,200. No interest was incurred or paid on the loan for the period from December 30, 2014 (date of investor entry) through December 31, 2016.

City of Atlanta HOME loan

The Partnership entered into a loan agreement with the City of Atlanta, Georgia on April 24, 2014. The mortgage does not bear interest. No payments of principal are due or payable during the construction period. The loan is secured by the underlying real estate. The loan matures on December 31, 2056. As of December 31, 2016, the balance of the loan was $570,000.

URFA HOME loan

The Partnership entered into a loan agreement with the Urban Residential Finance Authority of the City of Atlanta, Georgia on December 30, 2014. The mortgage bears interest at 1.0 percent. No payments of principal or interest are due or payable during the construction period. The loan is secured by the underlying real estate. The loan matures on December 1, 2056. As of December 31, 2016, the balance of the loan was $600,000. For the period from December 30, 2014 (date of investor entry) through December 31, 2016 interest of $9,045 was incurred, and $9,045 remains payable as December 31, 2016.

U.S. Bank bonds

The Partnership entered into a bond agreement with U.S. Bank National Association on December 1, 2014 in the original amount of $7,500,000. The bonds were secured by the trust indenture dated as of December 1, 2014, between the issuer and the trustee. The bonds bore interest at 0.55 percent until the tender date of July 1, 2016, and thereafter at the remarketing rate as defined in the trust indenture. The bonds were paid off during 2016. Total interest expense on the bonds for the period from December 30, 2014 (date of investor entry) through December 31, 2016 was $115,748, which includes $41,384 of amortization of debt issuance costs. $31,283 of interest incurred was capitalized into building and improvements.

Debt issuance costs, net of accumulated amortization, totaled $- as of December 31, 2016 and are related to the bonds. Debt issuance costs on the above note are being amortized using an imputed rate of 3.88%.

Aggregate annual maturities of the mortgages payable over each of the next five years and thereafter are as follows:

	Prudential	GHFA	City of Atlanta	URFA Loan	Total
2017	$ 59,328	$ -	$ -	$ -	$ 59,328
2018	61,426	-	-	-	61,426
2019	63,598	-	-	-	63,598
2020	65,847	-	-	-	65,847
2021	68,175	-	-	-	68,175
Thereafter	4,671,026	1,044,200	570,000	600,000	6,885,226
Total	$ 4,989,400	$ 1,044,200	$ 570,000	$ 600,000	7,203,600
Less current maturities					(59,328)
Net long-term portion					$ 7,144,272

Note 8 - Commitments and contingencies

Tax credits

The Project's low-income housing tax credits will be contingent on its ability to maintain compliance with applicable sections of Section 42. 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.

Completion guaranty

The general partner is required to complete the construction of the Project substantially in accordance with the plans and specifications approved by the lender. If the proceeds of the mortgage loan(s), net rental income generated prior to permanent financing, and capital contributions are not sufficient to pay all development costs, then the general partner is required to advance funds to pay for any costs included in the eligible basis of the Project. The general partner is required to fund any shortfall for costs not eligible to be included in the eligible basis of the Project.

Operating deficit guaranty

The general partner is obligated to fund all operating deficits beginning with the achievement of stabilization as defined in the partnership agreement. The general partner is obligated up to a maximum of $385,000. As of December 31, 2016, the general partner has not advanced funds for operating expenses. Advances under the operating deficit guaranty shall not bear interest and are reimbursable solely from net cash flow and from the proceeds of a capital transaction, as defined in the partnership agreement.

Note 9 - Construction agreements

Construction contract

On December 31, 2014, the Partnership entered into a construction agreement with Agile Construction Company, LLC in the amount of $8,204,496. As of December 31, 2016 change orders totaled $613,239. As of December 31, 2016, $8,817,735 has been incurred and paid.

Note 10 - Concentration of credit risk

The Partnership maintains its cash balances in several accounts in one bank. At times, these balances may exceed the federal insurance limits; however, the Partnership has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2016.

Note 11 - 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 City Lights Associates I, LP through March 7, 2017 (date the financial statements were issued) and concluded that no subsequent event has occurred that requires disclosure in the notes to the financial statements.

Supplementary Information

City Lights Associates I, LP

Schedule of Certain Revenues and Expenses
Period from December 30, 2014 (date of investor entry)
through December 31, 2016

Rental income		
Rent revenue - gross potential	$	400,001
Total rental income	$	400,001
Vacancies and concessions		
Apartments vacancies	$	80,561
Rental concessions		5,381
Total vacancies and concessions	$	85,942
Other operating income		
Tenant charges	$	810
Late fees		213
Total other operating income	$	1,023
Salaries and employee benefits		
Salaries - administrative	$	68,631
Health insurance and other benefits		14,972
Workmen's compensation insurance		2,710
Total salaries and employee benefits	$	86,313
Repairs and maintenance		
Security services/contract	$	16,655
Repairs and maintenance - other than contracts		1,890
Elevator		405
Total repairs and maintenance	$	18,950

City Lights Associates I, LP

Schedule of Certain Revenues and Expenses
Period from December 30, 2014 (date of investor entry)
through December 31, 2016

Utilities		
Electricity	$	22,351
Water		10,866
Trash removal		2,240
Cable		684
Total utilities	$	36,141
Miscellaneous operating expenses		
Office supplies and expense	$	58,708
Training and travel		70,051
Telephone and answering service		10,029
Computer supplies and expense		1,982
Miscellaneous administrative		5,196
Advertising and newspaper		42,328
Special promotions		517
Legal		98,190
Other professional fees		490
MIP expense		4,645
Other taxes, licenses and insurance		2,126
Total miscellaneous operating expenses	$	294,262
Interest expense - other loans		
Interest expense - bonds	$	84,465
Interest expense - fourth mortgage		9,045
Total interest expense - other loans	$	93,510

See Independent Auditors' Report.

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