

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
FINANCIAL STATEMENTS
For the years ended December 31, 2017 and 2016
with
Independent Accountants' Review Report

WNC TAX CREDITS 38, LLC

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Independent Accountants' Review Report

To the Members of
WNC Tax Credits 38, LLC:

Report on the Financial Statements

We have reviewed the accompanying financial statements of WNC Tax Credits 38, LLC (the "Company"), a California limited liability company, which comprise the balance sheets as of December 31, 2017 and 2016, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We did not review the financial statements of certain investee partnerships. The investments in those certain investee partnerships were \$3,511,671 and \$4,705,080 as of December 31, 2017 and 2016 and the equity in their net loss were \$587,792 and \$963,449 for the years then ended. Those statements were audited by other accountants, whose reports have been furnished to us, and our conclusion, insofar as it related to the amounts included for those certain investee partnerships, is based solely on the reports of the other accountants.

Accountants' Conclusion

Based on our reviews and the report of the other accountants, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Novogrudac & Company LLP

Cleveland, Ohio

April 24, 2018

WNC TAX CREDITS 38, LLC
BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Investments in Investee Partnerships	\$ 3,511,671	\$ 4,705,080
Cash and cash equivalents	588,231	606,323
Acquisition costs, net of accumulated amortization of \$207,223 and \$176,447, respectively	639,066	669,842
Partnership management fees, net of accumulated amortization of \$356,436 and \$303,936, respectively	168,564	221,064
Other receivable	100	100
Total assets	\$ 4,907,632	\$ 6,202,409
 LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Accounts payable - affiliates	\$ 1,991,864	\$ 1,758,953
Total liabilities	1,991,864	1,758,953
Members' equity	2,915,768	4,443,456
Total liabilities and members' equity	\$ 4,907,632	\$ 6,202,409

See accompanying notes and independent accountants' review report

WNC TAX CREDITS 38, LLC
STATEMENTS OF OPERATIONS
For the years ended December 31, 2017 and 2016

	2017	2016
INVESTMENT LOSS		
Loss from Investee Partnerships	\$ (587,792)	\$ (963,449)
EXPENSES		
Professional fees	9,435	9,659
Administrative expenses	14,702	20,920
Total expenses	24,137	30,579
OTHER INCOME AND (EXPENSES)		
Reporting fees	132,691	83,695
Loss from impairment	(591,306)	(13,358)
Asset management fees	(373,868)	(363,534)
Amortization expense	(83,276)	(83,276)
Net other income and (expenses)	(915,759)	(376,473)
Net loss	\$ (1,527,688)	\$ (1,370,501)

See accompanying notes and independent accountants' review report

WNC TAX CREDITS 38, LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY (DEFICIT)
For the years ended December 31, 2017 and 2016

	<u>Investor Members</u>	<u>Managing Member</u>	<u>Total Members' Equity</u>
Balance, January 1, 2016	\$ 5,814,578	\$ (621)	\$ 5,813,957
Net loss	<u>(1,370,364)</u>	<u>(137)</u>	<u>(1,370,501)</u>
Balance, December 31, 2016	4,444,214	(758)	4,443,456
Net loss	<u>(1,527,535)</u>	<u>(153)</u>	<u>(1,527,688)</u>
Balance, December 31, 2017	<u>\$ 2,916,679</u>	<u>\$ (911)</u>	<u>\$ 2,915,768</u>

See accompanying notes and independent accountants' review report

WNC TAX CREDITS 38, LLC
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net loss	\$ (1,527,688)	\$ (1,370,501)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from Investee Partnerships	587,792	963,449
Loss from impairment	591,306	13,358
Amortization expense	83,276	83,276
Changes in operating assets and liabilities:		
Increase in accounts payable - affiliates	232,911	283,366
Net cash used in operating activities	(32,403)	(27,052)
Cash flows from investing activities:		
Distributions received from Investee Partnerships	14,311	15,585
Net cash provided by investing activities	14,311	15,585
Net decrease in cash and cash equivalents	(18,092)	(11,467)
Cash and cash equivalents, beginning of year	606,323	617,790
Cash and cash equivalents, end of year	\$ 588,231	\$ 606,323

See accompanying notes and independent accountants' review report

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

1. Organization

WNC Tax Credits 38, LLC (the “Company”), a California limited liability company, was formed on October 20, 2008 for the purpose of investing in limited partnerships (the “Investee Partnerships”) which construct, operate and maintain multi-family affordable housing properties qualifying for low-income housing tax credits under Section 42 of the Internal Revenue Code (“IRC”).

The Company owns limited partnership interests between 3.057% and 99.980% in the following Investee Partnerships:

<u>Name</u>	<u>Location</u>	<u>Investment Percentage</u>
Carib Villas IV, LP	St. Croix, VI	99.980%
Indian Creek Court Apartments, LLC	Hood River, OR	99.980%
New Mexico Multi-Family Partnership 2007, Ltd.	Silver City, NM	3.057%
Stewart Terrace Apartments LLC	Sherwood, OR	99.980%
Treemont Village Preservation, L.P.	Buena Vista, VA	99.980%
Tulare 2010 Community Partners, L.P.	Orosi, CA	99.980%
Villa West Apartments LLC	McMinnville, OR	99.980%
Washington Avenue, L.P.	St. Louis, MI	92.780%

Profits and losses are allocated in accordance with the First Amended and Restated Operating Agreement (the “Operating Agreement”) dated January 26, 2009. Profits and losses in any one year shall be allocated 99.99% to the investor members and 0.01% to WNC Housing Tax Credits Manager 2, LLC (“Managing Member”).

Pursuant to the Operating Agreement, the investor members were required to provide capital contributions totaling \$15,027,000. As of December 31, 2017 and 2016, all contributions have been paid.

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Company prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

2. Summary of significant accounting policies and nature of operations (continued)

Economic concentrations

The Investee Partnerships operates properties, the locations of which are referenced in Note 1. Future operations could be affected by changes in the economic or other conditions in those geographical areas or by changes in federal low-income housing subsidies or the demand for such housing.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Concentration of credit risk

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Investments in Investee Partnerships

The Company has significant interests in entities that are variable interest entities (“VIEs”). The Company holds between 3.057% and 99.980% ownership interest in the Investee Partnerships and its maximum exposure to loss is its current investment. The Company does not consolidate the Investee Partnerships since it does not have the power to direct the activities that most significantly impact their economic performance and does not have an obligation to absorb losses of the entities or the right to receive benefits from the entities that could potentially be significant to the Investee Partnerships.

The Company accounts for its investments in the Investee Partnerships under the equity method, which requires that the investments are recorded at cost and adjusted for the Company’s share of income or loss of the Investee Partnerships, additional investments, and cash distributions from the Investee Partnerships. Since the Company has no obligation to fund liabilities of the Investee Partnerships beyond its investment, including loan and advances, investments in the Investee Partnerships may not be reduced below zero. To the extent that equity losses are incurred when the Company’s carrying value of its Investee Partnerships investment has reached a zero balance, any losses will be suspended to be used against future income.

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

2. Summary of significant accounting policies and nature of operations (continued)

Investments in Investee Partnerships (continued)

The Company regularly assesses its investment in Investee Partnerships for the existence of impairment. Impairment typically occurs when the carrying value of the Company's investment in an Investee Partnership exceeds the estimated value of the investment as determined by management. The estimated value generally consists of remaining future housing tax credits and other tax benefits allocable to the Company and the estimated residual value if any, of the investment available to the Company. The residual value is estimated by management based on current economic and capital market conditions, operational results and the terms of the Investee Partnership's agreements which provide for distributions to the Company upon the liquidation of the Investee Partnership or sale or disposition of its assets. The Company also evaluates its intangible assets for impairment in connection with its investments in Investee Partnerships.

An impairment loss has no effect on the actual fair value of the underlying property or performance of the overall investment, nor does it have any effect on the remaining low-income housing tax credits to be generated. If an investment in an Investee Partnership is considered to be impaired, the Company reduces its investment in such Investee Partnership on the statement of operations. For the years ended December 31, 2017 and 2016, the Company reduced its investment in certain Investee Partnerships by \$591,306 and \$13,358, respectively. At December 31, 2017 and 2016, cumulative impairment loss amounted to \$604,664 and \$13,358, respectively.

Deferred charges and amortization

Acquisition costs are amortized over 27.5 years and partnership management fees are amortized over 10 years using the straight-line method. The Company regularly assesses deferred costs for the existence of impairment in conjunction with the assessment of its investment in Investee Partnerships. Amortization expense for the years ended December 31, 2017 and 2016 was \$83,276 for both years.

Revenue recognition

The Company is entitled to receive reporting fees from the Investee Partnerships. The intent of the reporting fee is to offset (in part) administrative costs incurred by the Company in corresponding with the Investee Partnerships. Due to the uncertainty of these fees, the Company recognizes reporting fees as collections are made.

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes

Income taxes on Company income are levied on the members at the member level. Accordingly, all profits and losses of the Company are recognized by each member on its respective tax return.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to report information regarding its exposure to various tax positions taken by the Company. Management has determined whether any tax positions have met the recognition threshold and has measured the Company's exposure to those tax positions. Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Company are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Subsequent events

Subsequent events have been evaluated through April 24, 2018, which is the date the financial statements were available to be issued and there are no subsequent events requiring disclosure.

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

3. Investments in Investee Partnerships

Under the terms of the Company's investment in Investee Partnerships, the Company is required to make capital contributions to the Investee Partnership. These contributions were payable in installments. At December 31, 2017 and 2016, all capital contributions have been paid. The capital contributions payable to the Investee Partnership are subject to adjustment in the event the Investee Partnership fails to maintain compliance with the applicable sections of Section 42 and the low-income housing tax credits are affected.

The Company's investment in Investee Partnerships at December 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital contributions paid to Investee Partnerships	\$ 11,049,739	\$ 11,049,739
Company's cumulative share of Investee Partnership's losses	(6,556,142)	(5,968,350)
Company cumulative impairment loss	(604,664)	(13,358)
Company's cumulative share of Investee Partnership's syndication costs	(319,390)	(319,390)
Company's cumulative share of Investee Partnership's distributions	<u>(57,872)</u>	<u>(43,561)</u>
Investment per balance sheets	<u>\$ 3,511,671</u>	<u>\$ 4,705,080</u>

As of December 31, 2017 and 2016, the Company's share of the Investee Partnerships' equity exceeds its investment due to impairment and Company's suspended losses recognized by the Company.

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

3. Investments in Investee Partnerships (continued)

Summarized financial information of the Investee Partnerships as of December 31, 2017 and 2016 and for the years then ended is as follows:

COMBINED BALANCE SHEETS

December 31, 2017 and 2016

ASSETS

	2017	2016
Property and equipment, less accumulated depreciation	\$ 52,878,031	\$ 54,858,990
Cash and cash equivalents	713,922	836,197
Accounts receivable	250,655	209,645
Restricted cash	5,403,258	4,956,112
Other assets	653,987	1,082,821
Total assets	\$ 59,899,853	\$ 61,943,765

LIABILITIES AND PARTNERS' CAPITAL/MEMBERS' EQUITY

LIABILITIES

Notes payable	\$ 42,928,899	\$ 42,855,786
Accounts payable and accrued expenses	306,764	355,625
Due to affiliates	3,087,219	3,148,134
Tenant security deposits	273,237	268,191
Other liabilities	671,741	742,591

Total liabilities	47,267,860	47,370,327
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PARTNERS' CAPITAL/MEMBERS' EQUITY

	12,631,993	14,573,468
Total liabilities and partners' capital/members' equity	\$ 59,899,853	\$ 61,943,795

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

3. Investments in Investee Partnerships (continued)

COMBINED STATEMENTS OF OPERATIONS

Years ended December 31, 2017 and 2016

	2017	2016
REVENUE		
Rents	\$ 6,299,815	\$ 6,113,068
Interest	6,759	5,674
Other	251,026	333,918
Total revenue	6,557,600	6,452,660
EXPENSES		
Interest expense	1,246,037	1,237,235
Depreciation and amortization	2,398,229	2,455,386
Other expenses	4,837,912	4,204,153
Total expenses	8,482,178	7,896,774
Net loss	\$(1,924,578)	\$(1,444,114)

4. Transactions with related parties

Reporting fees

For its services in monitoring the operations of the Investee Partnerships and assisting with the preparation of tax returns and other reports, the Partnership is entitled to receive annual reporting fees in the amounts set forth in the partnership agreements of the Investee Partnerships. The reporting fees shall be payable from net operating income, as defined in the partnership agreements of the Investee Partnerships, and accrue without interest until payment. For the years ended December 31, 2017 and 2016, the Partnership recorded reporting fees of \$132,691 and \$83,695, respectively.

Asset management fees

An asset management fee is paid to the Managing Member on an annual basis in an amount equal to 0.5% of the sum of the Company's investment in Investee Partnerships and its allocable share of the amount of the mortgage loans of the Investee Partnerships. During 2017 and 2016, the Company incurred asset management fees of \$373,868 and \$363,534, respectively. As of December 31, 2017 and 2016, \$1,991,486 and \$1,742,618, respectively, remains payable and is included in accounts payable – affiliates.

WNC TAX CREDITS 38, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

4. Transactions with related parties (continued)

Reimbursable expenses

The Managing Member and its affiliates have paid for certain third-party operating expenses on behalf of the Company. For the years ended December 31, 2017 and 2016, expenses in the amount of \$24,137 and \$30,579, respectively, were incurred. As of December 31, 2017 and 2016, \$378 and \$16,335, respectively, remains payable and is included in accounts payable – affiliates.