

Truax Park Redevelopment, Phase I, LLC

Financial Report

December 31, 2012

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Members
Truax Park Redevelopment, Phase I, LLC
Madison, Wisconsin

We have audited the accompanying financial statements of Truax Park Redevelopment, Phase I, LLC, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, members' equity, 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 the 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 audits 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 Truax Park Redevelopment, Phase I, LLC as of December 31, 2012 and 2011, and the results of its operations, changes in members' equity, 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 supplementary information (schedules of project operating expenses) shown on page 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 the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

March 25, 2013

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

BALANCE SHEETS

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Construction cash	\$ 2,512	\$ 2,535
Restricted cash	21,300	0
Accounts receivable, tenants	4,102	3,167
Accounts receivable, related party	87,820	0
Accounts receivable, other	36,347	0
Grant receivable	0	35,554
Prepaid expenses	1,641	149
Rental property, net	12,812,221	13,337,344
Tax credit fees, net	138,215	148,847
TOTAL ASSETS	<u><u>\$ 13,104,158</u></u>	<u><u>\$ 13,527,596</u></u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 3,636,469	\$ 9,125,800
Deferred revenue	643,313	668,707
Development fee payable	867,466	867,466
Construction payable	35,550	1,186,357
Accounts payable	156,904	152,546
Accrued interest	195,613	162,455
Accrued expenses	37,645	331
Accrued real estate taxes	27,775	0
Tenants' security deposits payable	19,819	13,861
Prepaid rents	990	3,110
Total liabilities	5,621,544	12,180,633
 MEMBERS' EQUITY	<u>7,482,614</u>	<u>1,346,963</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 13,104,158</u></u>	<u><u>\$ 13,527,596</u></u>

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2012 and 2011

	2012	2011
Revenues:		
Rental income	\$ 348,928	\$ 165,149
Operating subsidies	188,167	102,999
Other revenue	14,752	1,379
Total revenues	551,847	269,527
Rental expenses:		
Rent and administrative	133,894	53,948
Utilities	57,576	44,349
Operating and maintenance	149,263	132,388
Taxes and insurance	66,253	29,281
Total rental expenses	406,986	259,966
Net rental income	144,861	9,561
Financial income (expense):		
Interest income	2	1,519
Interest expense	(248,880)	(149,097)
Total financial income (expense)	(248,878)	(147,578)
Loss before other income (expenses)	(104,017)	(138,017)
Other income (expenses):		
Amortization of deferred revenue	25,394	25,394
Depreciation	(525,123)	(247,783)
Amortization	(10,632)	(10,632)
Organization costs	0	(5,000)
Asset management fee	(7,313)	(331)
Total other income (expenses)	(517,674)	(238,352)
Net loss	\$ (621,691)	\$ (376,369)

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

STATEMENTS OF MEMBERS' EQUITY
Years ended December 31, 2012 and 2011

	Managing member	Investor member - MS Shared Investment Fund I, LLC	Investor member - NEF Assignment Corporation	Total
Members' equity:				
Balances, December 31, 2010	\$ 98	\$ 901,778	\$ 8,836,647	\$ 9,738,523
Syndication costs	(5)	(5,093)	(49,902)	(55,000)
Net loss	<u>(37)</u>	<u>(34,852)</u>	<u>(341,480)</u>	<u>(376,369)</u>
Balances, December 31, 2011	56	861,833	8,445,265	9,307,154
Net loss	<u>(62)</u>	<u>(57,569)</u>	<u>(564,060)</u>	<u>(621,691)</u>
Balances, December 31, 2012	(6)	804,264	7,881,205	8,685,463
Subscriptions receivable:				
Balances, December 31, 2011 and 2010	100	741,272	7,218,819	7,960,191
Subscription receipts	<u>0</u>	<u>(625,730)</u>	<u>(6,131,612)</u>	<u>(6,757,342)</u>
Balances, December 31, 2012	<u>100</u>	<u>115,542</u>	<u>1,087,207</u>	<u>1,202,849</u>
Total members' equity	<u>\$ (106)</u>	<u>\$ 688,722</u>	<u>\$ 6,793,998</u>	<u>\$ 7,482,614</u>
Ownership percentages	<u>0.01%</u>	<u>9.26%</u>	<u>90.73%</u>	<u>100.000%</u>

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (621,691)	\$ (376,369)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	525,123	247,783
Amortization	10,632	10,632
Amortization of deferred revenue	(25,394)	(25,394)
Increase (decrease) in cash due to changes in:		
Accounts receivable, tenants	(935)	(1,470)
Accounts receivable, related party	(87,820)	1,040,183
Accounts receivable, other	(36,347)	0
Grant receivable	35,554	0
Prepaid expenses	(1,492)	(149)
Accounts payable	4,358	140,668
Accrued interest	33,158	106,275
Accrued expenses	37,314	(3,941)
Accrued real estate taxes	27,775	0
Tenants' security deposits payable	5,958	4,711
Prepaid rents	(2,120)	2,644
	(95,927)	1,145,573
CASH FLOWS FROM INVESTING ACTIVITIES		
Rehabilitation and construction of rental property	(1,150,807)	(8,308,857)
Net withdrawals from construction cash	23	1,463,443
Net deposits to replacement reserve	(21,300)	0
	(1,172,084)	(6,845,414)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgage notes payable	1,313,261	5,910,770
Principal payments on mortgage notes payable	(6,802,592)	0
Payment of tax credit fees	0	(155,929)
Payment of syndication costs	0	(55,000)
Subscription receipts	6,757,342	0
	1,268,011	5,699,841
Net cash provided by financing activities		
Change in cash and cash equivalents	0	0
Cash and cash equivalents:		
Beginning	0	0
Ending	\$ 0	\$ 0

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

STATEMENTS OF CASH FLOWS (Continued)

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest, net of capitalized interest	<u>\$ 215,722</u>	<u>\$ 5,611</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Reduction in basis of rental property due to receipt of Focus on Energy rebates	<u>\$ 0</u>	<u>\$ 35,554</u>
Accrued interest capitalized into rental property	<u>\$ 0</u>	<u>\$ 37,211</u>
Construction payable capitalized into rental property	<u>\$ 0</u>	<u>\$ 1,182,807</u>
Construction payable capitalized into tax credit fees	<u>\$ 0</u>	<u>\$ 3,550</u>
Development fee payable capitalized into rental property	<u>\$ 0</u>	<u>\$ 867,466</u>

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE A -- Nature of business and significant accounting policies

Nature of business

Truax Park Redevelopment, Phase I, LLC (the company), was organized on March 24, 2009, as a limited liability company under the Wisconsin Limited Liability Company Act (the Act). The company was formed to acquire, rehabilitate and operate a six building, 71-unit apartment complex located in Madison, Wisconsin, called Truax Park Apartments (the project). The project qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The original property, including the buildings, common area and land, was acquired under a capital lease dated October 29, 2010. The company completed rehabilitation of the 6 buildings on various dates from March through December of 2011.

The company consists of one managing member, the CDA of the City of Madison (CDA), and two investor members, with rights, preferences and privileges as described in the operating agreement. Each member's liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable laws.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the financial statements do not include the personal or corporate assets and liabilities of the members, including their obligations for income taxes on their distributive shares of the net income of the company or their rights to refunds on its net loss, nor any provision for income tax expense.

The company's income tax filings are subject to audit by various taxing authorities. Open periods subject to audit for federal and Wisconsin purposes are generally the previous three and four years of tax returns filed, respectively. There were no interest or penalties recorded for the years ended December 31, 2012 and 2011.

The company's operating agreement states that the company shall be dissolved upon the occurrence of specific events which are described in the agreement.

A summary of significant accounting policies follows:

Use of estimates

The preparation of financial statements 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 reporting cash flows, the company considers all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the company due to restrictions placed on it.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE A -- Nature of business and significant accounting policies (Continued)

Accounts receivable and revenue recognition

The company utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements. Accounts receivable are written off when management determines an account is uncollectible.

Rental revenue is recognized when earned. The company leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis.

Rental property

Rental property is stated at cost. Depreciation of rental property is computed on the straight-line method based upon the following estimated useful lives of the assets:

	<u>Years</u>
Land and buildings under capital lease	98
Land improvements	15
Buildings and improvements	27.5
Furnishings and equipment	5

Maintenance and repairs of rental property are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of rental property, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

It is the company's policy to include amortization expense on assets acquired under capital leases with depreciation expense on owned assets.

Impairment of long-lived assets

The company reviews long-lived assets, including rental property and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Tax credit fees

In connection with obtaining an allocation of low-income housing tax credits, the company paid fees totaling \$159,479 to the Wisconsin Housing and Economic Development Authority (WHEDA). The company is amortizing these fees on the straight-line method over the related tax credit compliance period of 15 years.

Deferred revenue

Governmental agencies have provided grant funding to the company to encourage the development of affordable housing. The company has received funds under the Tax Credit Exchange Program (TCEP) (see Note I). The deferred revenue relating to these grants is recognized as revenue in the statements of operations (shown as amortization of deferred revenue) under the straight-line method over the estimated useful lives of the underlying assets acquired.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE A -- Nature of business and significant accounting policies (Continued)

Current vulnerability due to certain concentrations

The project's operations are concentrated in the low-income, public housing residential real estate market. In addition, the project operates in a heavily regulated environment. The operations of the project are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to CDA under the Regulatory & Operating Agreement (R&O Agreement). Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by CDA. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

Subsequent events

These financial statements have not been updated for subsequent events occurring after March 25, 2013, which is the date these financial statements were available to be issued. The company has no responsibility to update these financial statements for events and circumstances occurring after this date.

Reclassifications

Some items in the 2011 financial statements have been reclassified to be consistent with the current year's presentation.

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	<u>2012</u>	<u>2011</u>
Replacement reserve	<u>\$ 21,300</u>	<u>\$ 0</u>

Replacement reserve

Commencing on completion of the rehabilitation of the project, the operating agreement and R&O Agreement require the company to make monthly deposits to the replacement reserve initially equal to \$300 per unit per year, and increasing annually by 3%. Disbursements are restricted to capital improvements and repairs of the project. Disbursements in excess of \$5,000 per month will require written approval of the managing member and asset manager. Any funds remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement. The replacement reserve is currently not held in a segregated bank account. It is held in a bank account in the name of the City of Madison.

	<u>2012</u>	<u>2011</u>
Balance, beginning	\$ 0	\$ 0
Annual deposits	21,300	0
Interest earned	0	0
Withdrawals	<u>0</u>	<u>0</u>
Balance ending	<u>\$ 21,300</u>	<u>\$ 0</u>

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE B -- Restricted cash (Continued)

Annual Contributions Contract (ACC) reserve

The operating agreement and R&O Agreement requires the company to fund an ACC reserve equal to \$350,000 upon the receipt of the investor members' third installment of their capital contributions. Disbursements are to be used to pay operating and debt service deficits that directly result from the reduction or loss of the ACC operating subsidy. Funds may only be withdrawn with the approval of the managing member and asset manager. Any funds remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement.

Operating reserve

The operating agreement and R&O Agreement require the company to fund and maintain an operating reserve in the amount of \$232,360 upon the receipt of the investor members' third installment of their capital contributions. Any excess amount remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement. If the balance in the operating reserve falls below \$232,360, the company is obligated to replenish the operating reserve from cash flow or the proceeds of sales or refinancing. Disbursements require the approval of the managing member and the asset manager.

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	<u>2012</u>	<u>2011</u>
Land and buildings under capital lease	\$ 1,846,000	\$ 1,846,000
Land improvements	191,117	191,117
Buildings and improvements	11,311,097	11,311,097
Furnishings and equipment	<u>240,052</u>	<u>240,052</u>
	13,588,266	13,588,266
Less accumulated depreciation	<u>776,045</u>	<u>250,922</u>
	<u>\$ 12,812,221</u>	<u>\$ 13,337,344</u>

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE D -- Mortgage notes payable

Mortgage notes payable consists of the following:

	2012	2011
<p>Wisconsin Bank and Trust (f/k/a Wisconsin Community Bank); construction loan; monthly interest-only payments at 1.00% plus the Prime Rate, as published in the Wall Street Journal, but in no event will the interest rate be less than 5.35% (5.35% as of December 31, 2012); due January 29, 2013; guaranteed by the managing member; collateralized by a mortgage on the project's rental property including the assignment of leases and rents and security agreement.</p>	\$ 410,719	\$ 5,910,770
<p>CDA; non-recourse mortgage note payable under the capital lease described in Note E; due in one installment on October 29, 2050, together with interest at 4.00% per annum; collateralized by a mortgage on the project's rental property; accrued interest was \$160,602 and \$86,762 as of December 31, 2012 and 2011, respectively; interest expense totaled \$73,840 and \$50,624 for the years ended December 31, 2012 and 2011, respectively; interest capitalized into the basis of the buildings was \$0 and \$23,216 for the years ended December 31, 2012 and 2011, respectively.</p>	1,846,000	1,846,000
<p>CDA; non-recourse mortgage note payable; due in annual installments of \$76,000 beginning in October 29, 2012 through October 29, 2025, with a balloon payment of all outstanding principal and accrued interest due on October 28, 2026, together with interest at 3.00% per annum; collateralized by a mortgage on the project's rental property; accrued interest was \$5,144 and \$36,131 as of December 31, 2012 and 2011, respectively; interest expense totaled \$30,513 and \$21,082 for the years ended December 31, 2012 and 2011, respectively.</p>	979,750	1,025,000
<p>Balance carried forward</p>	3,236,469	8,781,770

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2012

NOTE D -- Mortgage notes payable (Continued)

	2012	2011
Balance brought forward	\$ 3,236,469	\$ 8,781,770
<p>CDA; non-recourse mortgage note payable in the amount of \$400,000; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal and accrued interest due in one installment on October 29, 2050, together with interest at 4.00% per annum; collateralized by a mortgage on the project's rental property; accrued interest was \$29,867 and \$14,427 as of December 31, 2012 and 2011, respectively; interest expense totaled \$15,440 and \$9,434 for the years ended December 31, 2012 and 2011, respectively; interest capitalized into the basis of the buildings was \$0 and \$4,327 for the years ended December 31, 2012 and 2011, respectively.</p>		
	400,000	344,030
	\$ 3,636,469	\$ 9,125,800

Mortgage notes payable will also include a non-recourse note payable to the CDA in the original amount of \$466,942 to fund unpaid development costs. The note will be due in a lump sum payment on October 29, 2050, together with interest compounding annually at 4.00%. The note will be collateralized by a mortgage on the project's rental property. This note was not funded as of December 31, 2012.

Repayment of principal on the mortgage notes payable as of December 31, 2012, is as follows:

Year ending December 31,

2013	\$ 456,919
2014	47,605
2015	49,053
2016	50,545
2017	52,083
Thereafter	2,980,264
	\$ 3,636,469

Capitalized interest totaled \$0 and \$63,001 for the years ended December 31, 2012 and 2011, respectively.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE E -- Capital lease

The company has entered into a capital lease agreement with the CDA dated October 29, 2010, to operate and manage the project during the term of the capital lease in accordance with all applicable public housing requirements. Rental property recorded under this non-cancellable capital lease consists of:

Land	\$	71,000
Buildings		<u>1,775,000</u>
Total	\$	<u>1,846,000</u>

In accordance with accounting principles generally accepted in the United States, the land and buildings are capitalized as a single unit and amortized over the lease term of 98 years. Accumulated depreciation on the land and building under the capital lease was \$40,813 and \$21,976 as of December 31, 2012 and 2011, respectively.

Base rent under the lease was payable in a single installment of \$1,846,000 on October 29, 2010. The balance of unpaid base rent accrues interest at 4.00%, compounded annually (See Note D). Payments made by the company shall be applied first to accrued interest and then against the unpaid base rent amount. The base rent and all accrued interest thereon is due October 28, 2050. The capital lease obligation is secured by a mortgage note as described in Note D. The lease expires October 28, 2108.

NOTE F -- Members' capital contributions

The managing member is required to make capital contributions of \$100. There have been no managing member contributions made as of December 31, 2012. The investor members are required to make capital contributions totaling \$9,758,907. Of this amount, \$8,556,158 has been contributed and \$1,202,749 remains receivable as of December 31, 2012.

NOTE G -- Related-party transactions

Development fee

The company has entered into a development agreement with the CDA. The agreement provides for the payment of a development fee of \$1,314,342, which has been capitalized into the cost of the buildings. The unpaid portion of the development fee is payable from future capital contributions and available cash flow as defined in the operating agreement. If not paid in full by the twelfth year of the compliance period, it shall be paid from the proceeds of an additional capital contribution from the managing member to the company in an amount equal to the unpaid portion of the development fees, as defined in the operating agreement. Development fee payable was \$867,466 as of December 31, 2012 and 2011.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

NOTE G -- Related-party transactions (Continued)

Accounts payable

Included in accounts payable are amounts due to the City of Madison, an affiliate of the managing member, for project funds paid by the City of Madison on behalf of the project totaling \$117,427 and \$62,614 as of December 31, 2012 and 2011, respectively.

Regulatory and Operating Agreement

The company has entered into an R&O Agreement with the CDA. Provisions of the agreement require the company to maintain 47 units as public housing units. With regards to the public housing units, the CDA is to pay operating subsidies to the company equal to project expenses less project income. The operating subsidy shall terminate no later than January 1, 2051. The agreement will expire upon the earliest to occur of the expiration of 40 years from the date of first occupancy or at the option of the project at the close of the first project year of which the CDA ceases to pay operating subsidies. Operating subsidies totaling \$188,167 and \$102,999 were earned during the years ended December 31, 2012 and 2011, respectively. Included in accounts receivable, related party are operating subsidies receivable of \$87,820 and \$0 as of December 31, 2012 and 2011, respectively. Included in accounts payable are operating subsidies payable of \$0 and \$85,180 as of December 31, 2012 and 2011, respectively.

Property management agreement

The company has entered into a property management agreement with the CDA under which the company is obligated to pay a property management fee equal to 5% of gross residential rents on a monthly basis. The agreement is automatically renewed from year to year unless otherwise terminated. Property management fees totaled \$17,443 and \$8,186 for the years ended December 31, 2012 and 2011, respectively.

Asset management fee

The company is obligated to pay an affiliate of an investor member an annual asset management fee in the initial amount of \$7,100, increasing annually by 3%. The fee shall begin accruing as of the date of qualified occupancy (December 15, 2011). The fee is payable only out of cash flow as defined in the operating agreement and shall be cumulative and accrued if not paid. Included in accrued expenses are accrued asset management fees of \$7,644 and \$331 as of December 31, 2012 and 2011, respectively. Asset management fees incurred totaled \$7,313 and \$331 for the years ended December 31, 2012 and 2011, respectively.

Operating deficit guaranty

The operating agreement provides for an operating deficit guaranty which requires the managing member to loan the company funds required to pay operating deficits incurred during the operating deficit period after funds from the operating reserve have been used. The operating deficit guaranty is limited to \$232,360. The operating deficit period begins on the date the project achieves stabilized occupancy and expires on the later of the date the company achieves 36 consecutive months of a debt service coverage ratio of at least 1.15, five years from the achievement of stabilized occupancy or five years after closing of the permanent loan. Any loans under this agreement shall not bear interest and shall be payable from net operating income or sale or refinancing proceeds, as provided in the operating agreement. There were no operating deficit loans as of December 31, 2012 and 2011.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE H -- Company profits and losses and distributions

Distributable cash flow, as defined by the company agreement, is allocated .01% to the managing member and 99.99% to the investor members.

Gain, if any, from a sale or exchange or other disposition of the property owned by the company is allocable as follows:

1. If the investor members' capital accounts have a negative balance prior to the distribution of any sale or refinancing proceeds, 99.99% to the investor members and 0.01% to the managing member until the investor members' negative balance reaches zero.
2. 99.99% to the investor members and 0.01% to the managing member until the investor members' capital account balance equals the projected tax liabilities as defined in the operating agreement.
3. The remainder of such gain, if any, 99.99% to the investor members and .01% to the managing member.

There were no distributions made during the years ended December 31, 2012 and 2011.

NOTE I -- Commitments and contingencies

Land Use Restriction Agreement (LURA)

The company has entered into a LURA with WHEDA as a condition to receiving an allocation of low-income housing tax credits. Under this agreement, the company must continuously comply with IRC Section 42 and other applicable sections of the IRC. The agreement places occupancy restrictions on rents and the minimum percent of units which shall be occupied by individuals or families whose income meets the requirements set under IRC Section 42. If the company fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits, and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributed capital of the investor members. The company is obligated to certify tenant eligibility.

TCEP

The company has entered into a TCEP Subaward Agreement (Subaward Agreement) with WHEDA. Under the Subaward Agreement, the company received grant funds totaling \$698,333 pursuant to Section 1602 of the American Recovery and Reinvestment Act of 2009. If the company fails to continuously comply with the guidelines of the Subaward Agreement, it may be required to refund up to the full amount of the grant funds received and reimburse WHEDA for the costs and fees incurred in connection with the recapture event. As a condition to making the Subaward Agreement, WHEDA required the owner to enter into a corporate guarantee. The Subaward Agreement terminates at the expiration of the low-income housing tax credit compliance period

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

NOTE I -- Commitments and contingencies (Continued)

Project Based Housing Assistance Payments Contract

The company entered into a Project Based Housing Assistance Payments Contract (the Agreement) with the CDA. The CDA has entered into a Consolidated Annual Contributions Contract with HUD allowing its participation in HUD's Section 8 Project Based Housing Assistance Payments Program (the Program). The Agreement, approved by HUD, authorizes the CDA to set aside on a long-term basis 24 certificates for future residents of the project. Under terms of the Program, each household that holds a certificate pays no more than 30% of its annual income for rents and utilities, provided that the rent and utilities do not exceed the applicable fair market rents (FMR). The agreement may be terminated upon at least 30 days notice if it is determined that the contract units were not meeting HUD requirements. The length of the initial term of the contract is 15 years.

NOTE J -- Subsequent event

On January 25, 2013, a second amendment to the amended and restated operating agreement was executed whereby the investor members are to contribute additional equity totaling \$287,577.

The investor members made capital contributions totaling \$444,945. These funds were used to repay the outstanding WCB construction loan and accrued interest and the construction payables owed the general contractor.

SUPPLEMENTARY INFORMATION

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

SUPPLEMENTAL INFORMATION REQUIRED BY NEF

Years ended December 31, 2012 and 2011

SCHEDULES OF PROJECT OPERATING EXPENSES

	<u>2012</u>	<u>2011</u>
RENT AND ADMINISTRATIVE		
Other rent expense	\$ 1,058	\$ 1,365
Office salaries	83,686	20,023
Office expense	15,815	15,330
Property management fees	17,443	8,186
Professional fees - legal	618	27
Professional fees - audit	12,989	7,750
Miscellaneous rent and administrative	2,285	1,267
TOTAL RENT AND ADMINISTRATIVE	<u>\$ 133,894</u>	<u>\$ 53,948</u>
UTILITIES		
Electric	\$ 18,918	\$ 11,063
Water	11,967	8,486
Gas	14,118	15,718
Sewer	12,573	9,082
TOTAL UTILITIES	<u>\$ 57,576</u>	<u>\$ 44,349</u>
OPERATING AND MAINTENANCE		
Payroll	\$ 15,232	\$ 14,166
Supplies	28,051	13,651
Contracts	56,902	70,336
Garbage and trash removal	9,199	8,781
Security services	17,890	15,641
Heating and cooling repair and maintenance	658	1,567
Snow removal	0	4,904
Miscellaneous operating and maintenance	21,331	3,342
TOTAL OPERATING AND MAINTENANCE	<u>\$ 149,263</u>	<u>\$ 132,388</u>
TAXES AND INSURANCE		
Real estate taxes	\$ 27,775	\$ 0
Payroll taxes	5,379	2,655
Property and liability insurance	15,936	14,812
Health insurance and other employee benefits	17,163	11,814
TOTAL TAXES AND INSURANCE	<u>\$ 66,253</u>	<u>\$ 29,281</u>