

# Truax Park Development, Phase 2, LLC

Financial Report

December 31, 2024



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# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

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## INDEPENDENT AUDITOR'S REPORT

To the Members  
Truax Park Development, Phase 2, LLC  
Madison, WI

### Opinion

We have audited the accompanying financial statements of Truax Park Development, Phase 2, LLC, which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Truax Park Development, Phase 2, LLC as of December 31, 2024 and 2023, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Truax Park Development, Phase 2, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Truax Park Development, Phase 2, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Truax Park Development, Phase 2, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Truax Park Development, Phase 2, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of project expenses are presented for purposes of additional analysis and are 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 11, 2025

Lead auditor: Lynn C. Heslinga, CPA  
SVA Certified Public Accountants, S.C.  
ID #39-1203191  
Phone number: (608) 831-8181

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## BALANCE SHEETS

December 31, 2024 and 2023

	2024	2023
<b>ASSETS</b>		
Cash and cash equivalents	\$ 92,412	\$ 98,547
Restricted cash	377,529	310,177
Accounts receivable	46,802	291,083
Operating lease right-of-use asset	35,920	36,328
Rental property on leased land, net	6,432,645	6,378,715
Tax credit fees, net	42,812	51,374
<b>TOTAL ASSETS</b>	<b>\$ 7,028,120</b>	<b>\$ 7,166,224</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable, net	\$ 1,478,962	\$ 1,477,615
Development completion guaranty loan	14,641	26,552
Development fee payable	0	112,941
Accounts payable	32,206	93,893
Accrued interest	1,503	11,649
Accrued expenses	34,033	66,291
Accrued real estate taxes	0	6,510
Deferred revenue	278,840	0
Tenants' security deposits payable	21,413	21,109
Prepaid rents	3,793	5,106
Total liabilities	1,865,391	1,821,666
<b>MEMBERS' EQUITY</b>	<b>5,162,729</b>	<b>5,344,558</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 7,028,120</b>	<b>\$ 7,166,224</b>

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

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## STATEMENTS OF OPERATIONS

Years ended December 31, 2024 and 2023

	2024	2023
Revenues:		
Rental income	\$ 349,493	\$ 313,702
Operating subsidies	172,567	181,731
Vacancies and concessions	0	(900)
Other revenue	6,496	2,889
Total revenues	528,556	497,422
Rental expenses:		
Administrative	103,437	89,580
Utilities	73,224	68,782
Operating and maintenance	183,616	161,403
Operating lease expense	408	408
Taxes and insurance	110,628	98,958
Total rental expenses	471,313	419,131
Net rental income	57,243	78,291
Financial income (expense):		
Interest income	2,530	568
Interest expense	(2,850)	(2,808)
Total financial income (expense)	(320)	(2,240)
Income before other expenses	56,923	76,051
Other expenses:		
Depreciation	224,910	222,124
Amortization	8,562	8,562
Asset management fee	5,280	5,280
Total other expenses	238,752	235,966
Net loss	\$ (181,829)	\$ (159,915)

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

## TRUAX PARK DEVELOPMENT, PHASE 2, LLC

### STATEMENTS OF MEMBERS' EQUITY Years ended December 31, 2024 and 2023

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	Managing member	Investor member	Total
Balances, December 31, 2022	548	5,503,925	\$ 5,504,473
Net loss	<u>(16)</u>	<u>(159,899)</u>	<u>(159,915)</u>
Balances, December 31, 2023	532	5,344,026	5,344,558
Net loss	<u>(18)</u>	<u>(181,811)</u>	<u>(181,829)</u>
Balances, December 31, 2024	<u>\$ 514</u>	<u>\$ 5,162,215</u>	<u>\$ 5,162,729</u>
Ownership percentages	<u>0.01%</u>	<u>99.99%</u>	<u>100.000%</u>

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



# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2024 and 2023

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (181,829)	\$ (159,915)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	224,910	222,124
Amortization of debt issuance costs	1,347	1,348
Amortization of tax credit fees	8,562	8,562
Amortization of operating lease right-of-use asset	408	408
Increase (decrease) in cash due to changes in:		
Accounts receivable	244,281	(41,226)
Prepaid expenses	0	2,518
Accounts payable	(61,687)	(469)
Accrued interest	(10,146)	1,460
Accrued expenses	(32,258)	3,474
Accrued real estate taxes	(6,510)	234
Tenants' security deposits payable	304	(456)
Prepaid rents	(1,313)	3,149
Net cash provided by operating activities	186,069	41,211
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of rental property	0	(33,242)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on development completion guaranty loan	(11,911)	0
Payment on development fee payable	(112,941)	0
Net cash used in financing activities	(124,852)	0
Change in cash, cash equivalents, and restricted cash	61,217	7,969
Cash, cash equivalents, and restricted cash:		
Beginning	408,724	400,755
Ending	\$ 469,941	\$ 408,724
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEETS</b>		
Cash and cash equivalents	\$ 92,412	\$ 98,547
Restricted cash	377,529	310,177
Total cash, cash equivalents, and restricted cash	\$ 469,941	\$ 408,724
<b>SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Deferred revenue capitalized into building costs	\$ 278,840	\$ 0

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

# **TRUAX PARK DEVELOPMENT, PHASE 2, LLC**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2024

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### **NOTE A -- Nature of business and significant accounting policies**

#### **Nature of business**

Truax Park Development, Phase 2, LLC (the company), was organized on January 18, 2012, as a limited liability company under the Wisconsin Limited Liability Company Act (the Act). The company was formed to construct and operate a three building, 48-unit apartment complex for low-income families which includes approximately 1,500 square feet of office space (the project). The office space is utilized by the Community Development Authority of the City of Madison (CDA) for which there is no lease agreement and no rent exchanged for the use of the space. The project, located in Madison, Wisconsin, is called Truax Park Development, Phase 2 and qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The buildings were placed in service from July 2015 through October 2015.

The company consists of one managing member, the CDA, and one investor member, 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 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.

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. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024

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**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 credit losses for any accounts receivable outside the scope of FASB Codification Topic 842 *Leases*. The use of this method has no material effect on the financial statements. The company follows FASB Codification Topic 842 *Leases* to account for its operating lease receivables included in accounts receivable. When the company concludes collectability of specific operating lease receivables is not probable, those receivables are written off to bad debt expense which is presented as a reduction to revenue in the statements of operations.

The company leases apartments to eligible residents under operating leases which are substantially all on a yearly basis. Residential apartment leases often provide residents with the option to have a pet or use the project's parking, laundry, and/or storage facilities, etc. which are fixed fee lease components. To the extent the company provides such lease components, they are included in other revenue. Rental revenue is recognized, net of vacancies and concessions, on a straight-line basis over the term of the leases.

Other revenue also consists of various tenant charges provided for in the lease contract, such as late fees, cleaning fees, and damages fees which are variable payments that do not provide a transfer of a good or service to the tenants and are not considered components of the lease contract. These fees are recognized as revenue when assessed. Certain services are also provided to tenants outside of the lease contract and are recognized when the service is complete.

As of December 31, 2024 and 2023, all of the company's real estate assets are subject to operating leases.

The residential leases do not provide extension options. A new lease agreement is executed if both parties wish to continue the tenancy upon expiration of the existing lease term. As of December 31, 2024, the average remaining term of the company's residential leases is less than 12 months.

The components of rental revenue for all resident operating leases are as follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Fixed operating lease revenue from apartment rentals, net of vacancies and concessions and bad debt expense	\$ 349,493	\$ 312,802
Variable operating lease revenue included in other revenue	<u>2,755</u>	<u>2,889</u>
Total lease income	<u>\$ 352,248</u>	<u>\$ 315,691</u>

## TRUAX PARK DEVELOPMENT, PHASE 2, LLC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2024

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

Supplemental statement of cash flows information related to leases as of December 31, is as follows:

	<u>2024</u>	<u>2023</u>
Cash received from operating leases		
Operating cash flows from operating leases	\$ 342,579	\$ 321,220

Operating subsidies represent grants from governmental agencies to provide housing to tenants. The company accounted for the proceeds from the grants by analogy to International Accounting Standard (IAS 20), *Accounting for Government Grants and Disclosure of Government Assistance*, and its principles surrounding the recognition of grants related to income. The company recognizes income related to grants on a systematic and rational basis when it becomes probable that the company has complied with the terms and conditions of the grant and in the period in which the corresponding costs related to the grant are recognized.

#### Leases - Lessee

The company determines if an arrangement is or contains a lease at inception. The company has entered into an operating lease for land. Operating leases are included in right-of-use (ROU) assets in the balance sheet. ROU assets include prepaid rent. Operating lease expense is recognized on a straight-line basis over the lease term.

#### Rental property on leased land

Rental property on leased land 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 improvements	20
Buildings and improvements	40
Furnishings and equipment	10

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.

#### 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.

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2024

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

#### Debt issuance costs

Debt issuance costs incurred by the company totaled \$53,243. The company is amortizing these costs into interest expense using the straight-line method over 39.5 years, the life of the related mortgage.

Amortized costs included in interest expense amounted to \$1,347 and \$1,348 for the years ended December 31, 2024 and 2023, respectively.

#### Tax credit fees

In connection with obtaining an allocation of low-income housing tax credits, the company paid fees totaling \$128,435. 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 from the CDA. The company accounted for these funds by analogy to International Accounting Standard (IAS 20), *Accounting for Government Grants and Disclosure of Government Assistance*, and its principles surrounding the recognition of grants related to assets whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. The deferred revenue on the balance sheets relating to this grant 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 purchased or constructed.

The grant funding received from the CDA totaled \$278,840 and was used for the purchase of solar equipment which will be placed in service in 2025.

#### 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 the CDA under the Regulatory & Operating Agreement (R&O Agreement) and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the CDA or HUD. 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 11, 2025, 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.

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2024

### NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	<u>2024</u>	<u>2023</u>
Tenants' security deposits	\$ 6,000	\$ 6,000
Replacement reserve	124,429	113,298
Operating reserve	146,994	158,525
ACC reserve	<u>100,106</u>	<u>32,354</u>
	<u>\$ 377,529</u>	<u>\$ 310,177</u>

### Replacement reserve

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 (commencing November 1, 2015) and increasing 10% each fifth anniversary. Following the six-month anniversary of the replacement reserve commencement date and whenever the reserve is below at least six-monthly installments of the annual replacement reserve then payable, the company shall deposit funds from cash flow into the reserve in the priority as set forth in the operating agreement. Withdrawals are restricted to fund repairs, capital expenditures or any other use approved by the investor member.

	<u>2024</u>	<u>2023</u>
Balance, beginning	\$ 113,298	\$ 95,926
Annual deposits	15,840	17,160
Interest earned	291	212
Withdrawals	<u>(5,000)</u>	<u>0</u>
	<u>\$ 124,429</u>	<u>\$ 113,298</u>

### Annual Contributions Contract (ACC) reserve

The operating agreement and R&O Agreement requires the company to fund an ACC reserve equal to \$100,000 upon the receipt of the investor member's third installment of their capital contributions. Disbursements are to be used to pay operating expenses of the public housing units. Funds may only be withdrawn with the approval of the investor member. Withdrawals shall be replenished from cash flow in the priority as set forth in the operating agreement until the reserve is equal to \$100,000. Any funds remaining at the end of the compliance period shall be distributed to the managing member.

	<u>2024</u>	<u>2023</u>
Balance, beginning	\$ 32,354	\$ 32,343
Deposit	67,646	0
Interest earned	<u>106</u>	<u>11</u>
	<u>\$ 100,106</u>	<u>\$ 32,354</u>

## TRUAX PARK DEVELOPMENT, PHASE 2, LLC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2024

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#### NOTE B -- Restricted cash (Continued)

##### Operating reserve

The operating agreement and R&O Agreement require the company to fund and maintain an operating reserve in the amount of \$145,267 upon the receipt of the investor member's third installment of their capital contributions. If the balance in the operating reserve falls below \$145,267, the company is obligated to replenish the operating reserve from cash flow in the priority set forth in the operating agreement. Disbursements require the approval of the investor member.

	<u>2024</u>	<u>2023</u>
Balance, beginning	\$ 158,525	\$ 158,180
Approved withdrawals	(11,911)	0
Interest earned	<u>380</u>	<u>345</u>
	<u>\$ 146,994</u>	<u>\$ 158,525</u>

#### NOTE C -- Rental property on leased land, net

Rental property on leased land, net is comprised of the following:

	<u>2024</u>	<u>2023</u>
Non-depreciable land preparation costs and improvements	\$ 86,867	\$ 86,867
Land improvements	130,994	130,994
Buildings and improvements	7,730,891	7,730,891
Furnishings and equipment	252,183	252,183
Construction in progress	<u>278,840</u>	<u>0</u>
	8,479,775	8,200,935
Less accumulated depreciation	<u>2,047,130</u>	<u>1,822,220</u>
	<u>\$ 6,432,645</u>	<u>\$ 6,378,715</u>

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024

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**NOTE D -- Mortgage notes payable, net**

Mortgage notes payable, net consists of the following:

	<u>2024</u>	<u>2023</u>
CDA; non-recourse, non-interest bearing mortgage note payable in the amount of \$911,288; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal due in one installment on December 3, 2054; collateralized by a mortgage on the project's rental property; unamortized debt issuance costs associated with this note was \$40,326 and \$41,673 as of December 31, 2024 and 2023, respectively.	\$ 911,288	\$ 911,288
CDA (AHP loan); non-recourse, non-interest-bearing mortgage note payable in the amount of \$288,000; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal due in one installment on December 3, 2054; collateralized by a mortgage on the project's rental property.	288,000	288,000
City of Madison (HOME loan), an affiliate of the managing member; non-recourse, non-interest-bearing mortgage note payable in the amount not to exceed \$280,000; due November 21, 2054; collateralized by a mortgage on the project's rental property.	280,000	280,000
CDA; non-recourse mortgage note payable under the land lease described in Note E; 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 December 3, 2054, together with interest at 2.91%, compounded annually; collateralized by a mortgage on the project's rental property; accrued interest was \$1,503 and \$11,649 as of December 31, 2024 and 2023, respectively; interest expense totaled \$1,503 and \$1,460 for the years ended December 31, 2024 and 2023, respectively.	<u>40,000</u>	<u>40,000</u>
Total mortgage notes payable	1,519,288	1,519,288
Less unamortized debt issuance costs	<u>40,326</u>	<u>41,673</u>
	<u>\$ 1,478,962</u>	<u>\$ 1,477,615</u>



**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024

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**NOTE D -- Mortgage notes payable, net (Continued)**

Repayment of principal on the mortgage notes payable as of December 31, 2024, is as follows:

Year ending December 31,

2025	\$	0
2026		0
2027		0
2028		0
2029		0
Thereafter		<u>1,519,288</u>
	\$	<u><u>1,519,288</u></u>

**NOTE E -- Operating lease ROU asset**

The company leases its land under an operating lease with the CDA which required a one-time rental fee of \$40,000 (see Note D) and an additional one-time rental fee of \$98 representing \$1 annual rental payment for the 98-year term of the lease. The term of the lease began on December 4, 2014, and ends on December 3, 2112, unless terminated earlier in accordance with the land lease agreement. Operating lease ROU asset was \$35,920 and \$36,328 as of December 31, 2024 and 2023, respectively. Operating lease expense totaled \$408 for each of the years ended December 31, 2024 and 2023.

**NOTE F -- Members' capital contributions**

The managing member is required to make capital contributions of \$712. The managing member has made the required contributions as of December 31, 2024. The investor member is required to make capital contributions totaling \$7,153,018. The investor member has made the required contributions as of December 31, 2024.

**NOTE G -- Related-party transactions**

**Accounts receivable**

Included in accounts receivable are amounts due from the City of Madison, an affiliate of the managing member, for project funds held by the City of Madison on behalf of the project totaling \$1,217 and \$0 as of December 31, 2024 and 2023, respectively.

**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 \$0 and \$85,416 as of December 31, 2024 and 2023, respectively.

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2024

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### **NOTE G -- Related-party transactions (Continued)**

#### **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 40 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 income received from tenants residing in the public housing units. The agreement will expire 40 years from the date the project first became available for occupancy, with the potential to be extended for an additional 10 years. Operating subsidies totaling \$172,567 and \$181,731 were earned during the years ended December 31, 2024 and 2023, respectively. Included in accounts receivable are operating subsidies receivable of \$35,341 and \$288,641 as of December 31, 2024 and 2023, respectively.

#### **Development completion guaranty**

The operating agreement requires the managing member to fund operating deficits during the stabilization period, as defined in the operating agreement, in the form of interest-free development advances, repayable only from available cash flow as defined in the operating agreement. The development completion guaranty loan was \$14,641 and \$26,552 as of December 31, 2024 and 2023, respectively.

#### **Development fee**

The company has entered into a development agreement with the CDA. The agreement provides for the payment of a development fee of \$112,941 which has been capitalized into the cost of the buildings. The fee is payable from future capital contributions and available cash flow as defined in the operating agreement. The unpaid balance of the development fee is to be paid by the managing member on the thirteenth anniversary of the project's completion date. The payment by the managing member is to be treated as a development fee advance and shall be non-interest bearing and payable solely from cash flow, capital proceeds or upon dissolution of the company. Development fee payable was \$0 and \$112,941 as of December 31, 2024 and 2023, 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 fee expense totaled \$17,690 and \$15,301 for the years ended December 31, 2024 and 2023, respectively.

#### **Asset management fee**

The company is obligated to pay the investor member an annual asset management fee in the initial amount of \$4,800, increasing by 10% on each fifth anniversary beginning in 2015. 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 \$5,150 and \$41,160 as of December 31, 2024 and 2023, respectively. Asset management fees incurred totaled \$5,280 for each of the years ended December 31, 2024 and 2023.

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024

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**NOTE G -- Related-party transactions (Continued)**

**Operating deficit guaranty**

Under the operating agreement, the managing member is required to fund operating deficits from and after the stabilization period until the last to occur of (1) the fifth anniversary of the end of the lease-up period or (2) the fifth anniversary of the end of the stabilization period. The expiration of the managing member's obligation to make operating deficit advances shall be extended by one year for each fiscal year during the period when the project's required expense coverage ratio is less than 105% and thereafter until such time the operating reserve equal or exceeds \$145,267. During this period, operating deficit advances funded by the managing member are to be treated as capital contributions and are limited to \$270,000. Any such advances shall be non-interest bearing and are only repayable from available cash flow as defined in the operating agreement. There were no operating deficit advances as of December 31, 2024 and 2023.

**Sale administration fee**

In accordance with the operating agreement, the sale administration fee is to be payable to the managing member in lieu of a third-party broker fee for providing services related to arranging and executing a sale of the project to and unrelated third-party buyer. The fee amount would be an amount mutually agreed upon by the managing member and the investor member.

**NOTE H -- Company profits and losses and distributions**

Generally, all profits and losses are allocated to the managing member and investor member 0.01%, and 99.99%, respectively. Cash flow available for distribution is distributed as defined in the operating agreement. Profits and losses arising from the sale, refinancing or other disposition of all or substantially all of the company's assets will be specially allocated based on the respective members' capital account balances, as prioritized in the operating agreement. Additionally, the operating agreement provides for other instances in which a special allocation of profits and losses and distributions may be required.

**NOTE I -- Commitments and contingencies**

**Land Use Restriction Agreement (LURA)**

The company entered into a LURA with the Wisconsin Housing Economic and Development Authority (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 member. The company is obligated to certify tenant eligibility.

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2024

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**NOTE I -- Commitments and contingencies (Continued)**

**HOME loan development agreement**

In connection with the mortgage note payable to the City of Madison described in Note D, the company is subject to a HOME loan development agreement and LURA which specifies that there shall be eight (8) HOME-assisted units in the project. Occupancy of these units is restricted to tenants whose income does not exceed a certain percentage of the published County Median Income (CMI) for Dane County, Wisconsin, adjusted for family size. Certain rent limits also apply to these units. The HOME loan development agreement and LURA are in force until 20 years after the date of project completion.

**Affordable Housing Program (AHP)**

In connection with the AHP loan with the CDA described in Note D, the company is subject to an AHP Retention/Recapture Agreement that requires the project to maintain certain affordability requirements for 48 units for a period of 15 years. Certain rent limits also apply to these units. Of these 48 units, 29 are restricted to tenants whose annual income is equal to or less than 50% of area median income and the remaining 19 units are restricted to tenants whose annual income is equal to or less than 60% of area median income.

**Sub-management agreement**

The company and the CDA entered into a sub-management agreement with Porchlight, Inc. Pursuant to the terms of the property management agreement between the company and the CDA (see Note G), the CDA delegated certain management responsibilities with respect to the 8 units in a separate building to Porchlight, Inc. The company is obligated to pay a monthly fee equal to the lesser of \$500 or the net cash flow received from the operation of the project. The agreement shall be in effect from October 1, 2015 until the 15<sup>th</sup> anniversary of the last day of the month in which first occupancy of the project shall occur. After the initial term and each successive renewal term, the agreement shall be deemed renewed automatically for a one-year period. Sub-management fees incurred totaled \$6,000 for each of the years ended December 31, 2024 and 2023.

**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 8 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.

## **TRUAX PARK DEVELOPMENT, PHASE 2, LLC**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2024

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#### **NOTE J -- Cash flow distributions**

The terms of the company's operating agreement generally provide for the following priorities with regard to the distribution of project cash flow:

- First, payment of asset management fees to the investor member;
- Second, payment of any outstanding and unpaid credit deficiencies and tax equivalency payments including amounts due to a change in law to the investor member;
- Third, any default cash flow priority to the investor member;
- Fourth, to replenish the replacement reserve, operating reserve, and the Housing Authority Public Housing Units Subsidy, as required;
- Fifth, repayment of loans or advances made by the investor member;
- Sixth, payment of unpaid development fee;
- Seventh, payment of principal and interest on the mortgage loan(s) until fully paid;
- Eighth, payment of any development advances, operating deficit advances, credit adjuster payment, or development fee advance to the managing member;
- Ninth, to the members in accordance with their percentage interests.

## SUPPLEMENTARY INFORMATION

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
SUPPLEMENTAL INFORMATION REQUIRED BY U.S. BANK  
Years ended December 31, 2024 and 2023

**SCHEDULES OF PROJECT EXPENSES**

	2024	2023
<b>ADMINISTRATIVE</b>		
Office salaries	\$ 50,303	\$ 45,428
Office expense	5,737	5,306
Management fees	23,690	21,301
Professional fees - audit	11,020	10,678
Professional fees - bookkeeping/accounting	0	1,267
Professional fees - other	3,837	0
Miscellaneous rent and administrative	8,850	5,600
<b>TOTAL ADMINISTRATIVE</b>	<b>\$ 103,437</b>	<b>\$ 89,580</b>
<b>UTILITIES</b>		
Electric	\$ 30,862	\$ 29,734
Water	21,584	17,468
Gas	5,741	8,986
Sewer	15,037	12,594
<b>TOTAL UTILITIES</b>	<b>\$ 73,224</b>	<b>\$ 68,782</b>
<b>OPERATING AND MAINTENANCE</b>		
Payroll	\$ 54,216	\$ 29,990
Supplies	26,765	25,602
Contracts	59,618	65,136
Garbage and trash removal	18,997	15,437
Security services	16,478	15,480
Vehicle and maintenance equipment repairs	5,235	7,220
Snow removal	95	327
WHEDA compliance fees	2,160	2,160
Miscellaneous operating and maintenance	52	51
<b>TOTAL OPERATING AND MAINTENANCE</b>	<b>\$ 183,616</b>	<b>\$ 161,403</b>
<b>TAXES AND INSURANCE</b>		
Real estate taxes	\$ 38,750	\$ 36,347
Payroll taxes	8,350	5,813
Property and liability insurance	36,529	35,495
Health insurance and other employee benefits	26,999	21,303
<b>TOTAL TAXES AND INSURANCE</b>	<b>\$ 110,628</b>	<b>\$ 98,958</b>
<b>INTEREST EXPENSE</b>		
Interest on mortgage - CDA	\$ 1,503	\$ 1,460
Amortization of debt issuance costs	1,347	1,348
<b>TOTAL INTEREST EXPENSE</b>	<b>\$ 2,850</b>	<b>\$ 2,808</b>