

# Allied Drive Redevelopment, LLC

Financial Report

December 31, 2018

# ALLIED DRIVE REDEVELOPMENT, LLC

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## INDEPENDENT AUDITOR'S REPORT

To the Members  
Allied Drive Redevelopment, LLC  
Madison, Wisconsin

We have audited the accompanying financial statements of Allied Drive Redevelopment, LLC, which comprise the balance sheets as of December 31, 2018 and 2017, 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 Allied Drive Redevelopment, LLC as of December 31, 2018 and 2017, 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 14 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

February 18, 2019

# ALLIED DRIVE REDEVELOPMENT, LLC

## BALANCE SHEETS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 77,795	\$ 131,876
Restricted cash	481,677	551,494
Accounts receivable	147	642
Prepaid ground lease	351,667	355,667
Prepaid expenses	11,414	11,770
Rental property under land lease, net	5,899,842	6,189,701
Tax credit fees, net	36,911	44,293
<b>TOTAL ASSETS</b>	<u>\$ 6,859,453</u>	<u>\$ 7,285,443</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable	\$ 2,462,268	\$ 2,504,364
Accounts payable	17,181	12,798
Accrued interest	187,530	213,629
Accrued real estate taxes	0	58,880
Accrued expenses	239,643	212,952
Tenants' security deposits payable	44,435	42,875
Prepaid rents	36,632	34,713
Total liabilities	2,987,689	3,080,211
<b>MEMBERS' EQUITY</b>	<u>3,871,764</u>	<u>4,205,232</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$ 6,859,453</u>	<u>\$ 7,285,443</u>

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

# ALLIED DRIVE REDEVELOPMENT, LLC

## STATEMENTS OF OPERATIONS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Rental income	\$ 590,835	\$ 565,375
Vacancies and concessions	(1,737)	(3,125)
Other revenue	9,916	8,460
	<u>599,014</u>	<u>570,710</u>
Total revenues	599,014	570,710
Rental expenses:		
Rent and administrative	126,552	121,886
Utilities	60,006	48,046
Operating and maintenance	172,645	120,035
Ground lease	4,000	4,000
Taxes and insurance	89,326	88,798
	<u>452,529</u>	<u>382,765</u>
Total rental expenses	452,529	382,765
Net rental income	146,485	187,945
Financial income (expense):		
Interest income	2,162	1,141
Interest expense	(105,797)	(107,653)
	<u>(103,635)</u>	<u>(106,512)</u>
Total financial income (expense)	(103,635)	(106,512)
Income before other expenses	42,850	81,433
Other expenses:		
Depreciation	336,577	334,069
Amortization	7,382	7,382
Managing member management fee	26,096	25,336
Asset management fee	6,263	6,081
	<u>376,318</u>	<u>372,868</u>
Total other expenses	376,318	372,868
Net loss	<u>\$ (333,468)</u>	<u>\$ (291,435)</u>

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

# ALLIED DRIVE REDEVELOPMENT, LLC

## STATEMENTS OF MEMBERS' EQUITY Years ended December 31, 2018 and 2017

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Members' equity:			
Balances, December 31, 2016	\$ (198)	\$ 4,496,865	\$ 4,496,667
Net loss	<u>(29)</u>	<u>(291,406)</u>	<u>(291,435)</u>
Balances, December 31, 2017	(227)	4,205,459	4,205,232
Net loss	<u>(33)</u>	<u>(333,435)</u>	<u>(333,468)</u>
Balances, December 31, 2018	(260)	3,872,024	3,871,764
Subscriptions receivable:			
Balances, December 31, 2016	100	0	100
Subscription receipts	<u>(100)</u>	<u>0</u>	<u>(100)</u>
Balances, December 31, 2017 and 2018	<u>0</u>	<u>0</u>	<u>0</u>
Total members' equity	<u>\$ (260)</u>	<u>\$ 3,872,024</u>	<u>\$ 3,871,764</u>
Ownership percentages	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

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

# ALLIED DRIVE REDEVELOPMENT, LLC

## STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (333,468)	\$ (291,435)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	336,577	334,069
Amortization	7,382	7,382
Amortization of prepaid ground lease	4,000	4,000
Increase (decrease) in cash due to changes in:		
Tenants' security deposits	(1,452)	(802)
Mortgage escrow deposits	64,001	(63,657)
Accounts receivable	495	1,325
Prepaid expenses	356	(128)
Accounts payable	4,383	3,118
Accrued interest	(26,099)	(6,268)
Accrued real estate taxes	(58,880)	58,880
Accrued expenses	26,691	25,981
Tenants' security deposits payable	1,560	580
Prepaid rents	1,919	1,041
	<u>27,465</u>	<u>74,086</u>
Net cash provided by operating activities	27,465	74,086
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of rental property	(46,718)	(27,751)
Net withdrawals from (deposits to) replacement reserve	8,898	(18,227)
Net deposits to operating reserve	(1,630)	(975)
	<u>(39,450)</u>	<u>(46,953)</u>
Net cash used in investing activities	(39,450)	(46,953)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage notes payable	(42,096)	(40,247)
Subscription receipts	0	100
	<u>(42,096)</u>	<u>(40,147)</u>
Net cash used in financing activities	(42,096)	(40,147)
Change in cash and cash equivalents	(54,081)	(13,014)
Cash and cash equivalents:		
Beginning	131,876	144,890
Ending	<u>\$ 77,795</u>	<u>\$ 131,876</u>
<b>SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION</b>		
Cash payments for interest	<u>\$ 131,896</u>	<u>\$ 113,921</u>

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



# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

#### **Nature of business**

Allied Drive Redevelopment, LLC (the company), was organized on January 25, 2008, as a limited liability company under the Wisconsin Limited Liability Company Act (the Act). The company was formed to acquire, construct, and operate a 49-unit apartment complex located in Madison, Wisconsin, called Revival Ridge (the project). The project qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The buildings were placed in service from June 2009 through September 2009.

The company consists of one managing member and one investor member with rights, preferences and privileges as described in the amended and restated operating agreement (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:

#### **Allocation of income/loss and tax credits**

Income or loss of the company is allocated .01% to Community Development Authority of the City of Madison (CDA), the managing member and 99.99% to NEF Assignment Corporation, the investor member. The company is expected to generate low-income housing tax credits which will be allocated in the same manner. Allocation of gain or loss from a sale of the project, if applicable, is subject to different terms as described in the operating agreement.

#### **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.

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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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 bad debts. The use of this method has no material effect on the financial statements.

Accounts receivable are not interest bearing. A receivable is considered past due if payments have not been received by the company for 5 days. Accounts receivable are written off when management determines an account is uncollectible, based on its history of past write-offs, collections, and current credit conditions. Accounts are generally written off as uncollectible upon move-out after applying any available tenant security deposits to the outstanding balance. A late payment fee of \$35 is charged for accounts 5 days past due.

Rental revenue is recognized when earned. The project 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 and declining balance methods based upon the following estimated useful lives of the assets:

	<u>Years</u>
Sitework	15
Buildings	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.

#### 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 \$110,732 to the Wisconsin Housing and Economic Development Authority (WHEDA). The company is amortizing these fees using the straight-line method over the related tax credit compliance period of 15 years.

#### Subsequent events

These financial statements have not been updated for subsequent events occurring after February 18, 2019, 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.

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

### NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	<u>2018</u>	<u>2017</u>
Tenants' security deposits	\$ 44,557	\$ 43,105
Replacement reserve	42,724	51,622
Mortgage escrow deposits	4,962	68,963
Operating reserve	<u>389,434</u>	<u>387,804</u>
	<u>\$ 481,677</u>	<u>\$ 551,494</u>

### Replacement reserve

The company's operating agreement requires the company to make monthly deposits to the replacement reserve initially equal to \$300 per unit per year, and increased 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.

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 51,622	\$ 33,395
Annual deposits	18,715	18,170
Approved withdrawals	(27,751)	0
Interest earned	<u>138</u>	<u>57</u>
Balance, ending	<u>\$ 42,724</u>	<u>\$ 51,622</u>

### Operating reserve

The company's operating agreement requires the company to fund and maintain an operating reserve on or before the investor member's third equity installment in the amount of \$328,555. 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 \$187,903, 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.

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 387,804	\$ 386,829
Interest earned	<u>1,630</u>	<u>975</u>
Balance, ending	<u>\$ 389,434</u>	<u>\$ 387,804</u>

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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### NOTE C -- Rental property under land lease, net

Rental property under land lease, net is comprised of the following:

	<u>2018</u>	<u>2017</u>
Non-depreciable land improvements	\$ 401,396	\$ 401,396
Sitework	165,436	160,936
Buildings	8,181,766	8,181,766
Furnishings and equipment	<u>413,341</u>	<u>371,123</u>
	9,161,939	9,115,221
Less accumulated depreciation	<u>3,262,097</u>	<u>2,925,520</u>
	<u>\$ 5,899,842</u>	<u>\$ 6,189,701</u>

### NOTE D -- Mortgage notes payable

Mortgage notes payable consist of the following:

	<u>2018</u>	<u>2017</u>
CDA; original amount of \$1,255,091; recourse until the three-year anniversary of the expiration of the compliance period; monthly payments of \$6,359, including interest at 4.50%; due January 1, 2042, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was \$2,765 and \$2,923 as of December 31, 2018 and 2017, respectively; interest expense totaled \$34,058 and \$35,914 for the years ended December 31, 2018 and 2017, respectively.	<u>\$ 737,404</u>	<u>\$ 779,500</u>
Balance carried forward	737,404	779,500

**ALLIED DRIVE REDEVELOPMENT, LLC**  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2018

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

	2018	2017
Balance brought forward	\$ 737,404	\$ 779,500
 CDA; original amount of \$760,006; recourse until the three-year anniversary of the expiration of the compliance period; monthly simple interest-only payments at 3.00%; balloon payment of principal and unpaid interest due 30 years from the date the project reaches stabilized occupancy, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; interest expense totaled \$11,760 for each of the years ended December 31, 2018 and 2017.	392,000	392,000
 CDA; original amount of \$1,705,426; recourse until the three-year anniversary of the expiration of the compliance period; monthly interest payments at 4.50% to the extent that there is excess cash flow available; monthly principal and interest payments commence on the date the project reaches stabilized occupancy to the extent that there is excess cash flow available; due 30 years from the date the project reaches stabilized occupancy, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was \$184,765 and \$210,706 as of December 31, 2018 and 2017, respectively; interest expense totaled \$59,979 for each of the years ended December 31, 2018 and 2017.	<u>1,332,864</u>	<u>1,332,864</u>
	<u>\$ 2,462,268</u>	<u>\$ 2,504,364</u>

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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

Repayment of principal on the mortgage notes payable as of December 31, 2018, is as follows:

Year ending December 31,

2019	\$ 44,030
2020	46,053
2021	48,168
2022	50,381
2023	52,696
Thereafter	<u>2,220,940</u>
	<u>\$ 2,462,268</u>

**NOTE E -- Members' capital contributions**

The managing member has made their required capital contribution of \$100. The investor member has made their required capital contributions totaling \$7,514,873 as of December 31, 2018.

**NOTE F -- Related-party transactions**

**Ground lease**

The company entered into a ground lease with the managing member which required a one-time rental fee of \$392,000. The term of the lease began on December 4, 2008, and ends on December 3, 2106, unless terminated earlier in accordance with the ground lease agreement. Prepaid ground lease was \$351,667 and \$355,667 as of December 31, 2018 and 2017, respectively. Ground lease expense totaled \$4,000 for each of the years ended December 31, 2018 and 2017.

**Managing member management fee**

The operating agreement provides for the company to pay a cumulative annual managing member management fee to the managing member in the initial amount of \$20,000, increasing annually by 3%. The fee is payable out of cash flow as defined in the operating agreement. Accrued managing member management fees included in accrued expenses were \$229,282 and \$203,186 as of December 31, 2018 and 2017, respectively. Managing member management fees totaled \$26,096 and \$25,336 for the years ended December 31, 2018 and 2017, respectively.

**Asset management fee**

The operating agreement provides for the company to pay a cumulative annual asset management fee to an affiliate of the investor member in the initial amount of \$4,800, increasing annually by 3%. The fee is payable out of cash flow as defined in the operating agreement. Accrued asset management fees included in accrued expenses were \$6,263 and \$6,081 as of December 31, 2018 and 2017, respectively. Asset management fees totaled \$6,263 and \$6,081 for the years ended December 31, 2018 and 2017, respectively.

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE G -- 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 member.

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 member's capital account has a negative balance prior to the distribution of any sale or refinancing proceeds, 99.99% to the investor member and 0.01% to the managing member until the investor member's negative balance reaches zero.
2. 99.99% to the investor member and 0.01% to the managing member until the investor member's 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 member and .01% to the managing member.

There were no distributions made during the years ended December 31, 2018 and 2017.

**NOTE H -- 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 member. The company is obligated to certify tenant eligibility.

**Management fee**

The company has entered into a management agreement with Stone House Development, Inc. Under the agreement, the company is obligated to pay a management fee of 6% of gross project rents collected. Management fees incurred totaled \$35,383 and \$33,783 for the years ended December 31, 2018 and 2017, respectively.

SUPPLEMENTARY INFORMATION



**ALLIED DRIVE REDEVELOPMENT, LLC**  
**SCHEDULES OF PROJECT OPERATING EXPENSES**  
Years ended December 31, 2018 and 2017

	2018	2017
<b>RENT AND ADMINISTRATIVE</b>		
Advertising	\$ 597	\$ 600
Office expense	23,091	19,859
Manager credit	16,440	16,440
Management fees	35,383	33,783
Professional fees - legal	0	146
Professional fees - audit	6,700	6,500
Bad debt expense	566	1,374
Manager salaries	43,114	42,452
Miscellaneous rent and administrative	661	732
	<b>\$ 126,552</b>	<b>\$ 121,886</b>
<b>TOTAL RENT AND ADMINISTRATIVE</b>	<b>\$ 126,552</b>	<b>\$ 121,886</b>
 <b>UTILITIES</b>		
Electric	\$ 18,253	\$ 13,974
Water	9,807	7,559
Gas	17,616	14,625
Sewer	14,330	11,888
	<b>\$ 60,006</b>	<b>\$ 48,046</b>
<b>TOTAL UTILITIES</b>	<b>\$ 60,006</b>	<b>\$ 48,046</b>
 <b>OPERATING AND MAINTENANCE</b>		
Payroll	\$ 39,676	\$ 24,345
Supplies	32,755	21,161
Contracts	49,652	43,949
Garbage and trash removal	11,714	10,397
Security and fire safety	18,131	8,642
Heating and cooling repair and maintenance	9,065	3,464
Snow removal	11,652	8,077
	<b>\$ 172,645</b>	<b>\$ 120,035</b>
<b>TOTAL OPERATING AND MAINTENANCE</b>	<b>\$ 172,645</b>	<b>\$ 120,035</b>
 <b>GROUND LEASE</b>	<b>\$ 4,000</b>	<b>\$ 4,000</b>
 <b>TAXES AND INSURANCE</b>		
Real estate tax	\$ 60,233	\$ 58,880
Payroll taxes	7,736	5,882
Property and liability insurance	14,760	15,193
Employee benefits	6,597	8,843
	<b>\$ 89,326</b>	<b>\$ 88,798</b>
<b>TOTAL TAXES AND INSURANCE</b>	<b>\$ 89,326</b>	<b>\$ 88,798</b>