

Truax Park Redevelopment, Phase I, LLC

Financial Report

December 31, 2018

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, 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 Truax Park Redevelopment, Phase I, 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, including the schedules of project operating expenses required by the investor member shown on page 17 and the supplemental information required by the Wisconsin Housing and Economic Development Authority (WHEDA) shown on pages 18 – 24, 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

February 27, 2019

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

BALANCE SHEETS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Restricted cash	\$ 745,955	\$ 582,595
Accounts receivable, tenants	6,671	7,162
Accounts receivable, related party	173,534	270,384
Prepaid expenses	12,973	2,053
Rental property, net	10,049,889	10,492,023
Tax credit fees, net	74,424	85,055
TOTAL ASSETS	<u>\$ 11,063,446</u>	<u>\$ 11,439,272</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 3,391,216	\$ 3,445,247
Development completion guaranty loan	112,586	112,586
Deferred revenue	490,949	516,343
Development fee payable	58,735	58,735
Accounts payable	20,765	32,010
Accrued interest	934,640	802,958
Accrued expenses	117,383	86,182
Accrued real estate taxes	0	34,696
Tenants' security deposits payable	21,050	20,990
Prepaid rents	14,121	1,315
Total liabilities	5,161,445	5,111,062
MEMBERS' EQUITY	<u>5,902,001</u>	<u>6,328,210</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 11,063,446</u>	<u>\$ 11,439,272</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Rental income	\$ 403,015	\$ 393,115
Operating subsidies	334,666	187,953
Vacancies and concessions	(27,277)	(9,187)
Other revenue	29,993	26,313
	<u>740,397</u>	<u>598,194</u>
Total revenues	740,397	598,194
Rental expenses:		
Rent and administrative	134,588	123,026
Utilities	67,999	76,288
Operating and maintenance	262,735	211,682
Taxes and insurance	114,082	109,275
	<u>579,404</u>	<u>520,271</u>
Total rental expenses	579,404	520,271
Net rental income	160,993	77,923
Financial income (expense):		
Interest income	2,575	2,052
Interest expense	(153,673)	(151,939)
	<u>(151,098)</u>	<u>(149,887)</u>
Total financial income (expense)	(151,098)	(149,887)
Income (loss) before other income (expenses)	9,895	(71,964)
Other income (expenses):		
Amortization of deferred revenue	25,394	25,394
Depreciation	(442,134)	(442,131)
Amortization	(10,631)	(10,632)
Asset management fee	(8,733)	(8,477)
	<u>(436,104)</u>	<u>(435,846)</u>
Total other income (expenses)	(436,104)	(435,846)
Net loss	<u>\$ (426,209)</u>	<u>\$ (507,810)</u>

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, 2018 and 2017

	Managing member	Investor member - MS Shared Investment Fund I, LLC	Investor member - NEF Assignment Corporation	Total
Balances, December 31, 2016	\$ (216)	\$ 615,136	\$ 6,221,100	\$ 6,836,020
Net loss	<u>(51)</u>	<u>(45,855)</u>	<u>(461,904)</u>	<u>(507,810)</u>
Balances, December 31, 2017	(267)	569,281	5,759,196	6,328,210
Net loss	<u>(42)</u>	<u>(38,487)</u>	<u>(387,680)</u>	<u>(426,209)</u>
Balances, December 31, 2018	<u>\$ (309)</u>	<u>\$ 530,794</u>	<u>\$ 5,371,516</u>	<u>\$ 5,902,001</u>
Ownership percentages	<u>0.01%</u>	<u>9.03%</u>	<u>90.96%</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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (426,209)	\$ (507,810)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	442,134	442,131
Amortization	10,631	10,632
Amortization of deferred revenue	(25,394)	(25,394)
Increase (decrease) in cash due to changes in:		
Accounts receivable, tenants	491	(2,964)
Accounts receivable, related party	96,850	3,293
Prepaid expenses	(10,920)	228
Accounts payable	(11,245)	(26,705)
Accrued interest	131,682	127,928
Accrued expenses	31,201	10,347
Accrued real estate taxes	(34,696)	34,696
Tenants' security deposits payable	60	616
Prepaid rents	12,806	(532)
Net cash provided by operating activities	217,391	66,466
CASH FLOWS FROM INVESTING ACTIVITIES		
Net deposits to operating and ACC reserve	(163,360)	(59)
Purchase of rental property	0	(13,950)
Net cash used in investing activities	(163,360)	(14,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	(54,031)	(52,457)
Change in cash and cash equivalents	0	0
Cash and cash equivalents:		
Beginning	0	0
Ending	\$ 0	\$ 0
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 21,991	\$ 24,011

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

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 Community Development Authority 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 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 REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 or monthly 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>
Land and buildings under capital lease	98
Land improvements	15
Buildings and improvements	20 - 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, 2018

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) and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by 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 February 27, 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.

Reclassifications

Some items in the 2017 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>2018</u>	<u>2017</u>
Operating and ACC reserve	<u>\$ 745,955</u>	<u>\$ 582,595</u>

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. The ACC reserve is currently being held in the same bank account as the operating reserve.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 \$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. The operating reserve is currently being held in the same bank account as the ACC reserve. The required deposits for the replacement reserve were made to the same bank account that holds the operating and ACC reserves in 2018.

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 582,595	\$ 582,536
Annual deposits – replacement reserve	25,433	0
Additional deposits – replacement reserve	137,777	0
Interest earned	<u>150</u>	<u>59</u>
Balance ending	<u>\$ 745,955</u>	<u>\$ 582,595</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, 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 balance of the replacement reserve per the requirements above would be \$163,210 and \$137,777 as of December 31, 2018 and 2017, respectively. The required deposits for the replacement reserve were made in 2018 to the same bank account that holds the operating and ACC reserves. See disclosure on operating reserve above.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	<u>2018</u>	<u>2017</u>
Land and buildings under capital lease	\$ 1,846,000	\$ 1,846,000
Land improvements	191,117	191,117
Buildings and improvements	11,325,047	11,325,047
Furnishings and equipment	<u>240,052</u>	<u>240,052</u>
	13,602,216	13,602,216
Less accumulated depreciation	<u>3,552,327</u>	<u>3,110,193</u>
	<u>\$ 10,049,889</u>	<u>\$ 10,492,023</u>

NOTE D -- Mortgage notes payable

Mortgage notes payable consists of the following:

	<u>2018</u>	<u>2017</u>
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%, compounded annually; collateralized by a mortgage on the project's rental property; accrued interest was \$698,061 and \$600,213 as of December 31, 2018 and 2017, respectively; interest expense totaled \$97,848 and \$94,086 for the years ended December 31, 2018 and 2017, respectively.	\$ 1,846,000	\$ 1,846,000
CDA; non-recourse mortgage note payable; annual installments of \$76,000 through October 29, 2025, including interest at 3% per annum; balloon payment of all outstanding principal and accrued interest due on October 28, 2026; collateralized by a mortgage on the project's rental property; accrued interest was \$3,561 and \$3,844 as of December 31, 2018 and 2017, respectively; interest expense totaled \$21,708 and \$23,735 for the years ended December 31, 2018 and 2017, respectively.	<u>678,274</u>	<u>732,305</u>
Balance carried forward	2,524,274	2,578,205

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE D -- Mortgage notes payable (Continued)

	<u>2018</u>	<u>2017</u>
Balance brought forward	\$ 2,524,274	\$ 2,578,205
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 \$122,509 and \$107,069 as of December 31, 2018 and 2017, respectively; interest expense totaled \$15,440 for each of the years ended December 31, 2018 and 2017.	400,000	400,000
CDA; non-recourse mortgage note payable in the amount of \$466,942; 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 \$110,509 and \$91,832 as of December 31, 2018 and 2017, respectively; interest expense totaled \$18,677 and \$18,678 for the years ended December 31, 2018 and 2017, respectively.	<u>466,942</u>	<u>466,942</u>
	<u>\$ 3,391,216</u>	<u>\$ 3,445,247</u>

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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	\$	55,339
2020		57,022
2021		58,757
2022		60,544
2023		62,385
Thereafter		<u>3,097,169</u>
	\$	<u>3,391,216</u>

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 \$153,833 and \$134,996 as of December 31, 2018 and 2017, 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 and the investor members are required to make capital contributions totaling \$9,758,907. The members have made the required capital contributions as of December 31, 2018.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G -- Related-party transactions

Accounts receivable

Included in accounts receivable, related party are amounts due from the City of Madison, an affiliate of the managing member, for project funds held by the City of Madison totaling \$19,306 and \$253,382 as of December 31, 2018 and 2017, respectively.

Included in accounts receivable, related party are amounts due from the CDA for reimbursable expenses related to the service coordinator totaling \$2,409 and \$17,002 as of December 31, 2018 and 2017, 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 income received from tenants residing in the public housing units. 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 \$334,666 and \$187,953 were earned during the years ended December 31, 2018 and 2017, respectively. Included in accounts receivable, related party are operating subsidies receivable of \$151,819 and \$0 as of December 31, 2018 and 2017, respectively. Included in accounts payable are operating subsidies payable of \$0 and \$16,281 as of December 31, 2018 and 2017, respectively.

Development completion guaranty

Under terms of the operating agreement, the managing member is obligated to complete the required rehabilitation of the project. In the event the company lacks sufficient funds from the member capital contributions and proceeds from the construction and permanent mortgages to pay for the rehabilitation costs, the managing member is obligated to provide such funds to the company in the form of an unsecured loan. Any loans under this agreement shall not bear interest and shall be payable in accordance with the operating agreement. The development completion guaranty loan was \$112,586 as of December 31, 2018 and 2017.

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 \$58,735 as of December 31, 2018 and 2017.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G -- Related-party transactions (Continued)

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 \$18,787 and \$19,196 for the years ended December 31, 2018 and 2017, 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 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 \$56,367 and \$47,634 as of December 31, 2018 and 2017, respectively. Asset management fees incurred totaled \$8,733 and \$8,477 for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017.

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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.

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.

SUPPLEMENTARY INFORMATION

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
 SUPPLEMENTAL INFORMATION REQUIRED BY INVESTOR MEMBER
 Years ended December 31, 2018 and 2017

SCHEDULES OF PROJECT OPERATING EXPENSES

	2018	2017
RENT AND ADMINISTRATIVE		
Office salaries	\$ 83,012	\$ 81,846
Office expense	11,311	7,386
Property management fees	18,787	19,196
Professional fees - audit	8,450	8,200
Bad debt expense	4,779	968
Miscellaneous rent and administrative	8,249	5,430
TOTAL RENT AND ADMINISTRATIVE	\$ 134,588	\$ 123,026
 UTILITIES		
Electric	\$ 18,697	\$ 18,602
Water	20,289	25,427
Gas	14,756	14,703
Sewer	14,257	17,556
TOTAL UTILITIES	\$ 67,999	\$ 76,288
 OPERATING AND MAINTENANCE		
Payroll	\$ 84,134	\$ 67,228
Supplies	43,744	39,155
Contracts	98,281	65,900
Garbage and trash removal	9,937	11,603
Security services	17,547	20,939
Snow removal	266	0
Vehicle/maintenance equipment repairs	8,459	6,630
Miscellaneous operating and maintenance	367	227
TOTAL OPERATING AND MAINTENANCE	\$ 262,735	\$ 211,682
 TAXES AND INSURANCE		
Real estate taxes	\$ 44,109	\$ 34,696
Payroll taxes	11,214	11,153
Property and liability insurance	21,276	20,885
Health insurance and other employee benefits	37,483	42,541
TOTAL TAXES AND INSURANCE	\$ 114,082	\$ 109,275

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

WHEDA Project No. 5495

SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA

December 31, 2018

ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM REGULAR TENANTS)

Accounts receivable, related party - City of Madison	\$ 19,306
Accounts receivable, ACC subsidy, related party	151,819
Accounts receivable, related party - CDA	<u>2,409</u>
	<u>\$ 173,534</u>

DISTRIBUTIONS

None.

PARTNERSHIP CASH AND RESERVE FUNDS NOT HELD BY WHEDA

	<u>Operating & ACC reserve</u>
Balance, beginning	\$ 582,595
Deposits - required replacement reserve deposits	163,210
Interest earned	<u>150</u>
Balance, ending	<u>\$ 745,955</u>

TRUAX PARK REDEVELOPMENT, PHASE I, LLC
 WHEDA Project No. 5495
 SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA (Continued)
 December 31, 2018

RELATED PARTY TRANSACTIONS

Development fee		
Beginning balance	\$	58,735
Payments		0
Ending balance	\$	58,735
Asset management fee		
Beginning accrual	\$	47,634
Current year expense		8,733
Fee paid		0
Ending accrual	\$	56,367
Property management fee		
Beginning accrual	\$	0
Current year expense		18,787
Fee paid		(18,787)
Ending accrual	\$	0

COMPUTATION OF SURPLUS CASH

CURRENT ASSETS

Accounts receivable, related party		\$	173,534
MEMO - Tenants' security deposits	\$	0	
Total current assets			173,534

CURRENT LIABILITIES

MEMO - Tenants' security deposits	\$	21,050	
Accounts payable			20,765
Accrued interest			3,561
Accrued expenses			61,016
Underfunded tenants' security deposits			21,050
Prepaid rents			14,121
Total current liabilities			120,513

SURPLUS CASH

\$ 53,021

Wisconsin Housing and Economic Development Authority			FORM 600AL (Rev. 10/02)		
ANNUAL SCHEDULE OF ASSETS for Multifamily Projects					
Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC					
Period Beginning January 1, 2018 through December 31, 2018			Project Number: 5495		
	Description of Account	ID	Account	Amount	Totals
1100 CURRENT ASSETS	Cash - Operations		1120		
	Construction Cash		1121		
	Cash - Entity		1125		
	Tenant Accounts Receivable		1130	6,671	
	Allowance for Doubtful Accounts (deduct)		1131		
	Accounts Receivable - WHEDA		1135		
	Accounts and Notes Receivable - Operations		1140	173,534	
	Accounts and Notes Receivable - Entity		1145		
	Accounts Receivable - Interest		1160		
	Interest Reduction Payment Receivable		1165		
	Short Term Investments - Operations		1170		
	Short Term Investments - Entity		1175		
	Miscellaneous Current Assets		1190		
	Insurance Escrow		1312		
	Real Estate Tax or PILOT Escrow		1311		
	TOTAL CURRENT ASSETS		1100		180,205
1191	Tenant Security Deposits - RESTRICTED ASSET		1191		
1200 PREPAID EXPENSES	Miscellaneous Prepaid Expenses		1200	12,973	
	Total Prepaid Expenses				12,973
1300 FUNDED RESERVES	Escrow Deposits		1310		
	Reserve for Replacements		1320		
	Other Reserve		1330		
	Residual Receipts Reserve		1340		
	Management Improvement and Operating Plan		1381		
	Development Cost Escrow (DCE)		1390		
	FHA Insurance Reserve		1392		
	Total Funded Reserves		1300		
1400 FIXED ASSETS	Land - Land & building under capital lease		1410	1,846,000	
	Buildings		1420	11,325,047	
	Building Equipment (portable)		1440		
	Furniture for Project/Tenant Use		1450		
	Furnishings		1460	240,052	
	Office Furniture and Equipment		1465		
	Maintenance Equipment		1470		
	Motor Vehicles		1480		
	Miscellaneous Fixed Assets - Land Improvements		1490	191,117	
	Gross Fixed Assets		1400	13,602,216	
1495 ALLOWANCE ACCOUNTS	Accumulated Depreciation		1495	3,552,327	
	Total Accumulated Depreciation			3,552,327	
	Net Fixed Assets		1400		10,049,889
1500 INVESTMENTS	Investments - Operations		1510		
	Investments - Entity		1515		
	Intangible Assets - Tax credit fees, net of amortization		1520	74,424	
	Miscellaneous Other Assets - ACC & operating reserves		1590	745,955	
	TOTAL OTHER ASSETS		1500		820,379
	TOTAL ASSETS		1000		11,063,446

Wisconsin Housing and Economic Development Authority			FORM 600AL (Rev. 10/02)		
ANNUAL SCHEDULE OF LIABILITIES AND EQUITY for Multifamily Projects					
Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC					
Period Beginning January 1, 2018 through December 31, 2018			Project Number: 5495		
	Description of Account	ID	Account	Amount	Totals
2100 CURRENT LIABILITIES	Bank Overdraft - Operations		2105		
	Accounts Payable-30 Days		2109		
	Accounts Payable - Operations		2110	20,765	
	Accounts Payable - Construction/Development		2111		
	Accounts Payable-Project Improvements Items		2112		
	Accounts Payable - Entity		2113	115,102	
	Accounts Payable-236 Excess Income Due HUD		2115		
	Accounts Payable-WHEDA/HUD		2116		
	Accrued Wages Payable		2120	8,096	
	Accrued Payroll Taxes Payable		2121		
	Accrued Management Fee Payable		2123		
	Accrued Interest Payable - Section 236		2130		
	Accrued Interest Payable - First Mortgage		2131	3,561	
	Accrued Interest Payable - Second Mortgage		2132		
	Accrued Interest Payable - Other Loans & Notes (Surplus Cash)		2133	931,079	
	Accrued Interest Payable - Other Loans and Notes		2134		
	Accrued Interest Payable - Flexible Subsidy Loan		2135		
	Accrued Interest Payable - Capital Improvement Loan		2136		
	Accrued Interest Payable - Operating Loss Loan		2137		
	Accrued Real Estate & Property Tax Payable		2150		
	Short Term Notes Payable		2160		
	Mortgage Payable - First Mortgage (Short Term)		2170	55,339	
	Mortgage Payable - Second Mortgage (Short Term)		2172		
	Other Loans and Notes Payable, Surplus Cash (Short Term)		2173		
	Other Loans and Notes (Short Term)		2174		
	Flexible Subsidy Loan Payable (Short Term)		2175		
	Capital Improvement Loan Payable (Short Term)		2176		
	Operating Loss Loan Payable (Short Term)		2177		
	Utility Allowances		2180		
Miscellaneous Current Liabilities - Other accrued exp & CM of def rev		2190	78,314		
	TOTAL CURRENT LIABILITIES				1,212,256
2191	Tenant Security Deposits - CONTRA ASSET		2191		21,050
2200 PREPAID REVENUES	Prepaid Revenue		2210	14,121	
	Total Current Liabilities		2122		1,247,427
2300 LONG-TERM LIABILITIES	Notes Payable - Long Term		2310		
	Notes Payable - Surplus Cash		2311		
	Mortgage Payable - First Mortgage		2320	622,935	
	Mortgage Payable - Second Mortgage		2322		
	Other Loans and Notes Payable - Surplus Cash		2323	2,712,942	
	Other Loans and Notes Payable		2324		
	Flexible Subsidy Loan Payable		2325		
	Capital Improvement Loan Payable		2326		
	Operating Loss Loan Payable		2327		
	Miscellaneous LT Liabilities - Dev completion grnty loan / deferred revenue		2390	578,141	
	Total Long Term Liabilities		2300		3,914,018
	TOTAL LIABILITIES		2000		5,161,445
3033 TOTAL EQUITY	Total Equity/Retained Earnings		3033	5,902,001	
	TOTAL LIABILITIES and EQUITY/RETAINED EARNINGS		2033		11,063,446

Wisconsin Housing and Economic Development Authority			FORM 800 (Rev. 12/05)	
SCHEDULE OF PROFIT AND LOSS for Multifamily Projects				
Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC		Project Number: 5495		
Period Beginning January 1, 2018 through December 31, 2018		Year: 2018		
	Description of Account	Acct. No.	Amount	Totals
5100 RENTAL INCOME	Rent Revenue - Gross Potential	5120	403,015	
	Tenant Assistance Payments	5121	334,666	
	Rent Revenue - Commercial/Stores @ 100%	5140		
	Rent Revenue - Garage/Parking @ 100%	5170		
	Flexible Subsidy Revenue	5180		
	Miscellaneous Rent Revenue	5190		
	Excess Rent	5191		
	Rent Revenue/Insurance	5192		
	Special Claims Revenue	5193		
	Retained Excess Income	5194		
		Total Rent Revenue Potential	5100	
5200 VACANCIES	Apartment Vacancies	5220	27,277	
	Stores/Commercial Vacancies or Concessions	5240		
	Rental Concessions	5250		
	Garage/Parking Vacancies or Concessions	5270		
	Miscellaneous	5290		
		Total Vacancies or Concessions	5200	
	Net Rental Revenue (Rent Revenue less Vacancies)	5152		710,404
5300	Total Service Income	5300		0
5400 FINANCIAL INCOME	Financial Revenue - Project Operations	5410		
	Revenue from Investments-Residual Receipts	5430		
	Revenue from Investments-Replacement Reserve	5440		
	Revenue from Investments-Miscellaneous	5490	2,575	
	Total Financial Revenue	5400		2,575
5900 MISC. REVENUE	Laundry/Vending Income (Net)	5910		
	Tenant Charges	5920	5,917	
	Miscellaneous Revenue	5990	49,470	
	Total Miscellaneous Revenue	5900		55,387
	Total Revenue	5000		768,366
6200 RENT EXPENSE	Conventions and Meetings	6203		
	Management Consultants	6204		
	Advertising/Marketing Expense	6210		
	Other Rent Expense	6250		
	Total Rent Expense			0
6300 ADMIN. EXPENSES	Office Salaries	6310	83,012	
	Office Expenses	6311	11,311	
	Office or Model Apartment Rent	6312		
	Management Fee - Residential Rents	6320	18,787	
	Management Fee - Commercial Rents	6321		
	Management Fee - Miscellaneous Income	6322		
	Manager/Superintendent Salaries	6330		
	Administrative Rent-free Unit	6331		
	Legal Expense-project only	6340		
	Audit Expense-project only	6350	8,450	
	Bookkeeping Fees/Accounting Services	6351		
	Bad Debt Expense	6370	4,779	
	Miscellaneous Administrative Expense	6390	8,249	
		Total Administrative Expense		134,588
6200 + 6300	Total Rent & Administrative Expense	6263		134,588
6400 UTILITIES EXPENSE	Electricity	6450	18,697	
	Water & Sewer	6451	20,289	
	Gas	6452	14,756	
	Sewer	6453	14,257	
		Total Utilities Expense	6400	

Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC

Project Number: 5495

	Description of Account	Acct. No.	Amount	Totals
6500 OPERATING & MAINTENANCE EXPENSE	Payroll	6510	84,134	
	Supplies	6515	43,744	
	Contracts	6520	98,281	
	Operating and Maintenance Rent Free Unit	6521		
	Garbage & Trash Removal	6525	9,937	
	Security Payroll/Contract (incl. taxes and benefits)	6530	17,547	
	Security Rent Free Unit	6531		
	Heating/Cooling Repairs & Maintenance	6546		
	Snow Removal	6548	266	
	Vehicle/Maintenance Equipment Operation & Repairs	6570	8,459	
	Misc. Operating & Maintenance Expense	6590	367	
	Total Operating & Maintenance Expense	6500		262,735
	6900	Total Service Expense	6900	
6700 TAXES AND INSURANCE	Real Estate & Personal Property Taxes	6710	44,109	
	Payroll Taxes (Project's Share)	6711	11,214	
	Property & Liability Insurance (Hazard)	6720	21,276	
	Fidelity Bond Insurance	6721		
	Workmen's Compensation	6722		
	Health Insurance and Other Employee Benefits	6723	37,483	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6790		
Total Taxes and Insurance	6700		114,082	
3220	Replacement Reserve Deposits as Required by WHEDA	3220		0
	Total Operating Expenses			579,404
	Net Operating Income (NOI)			188,962
6800 FINANCIAL EXPENSE	Interest on Mortgage Payable	6820	153,673	
	Interest on Notes Payable (Long Term)	6830		
	Interest on Notes Payable (Short Term)	6840		
	Mortgage Insurance Premium/Service Charge	6850		
	Miscellaneous Financial Expense	6890		
Total Financial Expense	6800		153,673	
	Total Expenses of Operations Before Depreciation	6000		733,077
	Profit or (Loss) Before Depreciation	5060		35,289
6600	Depreciation Expense	6601		442,134
	Amortization Expense	6610		10,631
	Operating Profit or Loss	5060		(417,476)
7100 CORPORATE OR MORTGAGOR EXPENSE	Officer's Salaries	7110		
	Legal Expense	7120		
	Federal, State and Other Income Taxes	7130		
	Interest Income	7140		
	Interest on Notes Payable	7141		
	Interest on Mortgage Payable	7142		
	Other Expense	7190	8,733	
Net Entity Expenses	7100		8,733	
	NET PROFIT OR (LOSS)	3250		(426,209)
TOTAL PRINCIPAL PAYMENTS	WHEDA First Mortgage	9910		0
	Second Mortgage	9911		0
	Other Mortgage(s)	9912		54,031
	Reserve releases to reimburse items expensed on this schedule.	9920		0
	Capital expenditures paid from project operations and expensed on this schedule.	9930		0

TRUAX PARK REDEVELOPMENT, PHASE I, LLC

WHEDA Project No. 5495

SCHEDULE OF PROFIT AND LOSS (Continued)

Year ended December 31, 2018

MISCELLANEOUS EXPENSE ACCOUNTS OVER 1% OF CATEGORY

MISCELLANEOUS ADMINISTRATIVE EXPENSE (Account #6390)

Conferences and training	\$ 2,252
WHEDA monitoring fees	3,195
Memberships	<u>2,802</u>

TOTAL MISCELLANEOUS ADMINISTRATIVE EXPENSE

\$ 8,249

OTHER EXPENSE (Account #7190)

Asset management fee	<u>\$ 8,733</u>
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TRUAX PARK REDEVELOPMENT, PHASE I, LLC

WHEDA Project No. 5495

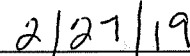
CERTIFICATION BY MANAGING MEMBER OF MORTGAGOR

December 31, 2018

I hereby certify that I have examined the accompanying financial statements and supplemental information of Truax Park Redevelopment, Phase I, LLC and, to the best of my knowledge and belief, the same are complete and accurate.



By: Natalie Erdman, Executive Director
Community Development Authority of the
City of Madison, Managing Member



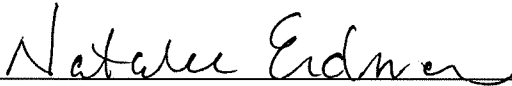
Date

ID #39-6006968

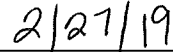
TRUAX PARK REDEVELOPMENT, PHASE I, LLC

WHEDA Project No. 5495
CERTIFICATION BY MANAGEMENT AGENT
December 31, 2018

I hereby certify that I have examined the accompanying financial statements and supplemental information of Truax Park Redevelopment, Phase I, LLC and, to the best of my knowledge and belief, the same are complete and accurate.



By: Natalie Erdman, Executive Director
Community Development Authority of the
City of Madison, Management Agent



Date

ID #39-6006968