

# Truax Park Redevelopment, Phase I, LLC

Financial Report

December 31, 2016

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## CONTENTS

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	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	3
Statements of operations	4
Statements of members' equity	5
Statements of cash flows	6
Notes to the financial statements	7
SUPPLEMENTARY INFORMATION	
SUPPLEMENTAL INFORMATION REQUIRED BY INVESTOR MEMBER	
Schedules of project operating expenses	17
SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA	
Accounts and notes receivable (other than from regular tenants)	18
Distributions	18
Partnership cash and reserve funds not held by WHEDA	18
Related party transactions	19
Computation of surplus cash	19

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## C O N T E N T S (Continued)

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	Page
SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA (Continued)	
WHEDA annual schedule of assets, liabilities and equity	20
WHEDA schedule of profit and loss	22
CERTIFICATION BY MANAGING MEMBER OF MORTGAGOR	25
CERTIFICATION BY MANAGEMENT AGENT	26



## 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, 2016 and 2015, 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, 2016 and 2015, 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

March 2, 2017

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



# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## STATEMENTS OF OPERATIONS

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Rental income	\$ 405,939	\$ 384,748
Operating subsidies	194,574	132,889
Vacancies and concessions	(11,941)	(10,076)
Other revenue	<u>13,274</u>	<u>14,502</u>
Total revenues	601,846	522,063
Rental expenses:		
Rent and administrative	108,601	109,016
Utilities	71,836	59,012
Operating and maintenance	249,953	215,866
Taxes and insurance	<u>96,371</u>	<u>87,860</u>
Total rental expenses	<u>526,761</u>	<u>471,754</u>
Net rental income	75,085	50,309
Financial income (expense):		
Interest income	1,294	172
Interest expense	<u>(149,364)</u>	<u>(147,398)</u>
Total financial income (expense)	<u>(148,070)</u>	<u>(147,226)</u>
Loss before other income (expenses)	(72,985)	(96,917)
Other income (expenses):		
Amortization of deferred revenue	25,394	25,394
Depreciation	(455,889)	(471,039)
Amortization	(10,632)	(10,632)
Asset management fee	<u>(8,231)</u>	<u>(7,992)</u>
Total other income (expenses)	<u>(449,358)</u>	<u>(464,269)</u>
Net loss	<u><u>\$ (522,343)</u></u>	<u><u>\$ (561,186)</u></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, 2016 and 2015

	Managing member	Investor member - MS Shared Investment Fund I, LLC	Investor member - NEF Assignment Corporation	Total
Members' equity:				
Balances, December 31, 2014	\$ (108)	\$ 712,979	\$ 7,206,678	\$ 7,919,549
Net loss	<u>(56)</u>	<u>(50,675)</u>	<u>(510,455)</u>	<u>(561,186)</u>
Balances, December 31, 2015	(164)	662,304	6,696,223	7,358,363
Net loss	<u>(52)</u>	<u>(47,168)</u>	<u>(475,123)</u>	<u>(522,343)</u>
Balances, December 31, 2016	(216)	615,136	6,221,100	6,836,020
Subscriptions receivable:				
Balances, December 31, 2014 and 2015	100	0	0	100
Subscription receipts	<u>(100)</u>	<u>0</u>	<u>0</u>	<u>(100)</u>
Balances, December 31, 2016	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total members' equity	<u>\$ (216)</u>	<u>\$ 615,136</u>	<u>\$ 6,221,100</u>	<u>\$ 6,836,020</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, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (522,343)	\$ (561,186)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	455,889	471,039
Amortization	10,632	10,632
Amortization of deferred revenue	(25,394)	(25,394)
Increase (decrease) in cash due to changes in:		
Accounts receivable, tenants	(1,177)	777
Accounts receivable, related party	44,332	(8,659)
Accounts receivable, other	0	1,898
Prepaid expenses	(2,281)	5,448
Accounts payable	(18,790)	15,640
Accrued interest	124,317	120,844
Accrued expenses	18,462	16,606
Accrued real estate taxes	(32,121)	1,509
Tenants' security deposits payable	(325)	(241)
Prepaid rents	(314)	591
Net cash provided by operating activities	50,887	49,504
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net deposits to operating and ACC reserve	(58)	(58)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage notes payable	(50,929)	(49,446)
Subscription receipts	100	0
Net cash used in financing activities	(50,829)	(49,446)
Change in cash and cash equivalents	0	0
Cash and cash equivalents:		
Beginning	0	0
Ending	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 25,047	\$ 26,554

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

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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### **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, 2016

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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 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	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, 2016

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### 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 March 2, 2017, 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.

### NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	<u>2016</u>	<u>2015</u>
Operating and ACC reserve	<u>\$ 582,536</u>	<u>\$ 582,478</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, 2016

### 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.

	<u>2016</u>	<u>2015</u>
Balance, beginning	\$ 582,478	\$ 582,420
Interest earned	<u>58</u>	<u>58</u>
Balance ending	<u>\$ 582,536</u>	<u>\$ 582,478</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.

If funded, the balance of the replacement reserve per the requirements above would be \$113,085 and \$89,111 as of December 31, 2016 and 2015, respectively. See Note G regarding the project funds held by the City of Madison.

### NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	<u>2016</u>	<u>2015</u>
Land and buildings under capital lease	\$ 1,846,000	\$ 1,846,000
Land improvements	191,117	191,117
Buildings and improvements	11,311,097	11,311,097
Furnishings and equipment	<u>240,052</u>	<u>240,052</u>
	13,588,266	13,588,266
Less accumulated depreciation	<u>2,668,062</u>	<u>2,212,173</u>
	<u>\$ 10,920,204</u>	<u>\$ 11,376,093</u>

**TRUAX PARK REDEVELOPMENT, PHASE I, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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**NOTE D -- Mortgage notes payable**

Mortgage notes payable consists of the following:

	2016	2015
<p>CDA; non-recourse mortgage note payable under the capital lease described in Note E; due in one installment on October 29, 2050, together with interest at 4.00%, compounded annually; collateralized by a mortgage on the project's rental property; accrued interest was \$506,127 and \$415,662 as of December 31, 2016 and 2015, respectively; interest expense totaled \$90,465 and \$86,987 for the years ended December 31, 2016 and 2015, respectively.</p>	\$ 1,846,000	\$ 1,846,000
<p>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 \$4,120 and \$4,387 as of December 31, 2016 and 2015, respectively; interest expense totaled \$24,780 and \$26,294 for the years ended December 31, 2016 and 2015, respectively.</p>	784,762	835,691
<p>CDA; non-recourse mortgage note payable in the amount of \$400,000; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal and accrued interest due in one installment on October 29, 2050, together with interest at 4.00% per annum; collateralized by a mortgage on the project's rental property; accrued interest was \$91,629 and \$76,188 as of December 31, 2016 and 2015, respectively; interest expense totaled \$15,441 and \$15,440 for the years ended December 31, 2016 and 2015, respectively.</p>	400,000	400,000
<p>Balance carried forward</p>	3,030,762	3,081,691

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

	<u>2016</u>	<u>2015</u>
Balance brought forward	\$ 3,030,762	\$ 3,081,691
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 \$73,154 and \$54,476 as of December 31, 2016 and 2015, respectively; interest expense totaled \$18,678 and \$18,677 for the years ended December 31, 2016 and 2015, respectively.	<u>466,942</u>	<u>466,942</u>
	<u>\$ 3,497,704</u>	<u>\$ 3,548,633</u>

Repayment of principal on the mortgage notes payable as of December 31, 2016, is as follows:

#### Year ending December 31,

2017	\$ 52,083
2018	53,667
2019	55,299
2020	56,981
2021	58,714
Thereafter	<u>3,220,960</u>
	<u>\$ 3,497,704</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>

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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### **NOTE E -- Capital lease (Continued)**

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 \$116,160 and \$97,323 as of December 31, 2016 and 2015, 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, 2016.

### **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 \$273,677 and \$318,009 as of December 31, 2016 and 2015, 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 \$194,574 and \$132,889 were earned during the years ended December 31, 2016 and 2015, respectively. Included in accounts payable are operating subsidies payable of \$47,127 and \$62,780 as of December 31, 2016 and 2015, respectively.



# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

#### **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, 2016 and 2015.

#### **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, 2016 and 2015.

#### **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 \$19,700 and \$18,734 for the years ended December 31, 2016 and 2015, 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 \$39,157 and \$30,926 as of December 31, 2016 and 2015, respectively. Asset management fees incurred totaled \$8,231 and \$7,992 for the years ended December 31, 2016 and 2015, respectively.

#### **Operating deficit guaranty**

The operating agreement provides for an operating deficit guaranty which requires the managing member to loan the company funds required to pay operating deficits incurred during the operating deficit period after funds from the operating reserve have been used. The operating deficit guaranty is limited to \$232,360. The operating deficit period begins on the date the project achieves stabilized occupancy and expires on the later of the date the company achieves 36 consecutive months of a debt service coverage ratio of at least 1.15, five years from the achievement of stabilized occupancy or five years after closing of the permanent loan. The operating deficit guaranty expired in December 2016. Any loans under this agreement shall not bear interest and shall be payable from net operating income or sale or refinancing proceeds, as provided in the operating agreement. There were no operating deficit loans as of December 31, 2016 and 2015.

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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### **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, 2016 and 2015.

### **NOTE I -- Commitments and contingencies**

#### **Land Use Restriction Agreement (LURA)**

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

#### **TCEP**

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

**TRUAX PARK REDEVELOPMENT, PHASE I, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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

**Project Based Housing Assistance Payments Contract**

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

## SUPPLEMENTARY INFORMATION

**TRUAX PARK REDEVELOPMENT, PHASE I, LLC**  
 SUPPLEMENTAL INFORMATION REQUIRED BY INVESTOR MEMBER  
 Years ended December 31, 2016 and 2015

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**SCHEDULES OF PROJECT OPERATING EXPENSES**

	<u>2016</u>	<u>2015</u>
<b>RENT AND ADMINISTRATIVE</b>		
Advertising	\$ 0	\$ 208
Office salaries	62,228	64,090
Office expense	6,164	7,332
Property management fees	19,700	18,734
Professional fees - legal	0	108
Professional fees - audit	7,930	7,920
Bad debt expense	2,337	0
Miscellaneous rent and administrative	<u>10,242</u>	<u>10,624</u>
<b>TOTAL RENT AND ADMINISTRATIVE</b>	<u>\$ 108,601</u>	<u>\$ 109,016</u>
 <b>UTILITIES</b>		
Electric	\$ 19,485	\$ 22,070
Water	23,332	12,771
Gas	13,284	13,192
Sewer	<u>15,735</u>	<u>10,979</u>
<b>TOTAL UTILITIES</b>	<u>\$ 71,836</u>	<u>\$ 59,012</u>
 <b>OPERATING AND MAINTENANCE</b>		
Payroll	\$ 73,890	\$ 62,206
Supplies	33,694	36,615
Contracts	84,443	81,659
Garbage and trash removal	13,587	10,048
Security services	32,169	16,915
Snow removal	0	323
Vehicle/maintenance equipment repairs	12,170	8,038
Miscellaneous operating and maintenance	<u>0</u>	<u>62</u>
<b>TOTAL OPERATING AND MAINTENANCE</b>	<u>\$ 249,953</u>	<u>\$ 215,866</u>
 <b>TAXES AND INSURANCE</b>		
Real estate taxes	\$ 33,377	\$ 32,121
Payroll taxes	9,636	8,691
Property and liability insurance	20,420	19,671
Health insurance and other employee benefits	<u>32,938</u>	<u>27,377</u>
<b>TOTAL TAXES AND INSURANCE</b>	<u>\$ 96,371</u>	<u>\$ 87,860</u>

# TRUAX PARK REDEVELOPMENT, PHASE I, LLC

WHEDA Project No. 5495

SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA

December 31, 2016

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## ACCOUNTS AND NOTES RECEIVABLE (OTHER THAN FROM REGULAR TENANTS)

Accounts receivable, related party	<u>\$ 273,677</u>
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## DISTRIBUTIONS

None.

## PARTNERSHIP CASH AND RESERVE FUNDS NOT HELD BY WHEDA

	<u>Operating &amp; ACC reserve</u>
Balance, beginning	\$ 582,478
Interest earned	<u>58</u>
Balance, ending	<u>\$ 582,536</u>

**TRUAX PARK REDEVELOPMENT, PHASE I, LLC**  
 WHEDA Project No. 5495  
 SUPPLEMENTAL INFORMATION REQUIRED BY WHEDA (Continued)  
 December 31, 2016

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**RELATED PARTY TRANSACTIONS**

Development fee		
Beginning balance		\$ 58,735
Payments		<u>0</u>
Ending balance		<u>\$ 58,735</u>
Asset management fee		
Beginning accrual		\$ 30,926
Current year expense		8,231
Fee paid		<u>0</u>
Ending accrual		<u>\$ 39,157</u>
Property management fee		
Beginning accrual		\$ 0
Current year expense		19,700
Fee paid		<u>(19,700)</u>
Ending accrual		<u>\$ 0</u>

**COMPUTATION OF SURPLUS CASH**

**CURRENT ASSETS**

Accounts receivable, related party		\$ 273,677
MEMO - Tenants' security deposits	\$ 0	<u>0</u>
Total current assets		273,677

**CURRENT LIABILITIES**

MEMO - Tenants' security deposits	\$ 20,374	
Accounts payable		58,715
Accrued interest		4,120
Accrued expenses		36,678
Underfunded replacement reserve		113,085
Underfunded tenants' security deposits		20,374
Prepaid rents		<u>1,847</u>
Total current liabilities		<u>234,819</u>

**SURPLUS CASH**

\$ 38,858

## ANNUAL SCHEDULE OF ASSETS for Multifamily Projects

Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC

Period Beginning January 1, 2016 through December 31, 2016

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	4,198	
	Allowance for Doubtful Accounts (deduct)		1131		
	Accounts Receivable - WHEDA		1135		
	Accounts and Notes Receivable - Operations		1140	273,677	
	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			
	<b>TOTAL CURRENT ASSETS</b>		<b>1100</b>		277,875
1191	Tenant Security Deposits - RESTRICTED ASSET		1191		
1200 PREPAID EXPENSES	Miscellaneous Prepaid Expenses		1200	2,281	
	<b>Total Prepaid Expenses</b>				2,281
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		
	<b>Total Funded Reserves</b>		<b>1300</b>		
1400 FIXED ASSETS	Land - Land & building under capital lease		1410	1,846,000	
	Buildings		1420	11,311,097	
	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	
	<b>Gross Fixed Assets</b>		<b>1400</b>	13,588,266	
1495 ALLOWANCE ACCOUNTS	Accumulated Depreciation		1495	2,668,062	
	Total Accumulated Depreciation			2,668,062	
	<b>Net Fixed Assets</b>		<b>1400</b>		10,920,204
1500 INVESTMENTS	Investments - Operations		1510		
	Investments - Entity		1515		
	Intangible Assets - Tax credit fees, net of amortization		1520	95,687	
	Miscellaneous Other Assets - ACC & operating reserves		1590	582,536	
	<b>TOTAL OTHER ASSETS</b>		<b>1500</b>		678,223
	<b>TOTAL ASSETS</b>		<b>1000</b>		11,878,583



**ANNUAL SCHEDULE OF LIABILITIES AND EQUITY for Multifamily Projects**

**Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC**

**Period Beginning January 1, 2016 through December 31, 2016**

**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	58,715	
	Accounts Payable - Construction/Development		2111		
	Accounts Payable-Project Improvements Items		2112		
	Accounts Payable - Entity		2113	97,892	
	Accounts Payable-236 Excess Income Due HUD		2115		
	Accounts Payable-WHEDA/HUD		2116		
	Accrued Wages Payable		2120	5,936	
	Accrued Payroll Taxes Payable		2121		
	Accrued Management Fee Payable		2123		
	Accrued Interest Payable - Section 236		2130		
	Accrued Interest Payable - First Mortgage		2131	4,120	
	Accrued Interest Payable - Second Mortgage		2132		
	Accrued Interest Payable - Other Loans & Notes (Surplus Cash)		2133	670,910	
	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	52,083		
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	56,136		
	<b>TOTAL CURRENT LIABILITIES</b>				945,792
2191	Tenant Security Deposits - CONTRA ASSET		2191		20,374
2200 PREPAID REVENUES	Prepaid Revenue		2210	1,847	
	<b>Total Current Liabilities</b>		<b>2122</b>		968,013
2300 LONG-TERM LIABILITIES	Notes Payable - Long Term		2310		
	Notes Payable - Surplus Cash		2311		
	Mortgage Payable - First Mortgage		2320	732,679	
	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	628,929	
	<b>Total Long Term Liabilities</b>		<b>2300</b>		4,074,550
	<b>TOTAL LIABILITIES</b>		<b>2000</b>		5,042,563
3033 TOTAL EQUITY	Total Equity/Retained Earnings		3033	6,836,020	
	<b>TOTAL LIABILITIES and EQUITY/RETAINED EARNINGS</b>		<b>2033</b>		11,878,583

## SCHEDULE OF PROFIT AND LOSS for Multifamily Projects

Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC

Project Number: 5495

Period Beginning January 1, 2016 through December 31, 2016

Year: 2016

	Description of Account	Acct. No.	Amount	Totals
5100 RENTAL INCOME	Rent Revenue - Gross Potential	5120	405,939	
	Tenant Assistance Payments	5121	194,574	
	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		
	<b>Total Rent Revenue Potential</b>	<b>5100</b>		600,513
5200 VACANCIES	Apartment Vacancies	5220	11,941	
	Stores/Commercial Vacancies or Concessions	5240		
	Rental Concessions	5250		
	Garage/Parking Vacancies or Concessions	5270		
	Miscellaneous	5290		
		<b>Total Vacancies or Concessions</b>	<b>5200</b>	
	<b>Net Rental Revenue (Rent Revenue less Vacancies)</b>	<b>5152</b>		588,572
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	1,294	
	<b>Total Financial Revenue</b>	<b>5400</b>		1,294
5900 MISC. REVENUE	Laundry/Vending Income (Net)	5910		
	Tenant Charges	5920	11,012	
	Miscellaneous Revenue	5990	27,656	
	<b>Total Miscellaneous Revenue</b>	<b>5900</b>		38,668
	<b>Total Revenue</b>	<b>5000</b>		628,534
6200 RENT EXPENSE	Conventions and Meetings	6203		
	Management Consultants	6204		
	Advertising/Marketing Expense	6210		
	Other Rent Expense	6250		
		<b>Total Rent Expense</b>		
6300 ADMIN. EXPENSES	Office Salaries	6310	62,228	
	Office Expenses	6311	6,164	
	Office or Model Apartment Rent	6312		
	Management Fee - Residential Rents	6320	19,700	
	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	7,930	
	Bookkeeping Fees/Accounting Services	6351		
	Bad Debt Expense	6370	2,337	
	Miscellaneous Administrative Expense	6390	10,242	
	<b>Total Administrative Expense</b>		108,601	
6200 + 6300	<b>Total Rent &amp; Administrative Expense</b>	<b>6263</b>		108,601
6400 UTILITIES EXPENSE	Electricity	6450	19,485	
	Water & Sewer	6451	23,332	
	Gas	6452	13,284	
	Sewer	6453	15,735	
		<b>Total Utilities Expense</b>	<b>6400</b>	

Project Name: TRUAX PARK REDEVELOPMENT, PHASE I, LLC

Project Number:

5495

	Description of Account	Acct. No.	Amount	Totals	
6500 OPERATING & MAINTENANCE EXPENSE	Payroll	6510	73,890		
	Supplies	6515	33,694		
	Contracts	6520	84,443		
	Operating and Maintenance Rent Free Unit	6521			
	Garbage & Trash Removal	6525	13,587		
	Security Payroll/Contract (incl. taxes and benefits)	6530	32,169		
	Security Rent Free Unit	6531			
	Heating/Cooling Repairs & Maintenance	6546			
	Snow Removal	6548			
	Vehicle/Maintenance Equipment Operation & Repairs	6570	12,170		
	Misc. Operating & Maintenance Expense	6590			
	<b>Total Operating &amp; Maintenance Expense</b>	<b>6500</b>			249,953
	6900	<b>Total Service Expense</b>	<b>6900</b>		0
6700 TAXES AND INSURANCE	Real Estate & Personal Property Taxes	6710	33,377		
	Payroll Taxes (Project's Share)	6711	9,636		
	Property & Liability Insurance (Hazard)	6720	20,420		
	Fidelity Bond Insurance	6721			
	Workmen's Compensation	6722			
	Health Insurance and Other Employee Benefits	6723	32,938		
	Miscellaneous Taxes, Licenses, Permits and Insurance	6790			
	<b>Total Taxes and Insurance</b>	<b>6700</b>			96,371
3220	Replacement Reserve Deposits as Required by WHEDA	3220		0	
	<b>Total Operating Expenses</b>			526,761	
	Net Operating Income (NOI)			101,773	
6800 FINANCIAL EXPENSE	Interest on Mortgage Payable	6820	149,364		
	Interest on Notes Payable (Long Term)	6830			
	Interest on Notes Payable (Short Term)	6840			
	Mortgage Insurance Premium/Service Charge	6850			
	Miscellaneous Financial Expense	6890			
	<b>Total Financial Expense</b>	<b>6800</b>			149,364
	<b>Total Expenses of Operations Before Depreciation</b>	<b>6000</b>		676,125	
	<b>Profit or (Loss) Before Depreciation</b>	<b>5060</b>		(47,591)	
6600	Depreciation Expense	6601		455,889	
	Amortization Expense	6610		10,632	
	Operating Profit or Loss	5060		(514,112)	
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	8,231		
	<b>Net Entity Expenses</b>	<b>7100</b>			8,231
	NET PROFIT OR (LOSS)	<b>3250</b>		(522,343)	
TOTAL PRINCIPAL PAYMENTS	WHEDA First Mortgage	9910		0	
	Second Mortgage	9911		0	
	Other Mortgage(s)	9912		50,929	
	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, 2016

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## MISCELLANEOUS EXPENSE ACCOUNTS OVER 1% OF CATEGORY

### MISCELLANEOUS ADMINISTRATIVE EXPENSE (Account #6390)

Storage services	\$	1,360
Conferences and training		2,739
WHEDA monitoring fees		3,195
Resident services		1,999
Miscellaneous		949
		<hr/>

### TOTAL MISCELLANEOUS ADMINISTRATIVE EXPENSE

\$ 10,242

### OTHER EXPENSE (Account #7190)

Asset management fee	\$	8,231
		<u><u>8,231</u></u>

**TRUAX PARK REDEVELOPMENT, PHASE I, LLC**

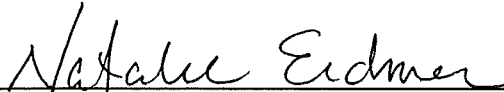
WHEDA Project No. 5495

CERTIFICATION BY MANAGING MEMBER OF MORTGAGOR

December 31, 2016

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I hereby certify that I have examined the accompanying financial statements and supplemental data 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

March 2, 2017

Date

ID #39-6006968

**TRUAX PARK REDEVELOPMENT, PHASE I, LLC**

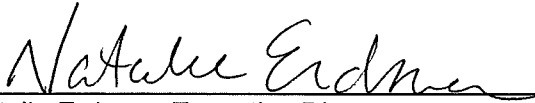
WHEDA Project No. 5495

CERTIFICATION BY MANAGEMENT AGENT

December 31, 2016

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



March 2, 2017

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

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Date

ID #39-6006968