



February 27, 2019

Natalie Erdman  
Truax Park Redevelopment, Phase I, LLC  
c/o CDA of the City of Madison  
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Madison, WI 53703

This letter includes a summary of our comments and suggestions with respect to financial, administrative and other matters that came to our attention during the course of our audit engagement. These matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of improving accounting controls and other financial practices and procedures. This letter also includes a brief summary of our responsibilities regarding considerations of fraud and internal control in the performance of our audit engagement. In addition, this letter summarizes certain matters required to be communicated to you under professional standards in your oversight responsibilities for the company's financial reporting process.

Financial information presented in this letter was derived from the company's financial statements which were audited by us, and such financial information should be read in conjunction with those financial statements and our report thereon.

## **Recommendations and suggestions**

### New Accounting Standards

We would like to draw your attention to three of the more impactful new accounting standards that may affect your organization in the next few years. We encourage you to become familiar with these new standards and to consult with SVA on any questions you have regarding their impact or implementation.

### **Revenue recognition**

In 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard update with respect to recognizing revenue from contracts with customers which eliminates the transaction and industry-specific revenue recognition guidance under current standards and replaces it with a principles-based approach for determining revenue recognition. Note that revenue from leasing arrangements and support from contribution transactions are generally exempted from the scope of this standard. This comprehensive new standard will be effective for fiscal years beginning after December 15, 2018. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance lays out a five-step process to accomplish this:

1. Identify the contract with the customer.
2. Identify the performance obligation(s) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligation(s) in the contract.
5. Recognize revenue when/as the entity satisfies a performance obligation.

Implementation of the new standard will require your organization to evaluate the potential impact on the financial statements including affected revenue streams, information systems (to ensure proper recognition of revenue), processes, and internal control.

#### **Presentation of restricted cash in the statement of cash flows**

In November 2016, the FASB issued a new accounting standard update with respect to the classification and presentation of the changes in restricted cash in the statement of cash flows which will be effective for fiscal years beginning after December 15, 2018. The new standard requires that amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning of the period and end of period amounts shown on the statement of cash flows; clarifies that transfers between cash and cash equivalents and amounts described as restricted cash are not reported as cash flow activities in the statement of cash flows; and requires certain disclosures. This new standard does not define restricted cash.

#### **Lease Accounting**

In 2016, the FASB issued a new accounting standard titled "*Leases*" which will be effective for fiscal years beginning after December 15, 2019. This new standard will impact entities that hold equipment and real estate leases, particularly those classified as operating leases under current standards. As a result, entities that have operating leases with a term greater than one year will need to record lease-related assets and liabilities on the statement of financial position. Under current standards, operating leases are only reflected as rent expense in the income statement and in disclosures to the financial statements.

#### **Bank accounts**

Based on the terms of the Amended and Restated Operating Agreement dated October 28, 2010, the company shall establish bank accounts in the name of the company. The bank accounts are not to be commingled with any other funds of the managing member or of affiliates. As of December 31, 2018, we noted that the company's cash is kept in one bank account held by the City of Madison and the account is not in the name of the company. We recommend that management establish separate bank accounts for its operating cash, security deposit cash, and replacement reserve in order to comply with the terms of the Amended and Restated Operating Agreement.

Operating and ACC reserves

Based on the terms of the Amended and Restated Operating Agreement dated October 28, 2010, the company shall establish the operating reserve and ACC reserve in separate bank accounts in the name of the company. As of December 31, 2018, we noted that the operating reserve and ACC reserve are held in one bank account in the name of the company. In addition, the required deposits for the replacement reserve based on the terms of the Amended and Restated Operating Agreement were made to this bank account in 2018. We recommend that management establish separate bank accounts for its operating reserve and ACC reserve in order to comply with the terms of the Amended and Restated Operating Agreement and transfer the replacement reserve deposits made into this bank account in 2018 to a separate bank account for the replacement reserve.

Cash in excess of FDIC Limits

During the course of our audit, we noted that the cash balance held at US Bank in the project's name exceeded the current FDIC limit of \$250,000. We recommend that you frequently monitor the bank's rating to assess its condition and consider ensuring that the company's deposits in financial institutions are under the FDIC limit at all times.

Accounts

During the course of the audit, we noted several balances which have been combined into one account by the management agent. These balances include deferred development fee, development completion loan, prepaid rent, deferred revenue related to the exchange funds, the 4 loans with the CDA of the City of Madison and rental income received from public housing units. We recommend management create separate accounts for each of these balances to better reflect the financial information of the company.

Surplus cash calculation

Article 5 of the Amended and Restated Operating Agreement, specifies the order and priority in which cash flow is to be paid prior to making distributions to the members. Based on the surplus cash calculation previously provided to you, the company does have surplus cash as of December 31, 2018, available for distribution in 2019. We recommend the company pay out the surplus cash in 2019 as outlined below:

Accrued asset management fee	\$	56,367
Development fee payable		<u>16,298</u>
	\$	<u>72,665</u>

## **Required communications**

Professional standards require that we provide you with certain information related to our audit. This required communication is attached to this letter as Exhibit A.

## **Consideration of internal control and fraud**

### Fraud Considerations

As described in our engagement letter, we planned and performed our audit to obtain reasonable assurance about whether the financial statements were free of material misstatements, whether from errors, fraudulent reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the company or to acts by management or employees acting on behalf of the company. An audit is not designed to provide absolute assurance, and because we do not perform a detailed testing of all transactions, there is a risk that material misstatements may exist and not be detected by us. An audit is also not designed to detect immaterial misstatements or violations of laws or regulations that do not have a direct and material effect on the financial statements.

### Internal Control Considerations

As described in our engagement letter, our audit included obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or identify deficiencies in internal control, that is, significant deficiencies in the design or operation of internal control. However, we would communicate to you internal control matters that are required to be communicated under professional standards. Our findings are presented in the internal control communication attached to this letter as Exhibit B.

## **Conclusion**

We would like to thank you and your employees for the assistance provided to us in the performance of our engagement. We hope we have provided you with valuable information during the course of our engagement. We have already discussed many of these recommendations and suggestions with various company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any other additional study of these matters, or to assist you in implementing the recommendations.

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This information is intended solely for the information and use of management, the members, and others within the company, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



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Encl.

## **Exhibit A: Required Communications**

We have audited the financial statements of Truax Park Redevelopment, Phase I, LLC for the year ended December 31, 2018, and have issued our report thereon dated February 27, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 14, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Truax Park Redevelopment, Phase I, LLC are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable assets and the related depreciation methods, as described in the notes to the financial statements, are based on historical factors and industry practice. We evaluated the key factors and assumptions used to develop the estimated useful lives and related depreciation methods in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures of the capital lease, the Regulatory & Operating Agreement, the Land Use Restriction Agreement, the Tax Credit Exchange Program, and the Project Based Housing Assistance Payments Contract in the notes to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Following is a summary of uncorrected misstatements noted during our audit:

- To decrease operating subsidies and increase equity by \$9,235 to account for additional subsidies earned in 2017 but recorded in 2018.

The following material misstatements detected as a result of audit procedures were corrected by management:

- To increase operating subsidies by \$158,865, decrease subsidy payable by \$7,046 and increase subsidy receivable by \$151,819 for additional subsidies earned in 2018.

### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Supplementary Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period; and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Exhibit B: Internal Control Communication**

In planning and performing our audit of the financial statements of Truax Park Redevelopment, Phase I, LLC as of and for the year ended December 31, 2018 in accordance with auditing standards generally accepted in the United States of America, we considered the company's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the members, and others within the company, and is not intended to be, and should not be, used by anyone other than these specified parties.