

Truax Park Development, Phase 2, LLC

Financial Report

December 31, 2018

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Truax Park Development, Phase 2, 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 Development, Phase 2, 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 schedules of project expenses shown on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

February 27, 2019

Lead auditor: Lynn C. Heslinga, CPA
SVA Certified Public Accountants, S.C.
ID #39-1203191
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TRUAX PARK DEVELOPMENT, PHASE 2, LLC

BALANCE SHEETS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 14,520	\$ 7,986
Restricted cash	309,279	300,139
Accounts receivable	136,405	169,520
Prepaid land lease	38,368	38,776
Prepaid expenses	746	618
Rental property, net	7,447,126	7,668,770
Tax credit fees, net	94,186	102,748
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 8,040,630</u>	<u>\$ 8,288,557</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 1,470,875	\$ 1,469,527
Development completion guaranty loan	26,552	26,552
Development fee payable	112,941	112,941
Accounts payable	13,206	14,535
Accrued interest	4,748	3,483
Accrued expenses	46,347	30,054
Accrued real estate taxes	5,530	58,890
Tenants' security deposits payable	21,307	20,878
Prepaid rents	6,354	4,486
	<u> </u>	<u> </u>
Total liabilities	1,707,860	1,741,346
MEMBERS' EQUITY	<u>6,332,770</u>	<u>6,547,211</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 8,040,630</u>	<u>\$ 8,288,557</u>

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Rental income	\$ 224,962	\$ 206,484
Operating subsidies	149,341	181,079
Vacancies and concessions	(1,200)	(1,200)
Other revenue	<u>2,978</u>	<u>2,986</u>
Total revenues	376,081	389,349
Rental expenses:		
Administrative	84,848	98,679
Utilities	69,112	58,155
Operating and maintenance	114,157	126,334
Land lease	408	408
Taxes and insurance	<u>85,263</u>	<u>83,981</u>
Total rental expenses	<u>353,788</u>	<u>367,557</u>
Net rental income	22,293	21,792
Financial income (expense):		
Interest income	885	282
Interest expense	<u>(2,613)</u>	<u>(2,512)</u>
Total financial income (expense)	<u>(1,728)</u>	<u>(2,230)</u>
Income before other expenses	20,565	19,562
Other expenses:		
Depreciation	221,644	221,642
Amortization	8,562	8,562
Asset management fee	<u>4,800</u>	<u>4,800</u>
Total other expenses	<u>235,006</u>	<u>235,004</u>
Net loss	<u><u>\$ (214,441)</u></u>	<u><u>\$ (215,442)</u></u>

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

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

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Balances, December 31, 2016	\$ 674	\$ 6,761,979	\$ 6,762,653
Net loss	<u>(22)</u>	<u>(215,420)</u>	<u>(215,442)</u>
Balances, December 31, 2017	652	6,546,559	6,547,211
Net loss	<u>(21)</u>	<u>(214,420)</u>	<u>(214,441)</u>
Balances, December 31, 2018	<u>\$ 631</u>	<u>\$ 6,332,139</u>	<u>\$ 6,332,770</u>
Ownership percentages	<u>0.01%</u>	<u>99.99%</u>	<u>100.000%</u>

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

STATEMENTS OF CASH FLOWS

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (214,441)	\$ (215,442)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	221,644	221,642
Amortization of debt issuance costs	1,348	1,348
Amortization of tax credit fees	8,562	8,562
Amortization of prepaid land lease	408	408
Increase (decrease) in cash due to changes in:		
Accounts receivable	33,115	(50,959)
Prepaid expenses	(128)	(271)
Accounts payable	(1,329)	(3,268)
Accrued interest	1,265	1,164
Accrued expenses	16,293	19,863
Accrued real estate taxes	(53,360)	25,905
Tenants' security deposits payable	429	(533)
Prepaid rents	1,868	696
	<u>15,674</u>	<u>9,115</u>
Net cash provided by operating activities	15,674	9,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Net deposits to replacement reserve	(8,613)	(16,800)
Net deposits to operating reserve	(359)	0
Net deposits to ACC reserve	(168)	0
	<u>(9,140)</u>	<u>(16,800)</u>
Net cash used in investing activities	(9,140)	(16,800)
CASH FLOWS FROM FINANCING ACTIVITIES	<u>0</u>	<u>0</u>
Change in cash and cash equivalents	6,534	(7,685)
Cash and cash equivalents:		
Beginning	<u>7,986</u>	<u>15,671</u>
Ending	<u>\$ 14,520</u>	<u>\$ 7,986</u>

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A -- Nature of business and significant accounting policies

Nature of business

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

The company consists of one managing member, the CDA, and one investor member, with rights, preferences and privileges as described in the operating agreement. Each member's liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable laws.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the financial statements do not include the personal or corporate assets and liabilities of the members, including their obligations for income taxes on their distributive shares of the net income of the company or their rights to refunds on its net loss, nor any provision for income tax expense.

The company's operating agreement states that the company shall be dissolved upon the occurrence of specific events which are described in the agreement.

A summary of significant accounting policies follows:

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of reporting cash flows, the company considers all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the company due to restrictions placed on it.

The company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 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 all on a month to month basis.

Rental property

Rental property is stated at cost. Depreciation of rental property is computed on the straight-line method based upon the following estimated useful lives of the assets:

	<u>Years</u>
Land improvements	20
Buildings and improvements	40
Furnishings and equipment	10

Maintenance and repairs of rental property are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of rental property, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Impairment of long-lived assets

The company reviews long-lived assets, including rental property and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Debt issuance costs

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

Amortized costs included in interest expense amounted to \$1,348 for each of the years ended December 31, 2018 and 2017.

Tax credit fees

In connection with obtaining an allocation of low-income housing tax credits, the company paid fees totaling \$128,435. The company is amortizing these fees on the straight-line method over the related tax credit compliance period of 15 years.

TRUAX PARK DEVELOPMENT, PHASE 2, 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 the CDA under the Regulatory & Operating Agreement (R&O Agreement) and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the CDA or HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

Subsequent events

These financial statements have not been updated for subsequent events occurring after 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.

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	<u>2018</u>	<u>2017</u>
Tenants' security deposits	\$ 6,000	\$ 6,000
Replacement reserve	45,613	37,000
Operating reserve	157,537	157,178
ACC reserve	<u>100,129</u>	<u>99,961</u>
	<u>\$ 309,279</u>	<u>\$ 300,139</u>

Replacement reserve

The operating agreement and R&O Agreement require the company to make monthly deposits to the replacement reserve initially equal to \$300 per unit per year (commencing November 1, 2015), and increasing 10% each fifth anniversary. Following the six month anniversary of the replacement reserve commencement date and whenever the reserve is below at least six monthly installments of the annual replacement reserve then payable, the company shall deposit funds from cash flow into the reserve in the priority as set forth in the operating agreement. Withdrawals are restricted to fund repairs, capital expenditures or any other use approved by the investor member.

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 31,200	\$ 20,200
Annual deposits	14,400	16,800
Interest earned	<u>13</u>	<u>0</u>
	<u>\$ 45,613</u>	<u>\$ 37,000</u>

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE B -- Restricted cash (Continued)

Annual Contributions Contract (ACC) reserve

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

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 99,961	\$ 99,961
Interest earned	<u>168</u>	<u>0</u>
	<u>\$ 100,129</u>	<u>\$ 99,961</u>

Operating reserve

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

	<u>2018</u>	<u>2017</u>
Balance, beginning	\$ 157,178	\$ 157,178
Interest earned	<u>359</u>	<u>0</u>
	<u>\$ 157,537</u>	<u>\$ 157,178</u>

TRUAX PARK DEVELOPMENT, PHASE 2, 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>
Non-depreciable land preparation costs and improvements	\$ 86,867	\$ 86,867
Land improvements	130,994	130,994
Buildings and improvements	7,727,975	7,727,975
Furnishings and equipment	<u>218,941</u>	<u>218,941</u>
	8,164,777	8,164,777
Less accumulated depreciation	<u>717,651</u>	<u>496,007</u>
	<u>\$ 7,447,126</u>	<u>\$ 7,668,770</u>

NOTE D -- Mortgage notes payable, net

Mortgage notes payable, net consists of the following:

	<u>2018</u>	<u>2017</u>
CDA; non-recourse, non-interest bearing mortgage note payable in the amount of \$911,288; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal due in one installment on December 3, 2054; collateralized by a mortgage on the project's rental property; unamortized debt issuance costs associated with this note was \$48,413 and \$49,761 as of December 31, 2018 and 2017, respectively.	\$ 911,288	\$ 911,288
CDA (AHP loan); non-recourse, non-interest bearing mortgage note payable in the amount of \$288,000; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal due in one installment on December 3, 2054; collateralized by a mortgage on the project's rental property.	<u>288,000</u>	<u>288,000</u>
Balance carried forward	1,199,288	1,199,288

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

	2018	2017
Balance brought forward	\$ 1,199,288	\$ 1,199,288
City of Madison (HOME loan), an affiliate of the managing member; non-recourse, non-interest bearing mortgage note payable in the amount not to exceed \$280,000; due November 21, 2054; collateralized by a mortgage on the project's rental property.	280,000	280,000
CDA; non-recourse mortgage note payable under the land lease described in Note E; due to the extent and priority provided in the operating agreement with the remainder of all outstanding principal and accrued interest due in one installment on December 3, 2054, together with interest at 2.91%, compounded annually; collateralized by a mortgage on the project's rental property; accrued interest was \$4,748 and \$3,483 as of December 31, 2018 and 2017, respectively; interest expense totaled \$1,265 and \$1,164 for the years ended December 31, 2018 and 2017, respectively.	40,000	40,000
Total mortgage notes payable	1,519,288	1,519,288
Less unamortized debt issuance costs	48,413	49,761
	\$ 1,470,875	\$ 1,469,527

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

Year ending December 31,

2019	\$	0
2020		0
2021		0
2022		0
2023		0
Thereafter		1,519,288
	\$	1,519,288

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE E -- Land lease

The company has entered into a land lease with the CDA which required a one-time rental fee of \$40,000 (see Note D) and an additional one-time rental fee of \$98 representing \$1 annual rental payment for the 98-year term of the lease. The term of the lease began on December 4, 2014, and ends on December 3, 2112, unless terminated earlier in accordance with the land lease agreement. Prepaid land lease was \$38,368 and \$38,776 as of December 31, 2018 and 2017, respectively. Land lease expense totaled \$408 for each of the years ended December 31, 2018 and 2017.

NOTE F -- Members' capital contributions

The managing member is required to make capital contributions of \$712. The managing member has made the required contributions as of December 31, 2018. The investor member is required to make capital contributions totaling \$7,153,018. The investor member has made the required contributions as of December 31, 2018.

NOTE G -- Related-party transactions

Accounts receivable

Included in accounts receivable are amounts due from the City of Madison, an affiliate of the managing member, for project funds held by the City of Madison totaling \$19,078 and \$46,615 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 40 units as public housing units. With regards to the public housing units, the CDA is to pay operating subsidies to the company equal to project expenses less income received from tenants residing in the public housing units. The agreement will expire 40 years from the date the project first became available for occupancy, with the potential to be extended for an additional 10 years. Operating subsidies totaling \$149,341 and \$181,079 were earned during the years ended December 31, 2018 and 2017, respectively. Included in accounts receivable are operating subsidies receivable of \$114,883 and \$118,860 as of December 31, 2018 and 2017, respectively.

Development completion guaranty

The operating agreement requires the managing member to fund operating deficits during the stabilization period, as defined in the operating agreement, in the form of interest-free development advances, repayable only from available cash flow as defined in the operating agreement. The development completion guaranty loan was \$26,552 as of December 31, 2018 and 2017.

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE G -- Related-party transactions (Continued)

Development fee

The company has entered into a development agreement with the CDA. The agreement provides for the payment of a development fee of \$112,941 which has been capitalized into the cost of the buildings. The fee is payable from future capital contributions and available cash flow as defined in the operating agreement. The unpaid balance of the development fee is to be paid by the managing member on the thirteenth anniversary of the project's completion date. The payment by the managing member is to be treated as a development fee advance and shall be non-interest bearing and payable solely from cash flow, capital proceeds or upon dissolution of the company. Development fee payable was \$112,941 as of December 31, 2018 and 2017.

Property management agreement

The company has entered into a property management agreement with the CDA under which the company is obligated to pay a property management fee equal to 5% of gross residential rents on a monthly basis. The agreement is automatically renewed from year to year unless otherwise terminated. Property management fee expense totaled \$11,248 and \$10,324 for the years ended December 31, 2018 and 2017, respectively.

Asset management fee

The company is obligated to pay the investor member an annual asset management fee in the initial amount of \$4,800, increasing by 10% on each fifth anniversary beginning in 2015. The fee is payable only out of cash flow as defined in the operating agreement and shall be cumulative and accrued if not paid. Included in accrued expenses are accrued asset management fees of \$15,720 and \$10,920 as of December 31, 2018 and 2017, respectively. Asset management fees incurred totaled \$4,800 for each of the years ended December 31, 2018 and 2017.

Operating deficit guaranty

Under the operating agreement, the managing member is required to fund operating deficits from and after the stabilization period until the last to occur of (1) the fifth anniversary of the end of the lease-up period or (2) the fifth anniversary of the end of the stabilization period. The expiration of the managing member's obligation to make operating deficit advances shall be extended by one year for each fiscal year during the period when the project's required expense coverage ratio is less than 105% and thereafter until such time the operating reserve equal or exceeds \$145,267. During this period, operating deficit advances funded by the managing member are to be treated as capital contributions and are limited to \$270,000. Any such advances shall be non-interest bearing and are only repayable from available cash flow as defined in the operating agreement. There were no operating deficit advances as of December 31, 2018 and 2017.

Sale administration fee

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE H -- Company profits and losses and distributions

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

NOTE I -- Commitments and contingencies

Land Use Restriction Agreement (LURA)

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

HOME loan development agreement

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

Affordable Housing Program (AHP)

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE I -- Commitments and contingencies (Continued)

Sub-management agreement

The company and the CDA entered into a sub-management agreement with Porchlight, Inc. Pursuant to the terms of the property management agreement between the company and the CDA (see Note G), the CDA delegated certain management responsibilities with respect to the 8 units in a separate building to Porchlight, Inc. The company is obligated to pay a monthly fee equal to the lesser of \$500 or the net cash flow received from the operation of the project. The agreement shall be in effect from October 1, 2015 until the 15th anniversary of the last day of the month in which first occupancy of the project shall occur. After the initial term and each successive renewal term, the agreement shall be deemed renewed automatically for a one-year period. Sub-management fees incurred totaled \$6,027 and \$6,000 for the years ended December 31, 2018 and 2017, respectively.

Project Based Housing Assistance Payments Contract

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

SUPPLEMENTARY INFORMATION

TRUAX PARK DEVELOPMENT, PHASE 2, LLC
 SUPPLEMENTAL INFORMATION REQUIRED BY U.S. BANK
 Years ended December 31, 2018 and 2017

SCHEDULES OF PROJECT EXPENSES

	2018	2017
ADMINISTRATIVE		
Office salaries	\$ 50,616	\$ 64,085
Office expense	5,153	5,610
Management fees	17,275	16,324
Professional fees - audit	7,990	7,900
Professional fees - bookkeeping/accounting	249	125
Professional fees - other	512	336
Miscellaneous rent and administrative	3,053	4,299
TOTAL ADMINISTRATIVE	\$ 84,848	\$ 98,679
 UTILITIES		
Electric	\$ 30,274	\$ 27,461
Water	16,860	14,530
Gas	5,991	6,447
Sewer	15,987	9,717
TOTAL UTILITIES	\$ 69,112	\$ 58,155
 OPERATING AND MAINTENANCE		
Payroll	\$ 29,620	\$ 33,689
Supplies	21,227	20,100
Contracts	31,434	36,733
Garbage and trash removal	15,344	20,991
Security services	9,960	12,219
Vehicle and maintenance equipment repairs	6,201	1,839
Snow removal	188	417
Miscellaneous operating and maintenance	183	346
TOTAL OPERATING AND MAINTENANCE	\$ 114,157	\$ 126,334
 TAXES AND INSURANCE		
Real estate taxes	\$ 31,191	\$ 25,904
Payroll taxes	5,308	6,330
Property and liability insurance	33,297	23,760
Workmen's compensation	123	482
Health insurance and other employee benefits	15,344	27,505
TOTAL TAXES AND INSURANCE	\$ 85,263	\$ 83,981
 INTEREST EXPENSE		
Interest on mortgage - CDA	\$ 1,265	\$ 1,164
Amortization of debt issuance costs	1,348	1,348
TOTAL INTEREST EXPENSE	\$ 2,613	\$ 2,512