Allied Drive Redevelopment, LLC

Financial Report

December 31, 2013

ALLIED DRIVE REDEVELOPMENT, LLC

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Members
Allied Drive Redevelopment, LLC
Madison, Wisconsin

We have audited the accompanying financial statements of Allied Drive Redevelopment, LLC, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Drive Redevelopment, LLC as of December 31, 2013 and 2012, and the results of its operations, changes in members' equity, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information (schedules of project operating expenses) shown on page 16 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 26, 2014

ALLIED DRIVE REDEVELOPMENT, LLC

BALANCE SHEETS

December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 229,057	$ 158,361
Restricted cash	508,525	677,213
Accounts receivable	964	9,328
Prepaid ground lease	371,667	375,667
Prepaid expenses	12,654	9,437
Rental property under land lease, net	7,412,302	7,736,621
Tax credit fees, net	73,821	81,203
TOTAL ASSETS	$ 8,608,990	$ 9,047,830
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable	$ 2,655,053	$ 2,688,682
Accounts payable	7,646	38,523
Accrued real estate taxes	0	59,305
Accrued interest	268,395	209,555
Accrued expenses	139,174	111,774
Tenants' security deposits payable	39,995	39,795
Prepaid rents	23,612	25,570
Total liabilities	3,133,875	3,173,204
MEMBERS' EQUITY	5,475,115	5,874,626
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 8,608,990	$ 9,047,830

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

ALLIED DRIVE REDEVELOPMENT, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2013 and 2012

	2013	2012
Revenues:		
Rental income	$ 496,750	$ 491,125
Vacancies and concessions	(20,460)	(7,577)
Other revenue	14,673	10,675
Total revenues	490,963	494,223
Rental expenses:		
Rent and administrative	106,019	97,376
Utilities	56,715	49,887
Operating and maintenance	136,229	104,267
Ground lease	4,000	4,000
Taxes and insurance	90,574	86,632
Total rental expenses	393,537	342,162
Net rental income	97,426	152,061
Financial income (expense):		
Interest income	1,077	1,669
Interest expense	(113,284)	(143,226)
Total financial income (expense)	(112,207)	(141,557)
Income (loss) before other expenses	(14,781)	10,504
Other expenses:		
Depreciation	349,435	343,630
Amortization	7,382	7,383
Managing member management fee	22,511	21,855
Asset management fee	5,402	5,245
Total other expenses	384,730	378,113
Net loss	$ (399,511)	$ (367,609)

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

ALLIED DRIVE REDEVELOPMENT, LLC

STATEMENTS OF MEMBERS' EQUITY

Years ended December 31, 2013 and 2012

	Managing member	Investor member	Total
Members' equity:			
Balances, December 31, 2011	$ (23)	$ 6,242,358	$ 6,242,335
Net loss	(37)	(367,572)	(367,609)
Balances, December 31, 2012	(60)	5,874,786	5,874,726
Net loss	(40)	(399,471)	(399,511)
Balances, December 31, 2013	(100)	5,475,315	5,475,215
Subscriptions receivable:			
Balances, December 31, 2011	100	4,592,083	4,592,183
Subscription receipts	0	(4,592,083)	(4,592,083)
Balances, December 31, 2012 and 2013	100	0	100
Total members' equity	$ (200)	$ 5,475,315	$ 5,475,115
Ownership percentages	0.01%	99.99%	100.00%

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

ALLIED DRIVE REDEVELOPMENT, LLC

STATEMENTS OF CASH FLOWS

Years ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (399,511)	$ (367,609)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	349,435	343,630
Amortization	7,382	7,383
Amortization of financing costs	0	20,890
Amortization of prepaid ground lease	4,000	4,000
Increase (decrease) in cash due to changes in:		
Tenants' security deposits	(540)	(48)
Mortgage escrow deposits	186,466	(74,886)
Accounts receivable	8,364	(8,566)
Prepaid expenses	(3,217)	676
Accounts payable	(30,877)	28,114
Accrued real estate taxes	(59,305)	2,866
Accrued interest	58,840	61,562
Accrued expenses	27,400	29,319
Tenants' security deposits payable	200	215
Prepaid rents	(1,958)	(2,617)
Net cash provided by operating activities	146,679	44,929
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of rental property	(25,116)	(35,346)
Net deposits to replacement reserve	(16,366)	(12,295)
Net withdrawals from interest reserve	0	184,794
Net deposits to operating reserve	(872)	(383,636)
Payment of development fee payable	0	(554,400)
Net cash used in investing activities	(42,354)	(800,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	(33,629)	(3,861,273)
Subscription receipts	0	4,592,083
Net cash provided by (used in) financing activities	(33,629)	730,810
Change in cash and cash equivalents	70,696	(25,144)
Cash and cash equivalents:		
Beginning	158,361	183,505
Ending	$ 229,057	$ 158,361
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	$ 54,444	$ 60,774

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

NOTE A -- Nature of business and significant accounting policies

Nature of business

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

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

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

The company’s income tax filings are subject to audit by various taxing authorities. Open periods subject to audit for federal and Wisconsin purposes are generally the previous three and four years of tax returns filed, respectively. There were no interest or penalties recorded for the years ended December 31, 2013 and 2012.

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

A summary of significant accounting policies follows:

Allocation of income/loss and tax credits

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

Use of estimates

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

NOTE A -- Nature of business and significant accounting policies (Continued)

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.

Accounts receivable and revenue recognition

The company utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements.

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

Rental revenue is recognized when earned. The project leases apartments to eligible applicants under operating leases which are substantially all on a yearly basis.

Rental property

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

	Years
Sitework	15
Buildings	27.5
Furnishings and equipment	5

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

Impairment of long-lived assets

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

NOTE A -- Nature of business and significant accounting policies (Continued)

Financing costs

Financing costs incurred by the company amounted to $89,010. The company amortized these costs on the straight-line method over the life of the mortgage, approximately four years. The use of the straight-line method rather than the effective interest method has no material effect on the financial statements.

Amortized costs included in interest expense totaled $20,980 in the year ended December 31, 2012, the last year of amortization.

Tax credit fees

In connection with obtaining an allocation of low-income housing tax credits, the company paid fees totaling $110,732 to the Wisconsin Housing and Economic Development Authority (WHEDA). The company is amortizing these fees using the straight-line method over the related tax credit compliance period of 15 years.

Subsequent events

These financial statements have not been updated for subsequent events occurring after February 26, 2014, 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:

	2013	2012
Tenants' security deposits	$ 40,381	$ 39,841
Replacement reserve	59,364	42,998
Mortgage escrow deposits*	24,272	210,738
Operating reserve	384,508	383,636
	$ 508,525	$ 677,213

*The company transfers funds from the mortgage escrow deposits to the main operating checking account to pay for real estate taxes. As of December 31, 2013, accrued real estate taxes were $0.

NOTE B -- Restricted cash (Continued)

Replacement reserve

The company's operating agreement requires the company to make monthly deposits to the replacement reserve initially equal to $300 per unit per year, and increased annually by 3%. Disbursements are restricted to capital improvements and repairs of the project. Disbursements in excess of $5,000 per month will require written approval of the managing member and asset manager. Any funds remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement.

	2013	2012
Balance, beginning	$ 42,998	$ 30,703
Annual deposits	16,304	12,252
Interest earned	62	43
Withdrawals	0	0
Balance ending	$ 59,364	$ 42,998

Operating reserve

The company's operating agreement requires the company to fund and maintain an operating reserve on or before the investor member's third equity installment in the amount of $328,555. Any excess amount remaining at the end of the compliance period shall be distributed to the members as provided for in the operating agreement. If the balance in the operating reserve falls below $187,903, the company is obligated to replenish the operating reserve from cash flow or the proceeds of sales or refinancing. Disbursements require the approval of the managing member and the asset manager.

	2013	2012
Balance, beginning	$ 383,636	$ 0
Initial deposit	0	382,555
Interest earned	872	1,081
Withdrawals	0	0
Balance, ending	$ 384,508	$ 383,636

NOTE C – Rental property under land lease, net

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

	2013	2012
Non-depreciable land improvements	$ 401,396	$ 401,396
Site work	157,636	149,934
Buildings	8,181,766	8,181,766
Furnishings and equipment	276,528	259,114
	9,017,326	8,992,210
Less accumulated depreciation	1,605,024	1,255,589
	$ 7,412,302	$ 7,736,621

NOTE D -- Mortgage notes payable

Mortgage notes payable consist of the following:

	2013	2012
CDA; original amount of $1,255,091; recourse until the three-year anniversary of the expiration of the compliance period; monthly payments of $6,359, including interest at 4.50%, commence on the first day of the month immediately following the date the company satisfies the conversion requirements (conversion date) listed in the operating agreement; the conversion requirements were satisfied on January 1, 2012; due 30 years from the conversion date or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was $3,488 and $3,614 as of December 31, 2013 and 2012, respectively; interest expense totaled $42,558 and $44,040 for the years ended December 31, 2013 and 2012, respectively.	$ 930,189	$ 963,818
Balance carried forward	930,189	963,818

NOTE D -- Mortgage notes payable (Continued)

	2013	2012
Balance brought forward	$ 930,189	$ 963,818
CDA; original amount of $760,006; recourse until the three-year anniversary of the expiration of the compliance period; monthly simple interest-only payments at 3.00%; balloon payment of principal and unpaid interest due 30 years from the date the project reaches stabilized occupancy, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was $0 and $1,013 as of December 31, 2013 and 2012, respectively; interest expense totaled $10,747 and $12,773 for the years ended December 31, 2013 and 2012, respectively.	392,000	392,000
CDA; original amount of $1,705,426; recourse until the three-year anniversary of the expiration of the compliance period; monthly interest payments at 4.50% to the extent that there is excess cash flow available; monthly principal and interest payments commence on the date the project reaches stabilized occupancy to the extent that there is excess cash flow available; due 30 years from the date the project reaches stabilized occupancy, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was $264,907 and $204,928 as of December 31, 2013 and 2012, respectively; interest expense totaled $59,979 and $64,977 for the years ended December 31, 2013 and 2012, respectively.	1,332,864	1,332,864
	$ 2,655,053	$ 2,688,682

NOTE D -- Mortgage notes payable (Continued)

Repayment of principal on the mortgage notes payable as of December 31, 2013, is as follows:

Year ending December 31,

2014	$ 35,188
2015	36,805
2016	38,495
2017	40,264
2018	42,114
Thereafter	2,462,187
	$ 2,655,053

NOTE E -- Members' capital contributions

The managing member is required to make a capital contribution of $100. The full amount is receivable as of December 31, 2013. The investor member has made the required capital contributions totaling $7,514,873 as of December 31, 2013.

NOTE F -- Related-party transactions

Ground lease

The company entered into a ground lease with the managing member which required a one-time rental fee of $392,000. The term of the lease began on December 4, 2008, and ends on December 3, 2106, unless terminated earlier in accordance with the ground lease agreement. Prepaid ground lease was $371,667 and $375,667 as of December 31, 2013 and 2012, respectively. Ground lease expense totaled $4,000 for each of the years ended December 31, 2013 and 2012.

Development fee

The company entered into a development agreement with the managing member. The entire development fee of $924,000 has been capitalized into the cost of the buildings. The development fee payable balance of $544,400 was paid off in 2012.

Managing member management fee

The operating agreement provides for the company to pay a cumulative annual managing member management fee to the managing member in the initial amount of $20,000, increasing annually by 3%. The fee is payable out of cash flow as defined in the operating agreement. Accrued managing member management fees included in accrued expenses were $106,184 and $83,673 as of December 31, 2013 and 2012, respectively. Managing member management fees totaled $22,511 and $21,855 for the years ended December 31, 2013 and 2012, respectively.

NOTE F -- Related-party transactions (Continued)

Asset management fee

The operating agreement provides for the company to pay a cumulative annual asset management fee to an affiliate of the investor member in the initial amount of $4,800, increasing annually by 3%. The fee is payable out of cash flow as defined in the operating agreement. Accrued asset management fees included in accrued expenses were $24,543 and $19,141 as of December 31, 2013 and 2012, respectively. Asset management fees totaled $5,402 and $5,245 for the years ended December 31, 2013 and 2012, 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 $188,000. 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, three years from the achievement of stabilized occupancy or three years after closing of the permanent loan. 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 to the company as of December 31, 2013 and 2012.

NOTE G -- Company profits and losses and distributions

Distributable cash flow, as defined by the company agreement, is allocated .01% to the managing member and 99.99% to the investor member.

Gain, if any, from a sale or exchange or other disposition of the property owned by the company is allocable as follows:

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

2. 99.99% to the investor member and 0.01% to the managing member until the investor member’s capital account balance equals the projected tax liabilities as defined in the operating agreement.

3. The remainder of such gain, if any, 99.99% to the investor member and .01% to the managing member.

There were no distributions made during the years ended December 31, 2013 and 2012.

NOTE H -- Commitments and contingencies

Land Use Restriction Agreement (LURA)

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

Management fee

The company has entered into a management agreement with Stone House Development, Inc. Under the agreement, the company is obligated to pay a management fee of 6% of gross project rents collected. Management fees incurred totaled $28,717 and $29,117 for the years ended December 31, 2013 and 2012, respectively.

SUPPLEMENTARY INFORMATION

ALLIED DRIVE REDEVELOPMENT, LLC

SCHEDULES OF PROJECT OPERATING EXPENSES

Years ended December 31, 2013 and 2012

	2013	2012
RENT AND ADMINISTRATIVE		
Advertising	$ 332	$ 540
Office salaries	181	1,090
Office expense	17,439	17,294
Manager credit	14,040	13,850
Management fees	28,717	29,117
Professional fees - legal	35	218
Professional fees - audit	6,400	6,250
Bad debt expense	984	1,423
Manager salaries	37,891	27,594
TOTAL RENT AND ADMINISTRATIVE	$ 106,019	$ 97,376
UTILITIES		
Electric	$ 20,622	$ 16,273
Water	7,183	7,236
Gas	17,873	15,107
Sewer	11,037	11,271
TOTAL UTILITIES	$ 56,715	$ 49,887
OPERATING AND MAINTENANCE		
Payroll	$ 20,826	$ 22,384
Supplies	18,400	13,405
Contracts	43,828	30,053
Garbage and trash removal	7,122	6,649
Security and fire safety	36,523	20,828
Heating and cooling repair and maintenance	3,975	4,265
Snow removal	5,555	6,683
TOTAL OPERATING AND MAINTENANCE	$ 136,229	$ 104,267
GROUND LEASE	$ 4,000	$ 4,000
TAXES AND INSURANCE		
Real estate tax	$ 60,968	$ 59,305
Payroll taxes	6,034	5,204
Property and liability insurance	13,745	12,315
Employee benefits	9,827	9,808
TOTAL TAXES AND INSURANCE	$ 90,574	$ 86,632