

# Allied Drive Redevelopment, LLC

Financial Report

December 31, 2012

# ALLIED DRIVE REDEVELOPMENT, LLC

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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, 2012 and 2011, 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, 2012 and 2011, 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 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 25, 2013

# ALLIED DRIVE REDEVELOPMENT, LLC

## BALANCE SHEETS

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 158,361	\$ 183,505
Restricted cash	677,213	391,142
Accounts receivable	9,328	762
Prepaid ground lease	375,667	379,667
Prepaid expenses	9,437	10,113
Rental property under land lease, net	7,736,621	8,044,905
Financing costs, net	0	20,890
Tax credit fees, net	81,203	88,586
	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 9,047,830</u></u>	<u><u>\$ 9,119,570</u></u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
Mortgage notes payable	\$ 2,688,682	\$ 6,549,955
Development fee payable	0	554,400
Accounts payable	38,523	10,409
Accrued real estate taxes	59,305	56,439
Accrued interest	209,555	147,993
Accrued expenses	111,774	82,455
Tenants' security deposits payable	39,795	39,580
Prepaid rents	25,570	28,187
	<u>                    </u>	<u>                    </u>
Total liabilities	3,173,204	7,469,418
<b>MEMBERS' EQUITY</b>	<u>5,874,626</u>	<u>1,650,152</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u><u>\$ 9,047,830</u></u>	<u><u>\$ 9,119,570</u></u>

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

# ALLIED DRIVE REDEVELOPMENT, LLC

## STATEMENTS OF OPERATIONS

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Rental income	\$ 491,125	\$ 487,825
Vacancies and concessions	(7,577)	(1,234)
Other revenue	<u>10,675</u>	<u>12,220</u>
Total revenues	494,223	498,811
Rental expenses:		
Rent and administrative	97,376	96,758
Utilities	49,887	54,222
Operating and maintenance	104,267	96,442
Ground lease	4,000	4,000
Taxes and insurance	<u>86,632</u>	<u>79,136</u>
Total rental expenses	<u>342,162</u>	<u>330,558</u>
Net rental income	152,061	168,253
Financial income (expense):		
Interest income	1,669	1,635
Interest expense	<u>(143,226)</u>	<u>(242,947)</u>
Total financial income (expense)	<u>(141,557)</u>	<u>(241,312)</u>
Income (loss) before other expenses	10,504	(73,059)
Other expenses:		
Depreciation	343,630	353,695
Amortization	7,383	7,382
Managing member management fee	21,855	21,218
Asset management fee	<u>5,245</u>	<u>5,092</u>
Total other expenses	<u>378,113</u>	<u>387,387</u>
Net loss	<u><u>\$ (367,609)</u></u>	<u><u>\$ (460,446)</u></u>

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

## ALLIED DRIVE REDEVELOPMENT, LLC

### STATEMENTS OF MEMBERS' EQUITY Years ended December 31, 2012 and 2011

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Members' equity:			
Balances, December 31, 2010	\$ 23	\$ 6,702,758	\$ 6,702,781
Net loss	<u>(46)</u>	<u>(460,400)</u>	<u>(460,446)</u>
Balances, December 31, 2011	(23)	6,242,358	6,242,335
Net loss	<u>(37)</u>	<u>(367,572)</u>	<u>(367,609)</u>
Balances, December 31, 2012	(60)	5,874,786	5,874,726
Subscriptions receivable:			
Balances, December 31, 2011 and 2010	100	4,592,083	4,592,183
Subscription receipts	<u>0</u>	<u>(4,592,083)</u>	<u>(4,592,083)</u>
Balances, December 31, 2012	<u>100</u>	<u>0</u>	<u>100</u>
Total members' equity	<u>\$ (160)</u>	<u>\$ 5,874,786</u>	<u>\$ 5,874,626</u>
Ownership percentages	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

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

## ALLIED DRIVE REDEVELOPMENT, LLC

### STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (367,609)	\$ (460,446)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	343,630	353,695
Amortization	7,383	7,382
Amortization of financing costs	20,890	22,248
Amortization of prepaid ground lease	4,000	4,000
Increase (decrease) in cash due to changes in:		
Tenants' security deposits	(48)	(85)
Mortgage escrow deposits	(74,886)	(74,791)
Accounts receivable	(8,566)	(48)
Prepaid expenses	676	469
Accounts payable	28,114	2,170
Accrued real estate taxes	2,866	1,935
Accrued interest	61,562	60,213
Accrued expenses	29,319	26,455
Tenants' security deposits payable	215	15
Prepaid rents	(2,617)	(1,946)
Net cash provided by (used in) operating activities	44,929	(58,734)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of rental property	(35,346)	(7,415)
Net deposits to replacement reserve	(12,295)	(12,304)
Net withdrawals from interest reserve	184,794	91,140
Net deposits to operating reserve	(383,636)	0
Payment of development fee payable	(554,400)	0
Net cash provided by (used in) investing activities	(800,883)	71,421
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage notes payable	(3,861,273)	0
Subscription receipts	4,592,083	0
Net cash provided by financing activities	730,810	0
Change in cash and cash equivalents	(25,144)	12,687
Cash and cash equivalents:		
Beginning	183,505	170,818
Ending	\$ 158,361	\$ 183,505
<b>SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 60,774	\$ 160,486

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

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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**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, 2012 and 2011.

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.

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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**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:

	<u>Years</u>
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.

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

#### Financing costs

Financing costs incurred by the company amounted to \$89,010. The company is amortizing 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 \$20,890 and \$22,248 for the years ended December 31, 2012 and 2011, respectively.

#### 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 25, 2013, which is the date these financial statements were available to be issued. The company has no responsibility to update these financial statements for events and circumstances occurring after this date.

#### Reclassifications

Some items in the 2011 financial statements have been reclassified to be consistent with the current year's presentation.

### NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	<u>2012</u>	<u>2011</u>
Tenants' security deposits	\$ 39,841	\$ 39,793
Replacement reserve	42,998	30,703
Mortgage escrow deposits*	210,738	135,852
Interest reserve	0	184,794
Operating reserve	<u>383,636</u>	<u>0</u>
	<u>\$ 677,213</u>	<u>\$ 391,142</u>

\*Real estate taxes of \$56,439 and insurance of \$10,993 were paid from the operating cash account in 2012.

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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### 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.

	<u>2012</u>	<u>2011</u>
Balance, beginning	\$ 30,703	\$ 18,399
Annual deposits	12,252	12,252
Interest earned	43	52
Withdrawals	<u>0</u>	<u>0</u>
Balance ending	<u>\$ 42,998</u>	<u>\$ 30,703</u>

#### 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.

	<u>2012</u>	<u>2011</u>
Balance, beginning	\$ 0	\$ 0
Initial deposit	382,555	0
Interest earned	1,081	0
Withdrawals	<u>0</u>	<u>0</u>
Balance, ending	<u>\$ 383,636</u>	<u>\$ 0</u>

**ALLIED DRIVE REDEVELOPMENT, LLC**  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2012

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**NOTE C -- Rental property under land lease, net**

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

	2012	2011
Non-depreciable land improvements	\$ 401,396	\$ 401,396
Site work	149,934	149,934
Buildings	8,181,766	8,181,766
Furnishings and equipment	259,114	223,768
	8,992,210	8,956,864
Less accumulated depreciation	1,255,589	911,959
	\$ 7,736,621	\$ 8,044,905

**NOTE D -- Mortgage notes payable**

Mortgage notes payable consist of the following:

	2012	2011
Johnson Bank; monthly interest-only payments at the option of the lender of 2.25% plus the 90-Day LIBOR or 2.25% plus the one year LIBOR; due February 1, 2012; mortgage note was paid in full in January 2012; guaranteed by the managing member; collateralized by a mortgage on the project's rental property including the assignment of rents and security agreement.	\$ 0	\$ 3,570,000
Balances carried forward	0	3,570,000

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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

	2012	2011
Balances brought forward	\$ 0	\$ 3,570,000
 CDA; original amount of \$1,255,091; recourse until the three-year anniversary of the expiration of the compliance period; monthly interest-only payments at 4.50%; 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 \$3,614 and \$0 as of December 31, 2012 and 2011, respectively; interest expense totaled \$44,040 and \$56,479 for the years ended December 31, 2012 and 2011, respectively.	963,818	1,255,091
 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 \$1,013 and \$0 as of December 31, 2012 and 2011, respectively; interest expense totaled \$12,773 and \$11,760 for the years ended December 31, 2012 and 2011, respectively.	392,000	392,000
Balances carried forward	1,355,818	5,217,091

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

	2012	2011
Balances brought forward	\$ 1,355,818	\$ 5,217,091
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 \$204,928 and \$139,951 as of December 31, 2012 and 2011, respectively; interest expense totaled \$64,977 and \$59,979 for the years ended December 31, 2012 and 2011, respectively.	1,332,864	1,332,864
	\$ 2,688,682	\$ 6,549,955

Repayment of principal on the mortgage notes payable as of December 31, 2012, is as follows:

Year ending December 31,

2013	\$ 33,643
2014	35,188
2015	36,805
2016	38,495
2017	40,264
Thereafter	2,504,287
	\$ 2,688,682

# ALLIED DRIVE REDEVELOPMENT, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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### **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, 2012. The investor member is required to make capital contributions totaling \$7,514,873. The investor member has made the contributions as of December 31, 2012.

### **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 \$375,667 and \$379,667 as of December 31, 2012 and 2011, respectively. Ground lease expense totaled \$4,000 for each of the years ended December 31, 2012 and 2011.

#### **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 unpaid portion of the development fee is payable from future capital contributions and available cash flow as defined in the operating agreement. Development fee payable was \$0 and \$554,400 as of December 31, 2012 and 2011, respectively.

#### **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 \$83,673 and \$61,818 as of December 31, 2012 and 2011, respectively. Managing member management fees totaled \$21,855 and \$21,218 for the years ended December 31, 2012 and 2011, respectively.

#### **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 \$19,141 and \$13,896 as of December 31, 2012 and 2011, respectively. Asset management fees totaled \$5,245 and \$5,092 for the years ended December 31, 2012 and 2011, respectively.

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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**NOTE F -- Related-party transactions (Continued)**

**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, 2012 and 2011.

**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, 2012 and 2011.

**ALLIED DRIVE REDEVELOPMENT, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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**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 \$29,117 and \$29,487 for the years ended December 31, 2012 and 2011, respectively.

## SUPPLEMENTARY INFORMATION

**ALLIED DRIVE REDEVELOPMENT, LLC**  
**SCHEDULES OF PROJECT OPERATING EXPENSES**  
Years ended December 31, 2012 and 2011

	2012	2011
<b>RENT AND ADMINISTRATIVE</b>		
Advertising	\$ 540	\$ 584
Office salaries	1,090	0
Office expense	17,294	18,952
Manager credit	13,850	12,555
Management fees	29,117	29,487
Professional fees - legal	218	116
Professional fees - audit	6,250	7,250
Bad debt expense	1,423	208
Manager salaries	27,594	27,506
Miscellaneous administrative	0	100
	<b>\$ 97,376</b>	<b>\$ 96,758</b>
<b>UTILITIES</b>		
Electric	\$ 16,273	\$ 18,182
Water	7,236	7,832
Gas	15,107	15,821
Sewer	11,271	12,387
	<b>\$ 49,887</b>	<b>\$ 54,222</b>
<b>OPERATING AND MAINTENANCE</b>		
Payroll	\$ 22,384	\$ 20,797
Supplies	13,405	12,713
Contracts	30,053	38,441
Garbage and trash removal	6,649	5,630
Security and fire safety	20,828	9,429
Heating and cooling repair and maintenance	4,265	3,425
Snow removal	6,683	6,007
	<b>\$ 104,267</b>	<b>\$ 96,442</b>
<b>GROUND LEASE</b>	<b>\$ 4,000</b>	<b>\$ 4,000</b>
<b>TAXES AND INSURANCE</b>		
Real estate tax	\$ 59,305	\$ 56,439
Payroll taxes	5,204	4,617
Property and liability insurance	12,315	13,560
Employee benefits	9,808	4,520
	<b>\$ 86,632</b>	<b>\$ 79,136</b>
<b>TOTAL TAXES AND INSURANCE</b>	<b>\$ 86,632</b>	<b>\$ 79,136</b>