Monona Shores Redevelopment, LLC

Financial Report

December 31, 2012

SVA Certified Public Accountants, S.C.
Tax, Audit and Business Strategy

MONONA SHORES REDEVELOPMENT, LLC

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SVA

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INDEPENDENT AUDITOR'S REPORT

To the Members
Monona Shores Redevelopment, LLC
Madison, Wisconsin

We have audited the accompanying financial statements of Monona Shores 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 Monona Shores 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.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

March 19, 2013

MONONA SHORES REDEVELOPMENT, LLC

BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 76,689	$ 28,671
Restricted cash	167,635	137,338
Accounts receivable	48,514	39,253
Prepaid insurance	7,237	7,237
Rental property, net	5,079,150	5,456,790
Financing fees, net	10,970	14,261
TOTAL ASSETS	$ 5,390,195	$ 5,683,550
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable	$ 5,594,340	$ 5,670,589
Operating deficit loan	80,000	80,000
Accounts payable	9,212	38,644
Accrued expenses	56,502	66,379
Accrued real estate taxes	93,556	89,125
Accrued interest	452,850	266,701
Prepaid rents	26,342	26,297
Tenants' security deposits payable	52,576	42,766
Total liabilities	6,365,378	6,280,501
MEMBERS' EQUITY	(975,183)	(596,951)
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 5,390,195	$ 5,683,550

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

MONONA SHORES REDEVELOPMENT, LLC
STATEMENTS OF OPERATIONS
Years ended December 31, 2012 and 2011

	2012	2011
Revenues:		
Rental income	$ 1,046,097	$ 1,019,136
Vacancies and concessions	(68,653)	(180,679)
Other revenues	52,620	53,271
Total revenues	1,030,064	891,728
Rental expenses:		
Rent and administrative	172,181	142,733
Utilities	65,652	68,232
Operating and maintenance	190,341	215,648
Taxes and insurance	145,592	139,253
Total rental expenses	573,766	565,866
Net rental income	456,298	325,862
Financial income (expense):		
Interest income	135	182
Interest expense	(452,036)	(443,522)
Total financial income (expense)	(451,901)	(443,340)
Income (loss) before other expenses	4,397	(117,478)
Other expenses:		
Depreciation	377,640	379,103
Asset management fee	4,989	4,844
Total other expenses	382,629	383,947
Net loss	$ (378,232)	$ (501,425)

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

MONONA SHORES REDEVELOPMENT, LLC

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

	Managing member	Investor members	Total
Balances, December 31, 2010	$ 2,070,630	$ (2,166,156)	$ (95,526)
Net loss	(501)	(500,924)	(501,425)
Balances, December 31, 2011	2,070,129	(2,667,080)	(596,951)
Net loss	(378)	(377,854)	(378,232)
Balances, December 31, 2012	$ 2,069,751	$ (3,044,934)	$ (975,183)

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

MONONA SHORES REDEVELOPMENT, LLC

STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (378,232)	$ (501,425)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	377,640	379,103
Amortization of financing fees	3,291	3,291
Increase (decrease) in cash due to changes in:		
Tax and insurance escrow	(3,002)	1,115
Tenants' security deposits	(8,432)	(15,709)
Accounts receivable	(9,261)	(16,068)
Accounts payable	(29,432)	17,665
Accrued expenses	(9,877)	21,555
Accrued real estate taxes	4,431	2,976
Accrued interest	186,149	171,889
Prepaid rents	45	2,428
Tenants' security deposits payable	9,810	11,781
Net cash provided by operating activities	143,130	78,601
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of rental property	0	(19,778)
Net deposits to operating reserve	(12,025)	(12,014)
Net withdrawals from (deposits to) replacement reserve	(6,838)	15,180
Net cash used in investing activities	(18,863)	(16,612)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	(76,249)	(70,503)
Change in cash and cash equivalents	48,018	(8,514)
Cash and cash equivalents:		
Beginning	28,671	37,185
Ending	$ 76,689	$ 28,671
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	$ 262,596	$ 268,342

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

NOTE A -- Nature of business and significant accounting policies

Nature of business

Monona Shores Redevelopment, LLC (the company), was formed on December 10, 1997, as a limited liability company under the Wisconsin Limited Liability Company Act (the Act). It has rehabilitated and is operating a 104-unit, low-income housing project called the New Monona Shores Apartments (the project) located in Madison, Wisconsin. The project qualifies for low-income housing tax credits pursuant to Section 42 of the Internal Revenue Code (IRC). The project was placed in service in December 1999.

The company shall be operated in a manner consistent with its treatment as a partnership for federal and state income tax purposes. Therefore, the accompanying financial statements do not include the personal or corporate assets and liabilities of the members, their obligation 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 consists of one managing member and two investor members, with rights, preferences and privileges as described in the operating agreement. Each member's liability for the debts and obligations of the company shall be limited to the maximum extent permitted by the Act and other applicable law.

The operating agreement states that the company shall be dissolved on or before December 31, 2035.

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.

NOTE A -- Nature of business and significant accounting polices (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 not interest bearing. A receivable is considered past due if payments have not been received by the company after 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 receivable are written off only after the tenant vacates the unit. A late payment fee of $30 or $35 is charged for accounts 5 days past due.

Rental revenue is recognized when earned. The company 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
Land improvements	15
Buildings and improvements	27.5
Furnishings and equipment	5

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

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.

Financing fees

Financing fees incurred by the company totaled $49,365. The company is amortizing these fees using the straight-line method over the life of the mortgage, 15 years. The use of the straight-line method rather than the effective interest method has no material effect on the financial statements.

Amortized fees included in interest expense amounted to $3,291 for each of the years ended December 31, 2012 and 2011.

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

Subsequent events

These financial statements have not been updated for subsequent events occurring after March 19, 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.

NOTE B -- Restricted cash

Restricted cash is comprised of the following:

	2012	2011
Tax and insurance escrow	$ 40,161	$ 37,159
Tenants' security deposits	51,198	42,766
Operating reserve	28,950	16,925
Replacement reserve	47,326	40,488
	$ 167,635	$ 137,338

Operating reserve

The operating agreement required the company to initially fund an operating reserve in the amount of $178,000. This reserve is to be maintained during the operating guaranty period, as defined in the operating agreement. The reserve is to be replenished from cash flow, if available. Disbursements are to be used for operating and debt service deficits. Withdrawals may be made only with the consent of the managing member and the asset manager, Banc One Neighborhood Development Corporation (BONDC), an affiliate of Banc One Community Development Corporation (Banc One).

Replacement reserve

The operating agreement requires the company to fund a replacement reserve in the amount of $26,000 per year. Disbursements are to be used for capital improvements and repairs. Withdrawals may be made only with the consent of the managing member with notification to the investor members.

	2012	2011
Balance, beginning	$ 40,488	$ 55,668
Annual deposits	26,004	26,004
Interest earned	56	137
Approved withdrawals	(19,222)	(41,321)
Balance, ending	$ 47,326	$ 40,488

NOTE C -- Rental property, net

Rental property, net is comprised of the following:

	2012	2011
Land	$ 146,400	$ 146,400
Land improvements	572,015	572,015
Buildings and improvements	9,125,419	9,125,419
Furnishings and equipment	312,514	312,514
	10,156,348	10,156,348
Less accumulated depreciation	5,077,198	4,699,558
	$ 5,079,150	$ 5,456,790

NOTE D -- Mortgage notes payable

Mortgage notes payable consist of the following:

	2012	2011
U.S. Bankcorp; nonrecourse; monthly payments of $28,237, including interest at 7.86%; due June 1, 2016; collateralized by a first mortgage on the rental property and the assignment of leases, rents and profits; prepayment of the note in full is allowed, subject to a prepayment premium.	$ 3,299,126	$ 3,375,375
Community Development Authority of the City of Madison (CDA), member of the managing member; interest accrues at 8%, compounded annually; annual principal and interest payments of $79,323 subject to surplus cash, as defined in the operating agreement; due on the earlier of the sale of the project or January 1, 2030; collateralized by a second mortgage on the rental property; interest expense totaled $186,649 and $172,351 for the years ended December 31, 2012 and 2011, respectively; accrued interest was $431,241 and $244,592 as of December 31, 2012 and 2011, respectively.	2,082,147	2,082,147
Balance carried forward	5,381,273	5,457,522

NOTE D -- Mortgage notes payable (Continued)

	2012	2011
Balance brought forward	$ 5,381,273	$ 5,457,522
Wisconsin Housing and Economic Development Authority (WHEDA); nonrecourse; non-interest bearing; monthly principal payments beginning on June 1, 2023; due May 1, 2031; collateralized by a third mortgage on the rental property; prepayment of the note is not allowed until May 2023.	213,067	213,067
	$ 5,594,340	$ 5,670,589

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

Year ending December 31,	
2013	$ 82,463
2014	89,183
2015	96,451
2016	3,031,029
2017	0
Thereafter	2,295,214
	$ 5,594,340

NOTE E -- Members' capital contributions

The company has one managing member, Madison Revitalization and Community Development Corporation, which has a .10% interest and two investor members, Banc One and FNBC Leasing Corporation, which have 50.90% and 49.00% interests, respectively.

NOTE F -- Related-party transactions

Asset management fee

The company is obligated to BONDC for a cumulative annual asset management fee in the initial amount of $3,500. The fee increases 3% each year and is payable quarterly. Asset management fees totaled $4,989 and $4,844 for the years ended December 31, 2012 and 2011, respectively. Accrued asset management fees included in accrued expenses were $54,657 and $49,668 as of December 31, 2012 and 2011, respectively.

NOTE F -- Related-party transactions (Continued)

Incentive project management fee

The company is obligated to pay a non-cumulative annual incentive project management fee to the managing member payable only out of cash flow, if any. The annual incentive project management fee shall be equal to 75% of the remaining cash flow as defined in the operating agreement. There were no incentive project management fees incurred for the years ended December 31, 2012 and 2011.

Operating deficit guaranty

Under the terms of the operating agreement, the guarantor and developer, both affiliates of the managing member, were required to fund operating deficits up to $454,444 during the operating guaranty period, which was a 5-year period starting on the date that breakeven operations was met. Funds made available under this guaranty were to be treated as non-interest bearing loans and are to be repaid according to the cash flow priorities set forth in the operating agreement. Operating deficit loans totaled $80,000 as of December 31, 2012 and 2011.

NOTE G -- 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 the IRC Section 42. If the company fails to comply with this agreement or with the IRC, it may be ineligible for low-income housing tax credits and the members may be required to recapture a portion of the tax credits previously claimed on their income tax returns. In addition, noncompliance may require an adjustment to the contributed capital of the investor members. The project is obligated to certify tenant eligibility.

Property management agreement

The company has entered into a property management agreement with Broihahn Management & Consulting, LLC. A property management fee of 6% of net rental receipts of the project is payable on a monthly basis. Property management fees incurred under this agreement were $59,329 and $52,545 for the years ended December 31, 2012 and 2011, respectively.

Ground lease agreements

The company entered into a ground lease agreement with the CDA whereby the company is required to pay $100 annually and all real estate taxes relating to the project until November 2048.