

# Truax Park Development, Phase 2, LLC

Financial Report

December 31, 2022

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of Truax Park Development, Phase 2, LLC, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Truax Park Development, Phase 2, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Truax Park Development, Phase 2, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Truax Park Development, Phase 2, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Truax Park Development, Phase 2, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## 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 are presented for purposes of additional analysis and are 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

April 4, 2023

Lead auditor: Lynn C. Heslinga, CPA  
SVA Certified Public Accountants, S.C.  
ID #39-1203191  
Phone number: (608) 831-8181



## TRUAX PARK DEVELOPMENT, PHASE 2, LLC

### STATEMENTS OF OPERATIONS

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues:		
Rental income	\$ 289,413	\$ 275,484
Operating subsidies	158,278	164,304
Vacancies and concessions	(1,409)	(1,200)
Other revenue	577	2,548
	<u>446,859</u>	<u>441,136</u>
Total revenues	446,859	441,136
Rental expenses:		
Administrative	94,055	90,663
Utilities	73,436	73,420
Operating and maintenance	139,376	142,251
Operating lease expense	408	408
Taxes and insurance	93,477	94,471
	<u>400,752</u>	<u>401,213</u>
Total rental expenses	400,752	401,213
Net rental income	46,107	39,923
Financial income (expense):		
Interest income	96	117
Interest expense	(2,767)	(2,727)
	<u>(2,671)</u>	<u>(2,610)</u>
Total financial income (expense)	(2,671)	(2,610)
Income before other expenses	43,436	37,313
Other expenses:		
Depreciation	221,716	221,716
Amortization	8,563	8,562
Asset management fee	5,280	5,280
	<u>235,559</u>	<u>235,558</u>
Total other expenses	235,559	235,558
Net loss	<u>\$ (192,123)</u>	<u>\$ (198,245)</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, 2022 and 2021

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	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Balances, December 31, 2020	\$ 587	\$ 5,894,254	\$ 5,894,841
Net loss	<u>(20)</u>	<u>(198,225)</u>	<u>(198,245)</u>
Balances, December 31, 2021	567	5,696,029	5,696,596
Net loss	<u>(19)</u>	<u>(192,104)</u>	<u>(192,123)</u>
Balances, December 31, 2022	<u>\$ 548</u>	<u>\$ 5,503,925</u>	<u>\$ 5,504,473</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (192,123)	\$ (198,245)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	221,716	221,716
Amortization of debt issuance costs	1,348	1,348
Amortization of tax credit fees	8,563	8,562
Amortization of operating lease right-of-use asset	408	408
Increase (decrease) in cash due to changes in:		
Accounts receivable	(30,339)	7,814
Prepaid expenses	(2,518)	0
Accounts payable	66,920	7,511
Accrued interest	1,419	1,379
Accrued expenses	5,067	5,340
Accrued real estate taxes	84	25
Tenants' security deposits payable	(42)	150
Prepaid rents	(10,009)	2,654
Net cash provided by operating activities	70,494	58,662
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	0	0
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>0</u>	<u>0</u>
Change in cash, cash equivalents, and restricted cash	70,494	58,662
Cash, cash equivalents, and restricted cash:		
Beginning	<u>330,261</u>	<u>271,599</u>
Ending	<u>\$ 400,755</u>	<u>\$ 330,261</u>
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEET</b>		
Cash and cash equivalents	\$ 108,306	\$ 53,656
Restricted cash	<u>292,449</u>	<u>276,605</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 400,755</u>	<u>\$ 330,261</u>

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

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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### **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, 2022

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### 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.

The company leases apartments to eligible residents under operating leases which are substantially all on a yearly basis. Residential apartment leases often provide residents with the option to have a pet or use the project's parking, laundry, and/or storage facilities, etc. which are fixed fee lease components. To the extent the company provides such lease components, they are included in other revenue. Rental revenue is recognized, net of vacancies and concessions, on a straight-line basis over the term of the leases.

Other revenue also consists of various tenant charges provided for in the lease contract, such as late fees, cleaning fees, and damages fees which are variable payments that do not provide a transfer of a good or service to the tenants and are not considered components of the lease contract. These fees are recognized as revenue when assessed. Certain services are also provided to tenants outside of the lease contract and are recognized when the service is complete.

As of December 31, 2022 and 2021, all of the company's real estate assets are subject to operating leases.

The residential leases do not provide extension options. A new lease agreement is executed if both parties wish to continue the tenancy upon expiration of the existing lease term. As of December 31, 2022, the average remaining term of the company's residential leases is less than 12 months.

The components of rental revenue for all resident operating leases are as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Fixed operating lease revenue from apartment rentals, net of vacancies and concessions	\$ 288,004	\$ 274,284
Variable operating lease revenue included in other revenue	<u>168</u>	<u>2,532</u>
Total lease income	<u>\$ 288,172</u>	<u>\$ 276,816</u>

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

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

Supplemental statement of cash flows information related to leases as of December 31, is as follows:

	2022	2021
Cash received from operating leases		
Operating cash flows from operating leases	\$ 280,064	\$ 277,068

Operating subsidies represent grants from governmental agencies to provide housing to tenants. The company accounted for the proceeds from the grants by analogy to International Accounting Standard (IAS 20), *Accounting for Government Grants and Disclosure of Government Assistance*, and its principles surrounding the recognition of grants related to income. The company recognizes income related to grants on a systematic and rational basis when it becomes probable that the company has complied with the terms and conditions of the grant and in the period in which the corresponding costs related to the grant are recognized.

**Leases - Lessee**

The company determines if an arrangement is or contains a lease at inception. The company has entered into an operating lease for land. Operating leases are included in right-of-use (ROU) assets in the balance sheet. ROU assets include prepaid rent. Operating lease expense is recognized on a straight-line basis over the lease term.

**Rental property on leased land**

Rental property on leased land 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:

	Years
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.

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2022

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

**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, 2022 and 2021.

**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.

**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.

**Adoption of New Accounting Standard – Government Assistance**

In November 2021, FASB issued Accounting Standards Update (ASU) No. 2021-10, Government Assistance (*Topic 832*): *Disclosures by Business Entities about Government Assistance*, which provides more transparency of government assistance including disclosure of the types of assistance, an entity's accounting for the assistance, and the effect of the assistance on an entity's financial statements.

The organization was required to adopt this new accounting standard during its fiscal year ended December 31, 2022. The entity has elected to apply the amendments retrospectively to all periods presented. The adoption of this new standard did not have a material impact on the entity's financial statements.

**Adoption of New Accounting Standard - Leases**

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, Leases) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2022

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

The company adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2021 (the beginning of the earliest comparative period presented) using a modified retrospective approach, with certain practical expedients available.

The company elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The standard did not have a material impact on the company's financial statements. The most significant impact was changing the terminology of the operating lease to ROU asset on the balance sheets and operating lease expense on the statements of operations. As a lessor, the adoption of the new standard did not have a material impact and did not change the accounting for operating leases.

**Subsequent events**

These financial statements have not been updated for subsequent events occurring after April 4, 2023, 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>2022</u>	<u>2021</u>
Tenants' security deposits	\$ 6,000	\$ 6,000
Replacement reserve	95,926	80,102
Operating reserve	158,180	158,164
ACC reserve	<u>32,343</u>	<u>32,339</u>
	<u>\$ 292,449</u>	<u>\$ 276,605</u>

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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### NOTE B -- Restricted cash (Continued)

#### 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>2022</u>	<u>2021</u>
Balance, beginning	\$ 80,102	\$ 64,255
Annual deposits	15,840	15,840
Interest earned	9	7
Withdrawals	<u>(25)</u>	<u>0</u>
	<u>\$ 95,926</u>	<u>\$ 80,102</u>

#### 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>2022</u>	<u>2021</u>
Balance, beginning	\$ 32,339	\$ 32,336
Interest earned	<u>4</u>	<u>3</u>
	<u>\$ 32,343</u>	<u>\$ 32,339</u>

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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### NOTE B -- Restricted cash (Continued)

#### 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>2022</u>	<u>2021</u>
Balance, beginning	\$ 158,164	\$ 158,148
Interest earned	<u>16</u>	<u>16</u>
	<u>\$ 158,180</u>	<u>\$ 158,164</u>

### NOTE C -- Rental property on leased land, net

Rental property on leased land, net is comprised of the following:

	<u>2022</u>	<u>2021</u>
Non-depreciable land preparation costs and improvements	\$ 86,867	\$ 86,867
Land improvements	130,994	130,994
Buildings and improvements	7,730,891	7,730,891
Furnishings and equipment	<u>218,941</u>	<u>218,941</u>
	8,167,693	8,167,693
Less accumulated depreciation	<u>1,600,096</u>	<u>1,378,380</u>
	<u>\$ 6,567,597</u>	<u>\$ 6,789,313</u>

## TRUAX PARK DEVELOPMENT, PHASE 2, LLC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2022

#### NOTE D -- Mortgage notes payable, net

Mortgage notes payable, net consists of the following:

	2022	2021
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 \$43,021 and \$44,369 as of December 31, 2022 and 2021, 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.	288,000	288,000
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 \$10,189 and \$8,770 as of December 31, 2022 and 2021, respectively; interest expense totaled \$1,419 and \$1,379 for the years ended December 31, 2022 and 2021, respectively.	40,000	40,000
Total mortgage notes payable	1,519,288	1,519,288
Less unamortized debt issuance costs	43,021	44,369
	\$ 1,476,267	\$ 1,474,919

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2022

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

Repayment of principal on the mortgage notes payable as of December 31, 2022, is as follows:

Year ending December 31,

2023	\$	0
2024		0
2025		0
2026		0
2027		0
Thereafter		<u>1,519,288</u>
		<u>\$ 1,519,288</u>

**NOTE E -- Operating lease ROU asset**

The company leases its land under an operating 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. Operating lease ROU asset was \$36,736 and \$37,144 as of December 31, 2022 and 2021, respectively. Operating lease expense totaled \$408 for each of the years ended December 31, 2022 and 2021.

**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, 2022. 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, 2022.

**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 \$0 and \$7,637 as of December 31, 2022 and 2021, respectively.

**Accounts payable**

Included in accounts payable are amounts due to the City of Madison, an affiliate of the managing member, for project funds paid by the City of Madison on behalf of the project totaling \$19,871 and \$0 as of December 31, 2022 and 2021, respectively.

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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### **NOTE G -- Related-party transactions (Continued)**

#### **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 \$158,278 and \$164,304 were earned during the years ended December 31, 2022 and 2021, respectively. Included in accounts receivable are operating subsidies receivable of \$244,936 and \$204,332 as of December 31, 2022 and 2021, 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, 2022 and 2021.

#### **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, 2022 and 2021.

#### **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 \$14,507 and \$13,774 for the years ended December 31, 2022 and 2021, 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 \$35,880 and \$30,600 as of December 31, 2022 and 2021, respectively. Asset management fees incurred totaled \$5,280 for each of the years ended December 31, 2022 and 2021.

**TRUAX PARK DEVELOPMENT, PHASE 2, LLC**  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE G -- Related-party transactions (Continued)**

**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, 2022 and 2021.

**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.

**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.

# TRUAX PARK DEVELOPMENT, PHASE 2, LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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### **NOTE I -- Commitments and contingencies (Continued)**

#### **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.

#### **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 15<sup>th</sup> 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 \$6,000 for each of the years ended December 31, 2022 and 2021.

#### **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, 2022 and 2021

**SCHEDULES OF PROJECT EXPENSES**

	2022	2021
<b>ADMINISTRATIVE</b>		
Office salaries	\$ 53,682	\$ 52,468
Office expense	7,892	7,206
Management fees	20,507	19,774
Professional fees - audit	9,231	8,951
Professional fees - bookkeeping/accounting	824	880
Miscellaneous rent and administrative	1,919	1,384
<b>TOTAL ADMINISTRATIVE</b>	<b>\$ 94,055</b>	<b>\$ 90,663</b>
 <b>UTILITIES</b>		
Electric	\$ 31,726	\$ 27,303
Water	16,679	19,923
Gas	8,622	6,934
Sewer	16,409	19,260
<b>TOTAL UTILITIES</b>	<b>\$ 73,436</b>	<b>\$ 73,420</b>
 <b>OPERATING AND MAINTENANCE</b>		
Payroll	\$ 41,931	\$ 38,894
Supplies	18,683	12,965
Contracts	43,679	50,272
Garbage and trash removal	15,383	19,255
Security services	13,002	10,234
Vehicle and maintenance equipment repairs	6,394	9,787
Snow removal	142	649
Miscellaneous operating and maintenance	162	195
<b>TOTAL OPERATING AND MAINTENANCE</b>	<b>\$ 139,376</b>	<b>\$ 142,251</b>
 <b>TAXES AND INSURANCE</b>		
Real estate taxes	\$ 34,680	\$ 35,527
Payroll taxes	7,013	6,706
Property and liability insurance	22,726	25,605
Workmen's compensation	0	104
Health insurance and other employee benefits	29,058	26,529
<b>TOTAL TAXES AND INSURANCE</b>	<b>\$ 93,477</b>	<b>\$ 94,471</b>
 <b>INTEREST EXPENSE</b>		
Interest on mortgage - CDA	\$ 1,419	\$ 1,379
Amortization of debt issuance costs	1,348	1,348
<b>TOTAL INTEREST EXPENSE</b>	<b>\$ 2,767</b>	<b>\$ 2,727</b>