

Truax Park Development, Phase 2, LLC

Financial Report

December 31, 2021

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	4
Statements of operations	5
Statements of members' equity	6
Statements of cash flows	7
Notes to the financial statements	8
SUPPLEMENTARY INFORMATION	
SUPPLEMENTAL INFORMATION REQUIRED BY U.S. BANK	
Schedules of project expenses	18

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, 2021 and 2020, 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, 2021 and 2020, 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

March 16, 2022

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

BALANCE SHEETS

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 53,656	\$ 10,860
Restricted cash	276,605	260,739
Accounts receivable	219,518	227,332
Prepaid land lease	37,144	37,552
Rental property on leased land, net	6,789,313	7,011,029
Tax credit fees, net	68,499	77,061
TOTAL ASSETS	<u><u>\$ 7,444,735</u></u>	<u><u>\$ 7,624,573</u></u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 1,474,919	\$ 1,473,571
Development completion guaranty loan	26,552	26,552
Development fee payable	112,941	112,941
Accounts payable	27,442	19,931
Accrued interest	8,770	7,391
Accrued expenses	57,750	52,410
Accrued real estate taxes	6,192	6,167
Tenants' security deposits payable	21,607	21,457
Prepaid rents	11,966	9,312
Total liabilities	1,748,139	1,729,732
 MEMBERS' EQUITY	<u>5,696,596</u>	<u>5,894,841</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 7,444,735</u></u>	<u><u>\$ 7,624,573</u></u>

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Rental income	\$ 275,484	\$ 251,448
Operating subsidies	164,304	130,295
Vacancies and concessions	(1,200)	(12,550)
Other revenue	<u>2,548</u>	<u>2,323</u>
Total revenues	441,136	371,516
Rental expenses:		
Administrative	90,663	84,195
Utilities	73,420	68,464
Operating and maintenance	142,251	120,321
Land lease	408	408
Taxes and insurance	<u>94,471</u>	<u>83,766</u>
Total rental expenses	<u>401,213</u>	<u>357,154</u>
Net rental income	39,923	14,362
Financial income (expense):		
Interest income	117	518
Interest expense	<u>(2,727)</u>	<u>(2,688)</u>
Total financial income (expense)	<u>(2,610)</u>	<u>(2,170)</u>
Income before other expenses	37,313	12,192
Other expenses:		
Depreciation	221,716	221,715
Amortization	8,562	8,562
Asset management fee	<u>5,280</u>	<u>4,800</u>
Total other expenses	<u>235,558</u>	<u>235,077</u>
Net loss	<u>\$ (198,245)</u>	<u>\$ (222,885)</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, 2021 and 2020

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Balances, December 31, 2019	609	6,117,117	\$ 6,117,726
Net loss	<u>(22)</u>	<u>(222,863)</u>	<u>(222,885)</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	<u>\$ 567</u>	<u>\$ 5,696,029</u>	<u>\$ 5,696,596</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (198,245)	\$ (222,885)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	221,716	221,715
Amortization of debt issuance costs	1,348	1,348
Amortization of tax credit fees	8,562	8,562
Amortization of prepaid land lease	408	408
Increase (decrease) in cash due to changes in:		
Accounts receivable	7,814	(77,318)
Prepaid expenses	0	2,840
Accounts payable	7,511	(11,690)
Accrued interest	1,379	1,340
Accrued expenses	5,340	3,385
Accrued real estate taxes	25	268
Tenants' security deposits payable	150	775
Prepaid rents	2,654	1,167
	<u>58,662</u>	<u>(70,085)</u>
Net cash provided by (used in) operating activities	58,662	(70,085)
CASH FLOWS FROM INVESTING ACTIVITIES	0	0
CASH FLOWS FROM FINANCING ACTIVITIES	0	0
Change in cash, cash equivalents, and restricted cash	58,662	(70,085)
Cash, cash equivalents, and restricted cash:		
Beginning	<u>271,599</u>	<u>341,684</u>
Ending	<u>\$ 330,261</u>	<u>\$ 271,599</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEET		
Cash and cash equivalents	\$ 53,656	\$ 10,860
Restricted cash	<u>276,605</u>	<u>260,739</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 330,261</u>	<u>\$ 271,599</u>

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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, 2021

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

Accounts receivable and revenue recognition

The company utilizes the direct write-off method of accounting for bad debts. The use of this method has no material effect on the financial statements. Accounts receivable are written off when management determines an account is uncollectible.

Rental revenue is recognized when earned. The company leases apartments to eligible applicants under operating leases which are all on a month-to-month basis. Other revenue consists of various tenant charges and other services and is recognized when the service is complete.

Rental property

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

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

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

Impairment of long-lived assets

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

Debt issuance costs

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

Amortized costs included in interest expense amounted to \$1,348 for each of the years ended December 31, 2021 and 2020.

Tax credit fees

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

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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

Current vulnerability due to certain concentrations

The project's operations are concentrated in the low-income, public housing residential real estate market. In addition, the project operates in a heavily regulated environment. The operations of the project are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies including, but not limited to the CDA under the Regulatory & Operating Agreement (R&O Agreement) and HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the CDA or HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including additional administrative burden to comply with a change.

Subsequent events

These financial statements have not been updated for subsequent events occurring after March 16, 2022, 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>2021</u>	<u>2020</u>
Tenants' security deposits	\$ 6,000	\$ 6,000
Replacement reserve	80,102	64,255
Operating reserve	158,164	158,148
ACC reserve	<u>32,339</u>	<u>32,336</u>
	<u>\$ 276,605</u>	<u>\$ 260,739</u>

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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>2021</u>	<u>2020</u>
Balance, beginning	\$ 64,255	\$ 54,100
Annual deposits	15,840	14,640
Interest earned	7	10
Withdrawals	<u>0</u>	<u>(4,495)</u>
	<u>\$ 80,102</u>	<u>\$ 64,255</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>2021</u>	<u>2020</u>
Balance, beginning	\$ 32,336	\$ 100,459
Interest earned	3	13
Withdrawals	<u>0</u>	<u>(68,136)</u>
	<u>\$ 32,339</u>	<u>\$ 32,336</u>

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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>2021</u>	<u>2020</u>
Balance, beginning	\$ 158,148	\$ 158,057
Interest earned	<u>16</u>	<u>91</u>
	<u>\$ 158,164</u>	<u>\$ 158,148</u>

NOTE C -- Rental property on leased land, net

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

	<u>2021</u>	<u>2020</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>1,378,380</u>	<u>1,156,664</u>
	<u>\$ 6,789,313</u>	<u>\$ 7,011,029</u>

TRUAX PARK DEVELOPMENT, PHASE 2, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE D -- Mortgage notes payable, net

Mortgage notes payable, net consists of the following:

	2021	2020
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 \$44,369 and \$45,717 as of December 31, 2021 and 2020, 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 \$8,770 and \$7,391 as of December 31, 2021 and 2020, respectively; interest expense totaled \$1,379 and \$1,340 for the years ended December 31, 2021 and 2020, respectively.	40,000	40,000
Total mortgage notes payable	1,519,288	1,519,288
Less unamortized debt issuance costs	44,369	45,717
	\$ 1,474,919	\$ 1,473,571

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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

Repayment of principal on the mortgage notes payable as of December 31, 2021, is as follows:

Year ending December 31,

2022	\$	0
2023		0
2024		0
2025		0
2026		0
Thereafter		<u>1,519,288</u>
	\$	<u>1,519,288</u>

NOTE E -- Land lease

The company has entered into a land lease with the CDA which required a one-time rental fee of \$40,000 (see Note D) and an additional one-time rental fee of \$98 representing \$1 annual rental payment for the 98-year term of the lease. The term of the lease began on December 4, 2014, and ends on December 3, 2112, unless terminated earlier in accordance with the land lease agreement. Prepaid land lease was \$37,144 and \$37,552 as of December 31, 2021 and 2020, respectively. Land lease expense totaled \$408 for each of the years ended December 31, 2021 and 2020.

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, 2021. 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, 2021.

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 \$7,637 and \$61,760 as of December 31, 2021 and 2020, respectively.

TRUAX PARK DEVELOPMENT, PHASE 2, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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 \$164,304 and \$130,295 were earned during the years ended December 31, 2021 and 2020, respectively. Included in accounts receivable are operating subsidies receivable of \$204,332 and \$154,689 as of December 31, 2021 and 2020, 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, 2021 and 2020.

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, 2021 and 2020.

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 \$13,774 and \$12,005 for the years ended December 31, 2021 and 2020, 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 \$30,600 and \$25,320 as of December 31, 2021 and 2020, respectively. Asset management fees incurred totaled \$5,280 and \$4,800 for each of the years ended December 31, 2021 and 2020, respectively.

TRUAX PARK DEVELOPMENT, PHASE 2, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

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, 2021 and 2020.

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, 2021

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 15th anniversary of the last day of the month in which first occupancy of the project shall occur. After the initial term and each successive renewal term, the agreement shall be deemed renewed automatically for a one-year period. Sub-management fees incurred totaled \$6,000 for each of the years ended December 31, 2021 and 2020.

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, 2021 and 2020

SCHEDULES OF PROJECT EXPENSES

	2021	2020
ADMINISTRATIVE		
Office salaries	\$ 52,468	\$ 46,862
Office expense	7,206	6,913
Management fees	19,774	18,005
Professional fees - audit	8,951	8,723
Professional fees - bookkeeping/accounting	880	344
Miscellaneous rent and administrative	1,384	3,348
TOTAL ADMINISTRATIVE	\$ 90,663	\$ 84,195
UTILITIES		
Electric	\$ 27,303	\$ 28,358
Water	19,923	17,867
Gas	6,934	6,157
Sewer	19,260	16,082
TOTAL UTILITIES	\$ 73,420	\$ 68,464
OPERATING AND MAINTENANCE		
Payroll	\$ 38,894	\$ 33,932
Supplies	12,965	10,065
Contracts	50,272	46,457
Garbage and trash removal	19,255	11,813
Security services	10,234	12,004
Vehicle and maintenance equipment repairs	9,787	5,687
Snow removal	649	225
Miscellaneous operating and maintenance	195	138
TOTAL OPERATING AND MAINTENANCE	\$ 142,251	\$ 120,321
TAXES AND INSURANCE		
Real estate taxes	\$ 35,527	\$ 34,071
Payroll taxes	6,706	5,643
Property and liability insurance	25,605	24,956
Workmen's compensation	104	154
Health insurance and other employee benefits	26,529	18,942
TOTAL TAXES AND INSURANCE	\$ 94,471	\$ 83,766
INTEREST EXPENSE		
Interest on mortgage - CDA	\$ 1,379	\$ 1,340
Amortization of debt issuance costs	1,348	1,348
TOTAL INTEREST EXPENSE	\$ 2,727	\$ 2,688