

Allied Drive Redevelopment, LLC

Financial Report

December 31, 2020

ALLIED DRIVE REDEVELOPMENT, LLC

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	3
Statements of operations	4
Statements of members' equity	5
Statements of cash flows	6
Notes to the financial statements	7
SUPPLEMENTARY INFORMATION	
Schedules of project operating expenses	16

INDEPENDENT AUDITOR'S REPORT

To the Members
Allied Drive Redevelopment, LLC
Madison, Wisconsin

We have audited the accompanying financial statements of Allied Drive Redevelopment, LLC, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Drive Redevelopment, LLC as of December 31, 2020 and 2019, and the results of its operations, changes in members' equity, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information (schedules of project operating expenses) shown on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

February 26, 2021

ALLIED DRIVE REDEVELOPMENT, LLC

BALANCE SHEETS

December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 119,686	\$ 119,623
Restricted cash	404,354	461,584
Accounts receivable	16,223	418
Prepaid ground lease	343,667	347,667
Prepaid expenses	20,364	10,609
Rental property under land lease, net	5,313,145	5,600,400
Tax credit fees, net	22,146	29,529
TOTAL ASSETS	\$ 6,239,585	\$ 6,569,830
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Mortgage notes payable	\$ 2,372,186	\$ 2,418,238
Accounts payable	32,311	14,381
Accrued interest	241,884	212,627
Accrued expenses	304,584	267,218
Tenants' security deposits payable	46,409	44,940
Prepaid rents	40,239	41,823
Total liabilities	3,037,613	2,999,227
MEMBERS' EQUITY	3,201,972	3,570,603
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 6,239,585	\$ 6,569,830

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

ALLIED DRIVE REDEVELOPMENT, LLC

STATEMENTS OF OPERATIONS

Years ended December 31, 2020 and 2019

	2020	2019
Revenues:		
Rental income	\$ 644,564	\$ 602,220
Vacancies and concessions	(15,577)	(639)
Other revenue	5,876	11,562
Total revenues	634,863	613,143
Rental expenses:		
Rent and administrative	127,314	111,022
Utilities	58,272	63,011
Operating and maintenance	231,626	160,270
Ground lease	4,000	4,000
Taxes and insurance	96,233	92,022
Total rental expenses	517,445	430,325
Net rental income	117,418	182,818
Financial income (expense):		
Interest income	593	2,453
Interest expense	(101,826)	(103,856)
Total financial income (expense)	(101,233)	(101,403)
Income before other expenses	16,185	81,415
Other expenses:		
Depreciation	343,104	341,864
Amortization	7,383	7,382
Managing member management fee	27,685	26,879
Asset management fee	6,644	6,451
Total other expenses	384,816	382,576
Net loss	\$ (368,631)	\$ (301,161)

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

ALLIED DRIVE REDEVELOPMENT, LLC

STATEMENTS OF MEMBERS' EQUITY Years ended December 31, 2020 and 2019

	<u>Managing member</u>	<u>Investor member</u>	<u>Total</u>
Balances, December 31, 2018	\$ (260)	\$ 3,872,024	\$ 3,871,764
Net loss	<u>(30)</u>	<u>(301,131)</u>	<u>(301,161)</u>
Balances, December 31, 2019	(290)	3,570,893	3,570,603
Net loss	<u>(37)</u>	<u>(368,594)</u>	<u>(368,631)</u>
Balances, December 31, 2020	<u>\$ (327)</u>	<u>\$ 3,202,299</u>	<u>\$ 3,201,972</u>
Ownership percentages	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

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

ALLIED DRIVE REDEVELOPMENT, LLC**STATEMENTS OF CASH FLOWS**

Years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (368,631)	\$ (301,161)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	343,104	341,864
Amortization	7,383	7,382
Amortization of prepaid ground lease	4,000	4,000
Increase (decrease) in cash due to changes in:		
Accounts receivable	(15,805)	(271)
Prepaid expenses	(9,755)	805
Accounts payable	17,930	(2,800)
Accrued interest	29,257	25,097
Accrued expenses	37,366	27,575
Tenants' security deposits payable	1,469	505
Prepaid rents	(1,584)	5,191
Net cash provided by operating activities	44,734	108,187
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of rental property	(55,849)	(42,422)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes payable	(46,052)	(44,030)
Change in cash, cash equivalents, and restricted cash	(57,167)	21,735
Cash, cash equivalents, and restricted cash:		
Beginning	581,207	559,472
Ending	<u>\$ 524,040</u>	<u>\$ 581,207</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO BALANCE SHEET		
Cash and cash equivalents	\$ 119,686	\$ 119,623
Restricted cash	<u>404,354</u>	<u>461,584</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 524,040</u>	<u>\$ 581,207</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 72,569</u>	<u>\$ 78,759</u>

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

ALLIED DRIVE REDEVELOPMENT, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE A -- Nature of business and significant accounting policies

Nature of business

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

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

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

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

A summary of significant accounting policies follows:

Allocation of income/loss and tax credits

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

Use of estimates

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

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.

ALLIED DRIVE REDEVELOPMENT, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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 not interest bearing. Accounts receivable are written off when management determines an account is uncollectible, based on its history of past write-offs, collections, and current credit conditions. Accounts are generally written off as uncollectible upon move-out after applying any available tenant security deposits to the outstanding balance.

Rental revenue is recognized when earned. The project leases apartments to eligible applicants under operating leases which are substantially all on a yearly 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 and declining balance methods based upon the following estimated useful lives of the assets:

	<u>Years</u>
Sitework	15
Buildings	27.5
Furnishings and equipment	5

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

Impairment of long-lived assets

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

Tax credit fees

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

Reclassifications

Some items in the 2019 financial statements have been reclassified to be consistent with the current year's presentation.

ALLIED DRIVE REDEVELOPMENT, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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

Subsequent events

These financial statements have not been updated for subsequent events occurring after February 26, 2021, 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>2020</u>	<u>2019</u>
Tenants' security deposits	\$ 46,409	\$ 45,181
Replacement reserve	23,957	19,622
Mortgage escrow deposits	4,516	5,287
Operating reserve	<u>329,472</u>	<u>391,494</u>
	<u>\$ 404,354</u>	<u>\$ 461,584</u>

Replacement reserve

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

	<u>2020</u>	<u>2019</u>
Balance, beginning	\$ 19,622	\$ 42,724
Annual deposits	19,755	19,276
Approved withdrawals	(15,433)	(42,550)
Interest earned	<u>13</u>	<u>172</u>
Balance, ending	<u>\$ 23,957</u>	<u>\$ 19,622</u>

ALLIED DRIVE REDEVELOPMENT, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE B -- Restricted cash (Continued)

Operating reserve

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

	<u>2020</u>	<u>2019</u>
Balance, beginning	\$ 391,494	\$ 389,434
Interest earned	538	2,060
Approved withdrawals	<u>(62,560)</u>	<u>0</u>
Balance, ending	<u>\$ 329,472</u>	<u>\$ 391,494</u>

NOTE C -- Rental property under land lease, net

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

	<u>2020</u>	<u>2019</u>
Non-depreciable land improvements	\$ 401,396	\$ 401,396
Sitework	165,436	165,436
Buildings	8,187,651	8,181,766
Furnishings and equipment	494,496	455,763
Construction in progress	<u>11,231</u>	<u>0</u>
	9,260,210	9,204,361
Less accumulated depreciation	<u>3,947,065</u>	<u>3,603,961</u>
	<u>\$ 5,313,145</u>	<u>\$ 5,600,400</u>

ALLIED DRIVE REDEVELOPMENT, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE D -- Mortgage notes payable

Mortgage notes payable consist of the following:

	<u>2020</u>	<u>2019</u>
CDA; original amount of \$1,255,091; recourse until the three-year anniversary of the expiration of the compliance period; monthly payments of \$6,359, including interest at 4.50%; due January 1, 2042, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was \$2,427 and \$2,600 as of December 31, 2020 and 2019, respectively; interest expense totaled \$30,087 and \$32,117 for the years ended December 31, 2020 and 2019, respectively.	\$ 647,322	\$ 693,374
CDA; original amount of \$760,006; recourse until the three-year anniversary of the expiration of the compliance period; monthly simple interest-only payments at 3.00%; balloon payment of principal and unpaid interest due 30 years from the date the project reaches stabilized occupancy, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; interest expense totaled \$11,760 for each of the years ended December 31, 2020 and 2019.	<u>392,000</u>	<u>392,000</u>
Balance carried forward	1,039,322	1,085,374

ALLIED DRIVE REDEVELOPMENT, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE D -- Mortgage notes payable (Continued)

	<u>2020</u>	<u>2019</u>
Balance brought forward	\$ 1,039,322	\$ 1,085,374
CDA; original amount of \$1,705,426; recourse until the three-year anniversary of the expiration of the compliance period; monthly interest payments at 4.50% to the extent that there is excess cash flow available; monthly principal and interest payments commence on the date the project reaches stabilized occupancy to the extent that there is excess cash flow available; due 30 years from the date the project reaches stabilized occupancy, or any earlier date on which the entire note balance is required to be paid in full, by acceleration or otherwise; the note may be repaid, in whole or in part, at any time; collateralized by a subordinated mortgage on the project's rental property including the assignment of rents and security agreement; accrued interest was \$239,457 and \$210,027 as of December 31, 2020 and 2019, respectively; interest expense totaled \$59,979 for each of the years ended December 31, 2020 and 2019.	<u>1,332,864</u>	<u>1,332,864</u>
	<u>\$ 2,372,186</u>	<u>\$ 2,418,238</u>

Repayment of principal on the mortgage notes payable as of December 31, 2020, is as follows:

Year ending December 31,

2021	\$ 48,168
2022	50,381
2023	52,695
2024	55,116
2025	57,648
Thereafter	<u>2,108,178</u>
	<u>\$ 2,372,186</u>

ALLIED DRIVE REDEVELOPMENT, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE E -- Members' capital contributions

The managing member has made their required capital contribution of \$100. The investor member has made their required capital contributions totaling \$7,514,874 as of December 31, 2020.

NOTE F -- Related-party transactions

Ground lease

The company entered into a ground lease with the managing member which required a one-time rental fee of \$392,000. The term of the lease began on December 4, 2008, and ends on December 3, 2106, unless terminated earlier in accordance with the ground lease agreement. Prepaid ground lease was \$343,667 and \$347,667 as of December 31, 2020 and 2019, respectively. Ground lease expense totaled \$4,000 for each of the years ended December 31, 2020 and 2019.

Managing member management fee

The operating agreement provides for the company to pay a cumulative annual managing member management fee to the managing member in the initial amount of \$20,000, increasing annually by 3%. The fee is payable out of cash flow as defined in the operating agreement. Accrued managing member management fees included in accrued expenses were \$283,846 and \$256,161 as of December 31, 2020 and 2019, respectively. Managing member management fees totaled \$27,685 and \$26,879 for the years ended December 31, 2020 and 2019, respectively.

Asset management fee

The operating agreement provides for the company to pay a cumulative annual asset management fee to an affiliate of the investor member in the initial amount of \$4,800, increasing annually by 3%. The fee is payable out of cash flow as defined in the operating agreement. Accrued asset management fees included in accrued expenses were \$6,644 and \$6,451 as of December 31, 2020 and 2019, respectively. Asset management fees totaled \$6,644 and \$6,451 for the years ended December 31, 2020 and 2019, respectively.

ALLIED DRIVE REDEVELOPMENT, LLC
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

NOTE G -- Company profits and losses and distributions

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

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

1. If the investor member's capital account has a negative balance prior to the distribution of any sale or refinancing proceeds, 99.99% to the investor member and 0.01% to the managing member until the investor member's negative balance reaches zero.
2. 99.99% to the investor member and 0.01% to the managing member until the investor member's capital account balance equals the projected tax liabilities as defined in the operating agreement.
3. The remainder of such gain, if any, 99.99% to the investor member and .01% to the managing member.

There were no distributions made during the years ended December 31, 2020 and 2019.

NOTE H -- Commitments and contingencies

Land Use Restriction Agreement (LURA)

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

Management fee

The company had entered into a management agreement with Stone House Development, Inc. Under the agreement, the company was obligated to pay a management fee of 6% of gross project rents collected. The agreement was terminated on June 30, 2020. Effective July 1, 2020 the company entered into a property management agreement with Lutheran Social Services of Wisconsin & Upper Michigan, Inc. under which the company is obligated to pay a management fee of 6% of gross rental income. The term of the agreement is from July 1, 2020 to June 30, 2023. Management fees incurred totaled \$40,770 and \$37,087 for the years ended December 31, 2020 and 2019, respectively.

ALLIED DRIVE REDEVELOPMENT, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE H -- Commitments and contingencies (continued)

Uncertainty

In March 2020, the World Health Organization (WHO) characterized the coronavirus disease (COVID-19) as a global pandemic. Since that time, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the company as of February 26, 2021, management believes that a material impact on the company's financial position and results of future operations is reasonably possible.

SUPPLEMENTARY INFORMATION

ALLIED DRIVE REDEVELOPMENT, LLC
SCHEDULES OF PROJECT OPERATING EXPENSES
Years ended December 31, 2020 and 2019

	2020	2019
RENT AND ADMINISTRATIVE		
Advertising	\$ 241	\$ 513
Other rent expense	92	0
Office expense	23,781	23,551
Office salaries	1,682	0
Management fees	40,770	37,087
Professional fees - legal	1,405	134
Professional fees - audit	6,900	7,600
Bookkeeping fees	4,410	0
Bad debt expense	0	(327)
Manager salaries	45,709	41,395
Miscellaneous rent and administrative	2,324	1,069
TOTAL RENT AND ADMINISTRATIVE	\$ 127,314	\$ 111,022
UTILITIES		
Electric	\$ 11,937	\$ 14,535
Water	14,188	14,887
Gas	15,238	17,557
Sewer	16,909	16,032
TOTAL UTILITIES	\$ 58,272	\$ 63,011
OPERATING AND MAINTENANCE		
Payroll	\$ 36,596	\$ 37,310
Supplies	11,886	32,467
Contracts	139,280	67,241
Security and fire safety	35,203	10,577
Snow removal	8,661	12,675
TOTAL OPERATING AND MAINTENANCE	\$ 231,626	\$ 160,270
GROUND LEASE	\$ 4,000	\$ 4,000
TAXES AND INSURANCE		
Real estate tax	\$ 67,570	\$ 63,372
Payroll taxes	6,715	7,418
Property and liability insurance	12,792	13,878
Employee benefits	9,156	7,354
TOTAL TAXES AND INSURANCE	\$ 96,233	\$ 92,022