

**MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
HUD Project No. 086-11116**

Financial Statements

Period from August 1, 2019 to September 30, 2020

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
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Period From August 1, 2019 to September 30, 2020

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Independent Auditor's Report

To the Member of
MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)

Report on the Financial Statements

We have audited the accompanying financial statements of MDHA Madison Towers, LLC (a Tennessee limited liability company), HUD Project No. 086-11116, which comprise the balance sheet as of September 30, 2020, and the related statements of operations, changes in member's equity and cash flows for the period from August 1, 2019 to September 30, 2020, 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

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Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MDHA Madison Towers, LLC (a Tennessee limited liability company) as of September 30, 2020, and the results of its operations and its cash flows for the period from August 1, 2019 to September 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information presented on pages 15 - 25 is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development ("HUD"), Office of the Inspector General, 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 30, 2020, on our consideration of MDHA Madison Towers, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDHA Madison Towers, LLC's internal control over financial reporting and compliance.



MCM CPAs & Advisors LLP

27-1235638

Rebekah S. Payne - Engagement Partner

Indianapolis, Indiana

December 30, 2020

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Balance Sheet
September 30, 2020

Assets

Property and equipment	
Land and land improvements	\$ 437,330
Buildings	17,989,578
Furniture and equipment	<u>25,439</u>
Total property and equipment	18,452,347
Accumulated depreciation	<u>(7,278,605)</u>
Property and equipment, net	11,173,742
Cash and receivables	
Cash - operations	405,056
Accounts receivable - tenant, net	6,680
Accounts receivable - HUD	<u>1,999</u>
	413,735
Deposits held in trust - funded	
Restricted cash - tenant deposits held in trust	31,354
Restricted deposits and funded reserves	
Restricted cash - escrow deposits	104,259
Restricted cash - replacement reserve	677,713
Restricted cash - repair escrow	<u>33,693</u>
	815,665
Other assets	
Prepaid expenses	<u>4,091</u>
Total assets	<u><u>\$ 12,438,587</u></u>

See accompanying notes.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Balance Sheet (Continued)
September 30, 2020

Liabilities and member's equity

Liabilities applicable to investment in real estate	
Mortgage payable - first mortgage	\$ 6,881,507
Less unamortized debt issuance costs	<u>215,214</u>
Mortgage payable less unamortized debt issuance costs	6,666,293
Miscellaneous long-term liabilities	<u>13,753</u>
	6,680,046
Other liabilities	
Accounts payable - operations	56,975
Accrued wages payable	19,149
Accrued interest payable - first mortgage	19,727
Prepaid revenue	6,679
Tenant deposits held in trust (contra)	28,647
Miscellaneous current liabilities	<u>6,148</u>
	<u>137,325</u>
Total liabilities	6,817,371
Member's equity	<u>5,621,216</u>
Total liabilities and member's equity	<u><u>\$ 12,438,587</u></u>

See accompanying notes.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Statement of Operations
Period from August 1, 2019 to September 30, 2020

Revenues	
Rent revenue, net	\$ 1,928,962
Financial revenue	15,095
Other revenue	<u>54,381</u>
Total revenues	1,998,438
Operating expenses before depreciation	
Administrative	464,717
Utilities	291,014
Operating and maintenance	708,225
Taxes and insurance	<u>51,535</u>
Total operating expenses before depreciation	<u>1,515,491</u>
Income before financial and depreciation expenses	482,947
Financial and depreciation expenses	
Financial	295,359
Depreciation	<u>954,355</u>
Total financial and depreciation expenses	<u>1,249,714</u>
Net loss	<u><u>\$ (766,767)</u></u>

See accompanying notes.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Statement of Changes in Member's Equity
Period from August 1, 2019 to September 30, 2020

Member's equity, August 1, 2019	\$ 12,532,303
Distributions	(6,144,320)
Net loss for the period from August 1, 2019 to September 30, 2020	<u>(766,767)</u>
Member's equity, September 30, 2020	<u><u>\$ 5,621,216</u></u>

See accompanying notes.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Statement of Cash Flows
Period from August 1, 2019 to September 30, 2020

	<u>2020</u>
Cash flows from operating activities	
Receipts	
Rental	\$ 1,926,749
Interest	15,095
Other operating	54,381
Entity/construction receipts	<u>-</u>
Total receipts	1,996,225
Disbursements	
Administrative	89,870
Management fee	171,905
Utilities	304,718
Salaries and wages	403,374
Operating and maintenance	474,881
Lease payments	-
Real estate taxes	21,100
Property insurance	25,301
Miscellaneous taxes and insurance	2,952
Tenant security deposits	(1,283)
Other operating expenses	-
Interest on mortgage	250,038
Interest on second mortgage	-
Interest on third mortgage	-
Interest on notes payable	-
Interest on capital recovery payment	-
Mortgage insurance premium	19,282
Miscellaneous financial	<u>-</u>
Entity - incentive performance fee	<u>-</u>
Total disbursements	<u>1,762,138</u>
Net cash provided by operating activities	234,087
Cash flows from investing activities	
Payments to the management improvement and operating plan	-
Receipt of funds from the management improvement and operating plan	-
Payments to the long term investment account	-
Receipt of funds from the long term investment account	-
Purchase of fixed assets	-
Proceeds from sale of fixed assets	<u>-</u>
Entity/construction investing activities	-

See accompanying notes.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Statement of Cash Flows (Continued)
Period from August 1, 2019 to September 30, 2020

Reconciliation of net loss to	
net cash provided by operating activities	
Net loss	\$ (766,767)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	954,355
Amortization of debt issuance costs	6,312
Changes in certain assets and liabilities	
(Increase) decrease in tenant accounts receivable	1,773
(Increase) decrease in accounts receivable - other	(1,087)
(Increase) decrease in prepaid expenses	4,582
Increase (decrease) in accounts payable - trade	25,221
Increase (decrease) in accrued liabilities	(4,072)
Increase (decrease) in accrued interest payable	19,727
Increase (decrease) in tenant deposits held in trust (contra)	1,283
Increase (decrease) in prepaid revenue	(5,299)
Increase (decrease) in miscellaneous current liabilities	(4,341)
Increase (decrease) in miscellaneous long term liabilities	<u>2,400</u>
Net cash provided by operating activities	<u><u>\$ 234,087</u></u>
Reconciliation of cash and restricted cash to the balance sheet	
Cash - operations	\$ 405,056
Restricted cash - tenant deposits held in trust	31,354
Restricted cash - escrow deposits	104,259
Restricted cash - replacement reserve	677,713
Restricted cash - repair escrow	<u>33,693</u>
Total cash and restricted cash	<u><u>\$ 1,252,075</u></u>

See accompanying notes.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Notes to Financial Statements
Period from August 1, 2019 to September 30, 2020

Note A - Nature of Organization and Operations

MDHA Madison Towers, LLC (the "Company") was organized in February 2019 as a Tennessee limited liability company for the purpose of owning and operating 211 residential rental units located in Nashville, Tennessee (the "Project"). The Project is owned and operated by the sole Member of the Company, The Metropolitan Development and Housing Agency of Nashville, Tennessee ("MDHA"). MDHA is a public corporate body organized in 1938 under the laws of the State of Tennessee and was created for the purpose of providing affordable housing opportunities in a safe environment. In August 2019, the Company completed financing of the Project via a loan insured under the Section 223(f) loan program administered by HUD. In conjunction with participation in the Section 223(f) loan program, the Company has signed a Regulatory Agreement with HUD (Form HUD-92466M rev. 06/18). The Regulatory Agreement contains various restrictions regarding operating methods, distributions of surplus cash, and rental payments. The Company has also executed a Section 8 Housing Assistance Payment ("HAP") Contract for all units under the Rental Assistance Demonstration ("RAD") Program, which provides for rental assistance for low income individuals. The HAP contract expires in April 2037. The 223(f) loan and the project-based Section 8 contract are major HUD programs.

Note B - Summary of Significant Accounting Policies

1. Personal Assets and Liabilities of the Member: These financial statements reflect only those assets and liabilities pertaining to the operations of the Company and do not reflect personal assets and liabilities of the Member.
2. Accrual Basis of Accounting: The accompanying financial statements have been prepared using the accrual basis of accounting.
3. Cash, Cash Equivalents and Restricted Cash: All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. The Company had no cash equivalents at September 30, 2020.

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230)* requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Consequently, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. In accordance with guidance issued by HUD, the presentation of the statement of cash flows included in the supplementary information did not change for ASU 2016-18. Accordingly, the presentation of the statement of cash flows included in the supplementary information follows the data templates for the Real Estate Assessment Center ("REAC") submission of financial data which differs from the presentation included in the basic financial statements.

4. Tenant Accounts Receivable: Tenant accounts receivable are stated at the amount management expects to collect from balances outstanding at period end. As of September 30, 2020, an allowance for doubtful accounts of \$12,221 has been assessed based on management's estimation of collectability.
5. Debt Issuance Costs: Debt issuance costs are capitalized and amortized over the term of the corresponding mortgage loan. These amounts are reported as a reduction of the mortgage liability in the accompanying balance sheet. Amortization of these costs is included in financial expense.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Notes to Financial Statements (Continued)
Period from August 1, 2019 to September 30, 2020

Note B - Summary of Significant Accounting Policies (Continued)

6. Depreciation: Property and equipment are recorded at cost. Property and equipment placed in service from inception are depreciated using the straight-line method. Land improvements have been assigned economic lives ranging between 8 and 20 years. The buildings and building components have been assigned economic lives ranging between 5 and 40 years. Personal property is being depreciated over assigned economic lives between 5 and 12 years.

The Company reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Impairment is determined by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. Fair value may be determined by appraisal of the property, discounted cash flows, or other valuation methods. There was no impairment loss recognized in the period from August 1, 2019 to September 30, 2020.

7. Federal and State Income Tax Liability: The Company does not pay federal or state income taxes since the net profit or loss of the Company flows through to the individual member, and the income taxes, if any, are paid personally by the member.
8. Uncertain Tax Positions: The Company has evaluated tax positions taken in the tax returns filed and has determined that there are no uncertain tax positions as defined by generally accepted accounting principles.
9. Rental Income and Other Revenue: Rental income (including Section 8 HAP subsidies) is recognized monthly as earned. Rental payments received in advance are deferred until earned. All leases between the Company and the tenants of the apartment project are operating leases. Other revenues include income from laundry and vending services and sundry tenant charges. Such revenues are recorded monthly when services are provided.
10. Advertising and Marketing Costs: Advertising and marketing costs are expensed as incurred. There was no advertising expense for the period from August 1, 2019 to September 30, 2020.
11. Use of Estimates: The presentation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures 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 these estimates.
12. Subsequent Events: Subsequent events for the Company have been considered through the date of the Independent Auditor's Report which represents the date the financial statements were available to be issued.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Notes to Financial Statements (Continued)
Period from August 1, 2019 to September 30, 2020

Note B - Summary of Significant Accounting Policies (Continued)

13. Recent Accounting Pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of operations. This standard will be effective for the year ending September 30, 2023.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of operations will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the year ending September 30, 2024.

The Company is currently in the process of evaluating the impact of adoption of ASU 2016-02 and ASU 2016-13 on the financial statements.

Note C - Mortgage Payable

The Company completed permanent financing of the Project by entering into a loan agreement dated August 1, 2019 with Walker & Dunlop, LLC under a loan commitment of \$6,986,400. The loan is insured by HUD under Section 223(f) of the National Housing Act and is secured by the Company's property and land. The loan bears interest at an annual rate of 3.44% and requires monthly principal and interest payments of \$28,632. The loan matures on September 1, 2054. The balance of the loan, net of unamortized debt issuance costs, is \$6,666,293 as of September 30, 2020.

The note allows for the principal balance to be prepaid in whole on the last day of any calendar month, upon 30 days advance written notice, with a prepayment penalty or charge on the amount prepaid in accordance with the following schedule:

October 1, 2020 to September 30, 2021	9%
October 1, 2021 to September 30, 2022	8%
October 1, 2022 to September 30, 2023	7%
October 1, 2023 to September 30, 2024	6%
October 1, 2024 to September 30, 2025	5%
October 1, 2025 to September 30, 2026	4%
October 1, 2026 to September 30, 2027	3%
October 1, 2027 to September 30, 2028	2%
October 1, 2028 to September 30, 2029	1%
October 1, 2029 and thereafter	No prepayment premium

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Notes to Financial Statements (Continued)
Period from August 1, 2019 to September 30, 2020

Note C - Mortgage Payable (Continued)

Notwithstanding any prepayment prohibition imposed and/or penalty required by the note with respect to prepayments made prior to October 1, 2028, the indebtedness may be prepaid in part or in full without consent of the mortgagee and without prepayment penalty if HUD determines that prepayment will avoid a mortgage insurance claim and is therefore in the best interest of the Federal Government.

Interest expense on the mortgage loan for the period from August 1, 2019 to September 30, 2020 was \$269,765.

Debt issuance costs related to the mortgage loan of the Company, in the amount of \$221,526, have been capitalized and are being amortized over the term of the loan. At September 30, 2020, \$215,214 remains to be amortized. Amortization of these costs is included in financial expense and amounted to \$6,312 for the period from August 1, 2019 to September 30, 2020.

The following schedule lists the principal to be paid against the outstanding mortgage note during each of the next five years and thereafter.

<u>Year</u>	<u>Amount due</u>
2021	\$ 108,559
2022	112,352
2023	116,279
2024	120,342
2025	124,549
Thereafter	<u>6,299,426</u>
	<u><u>\$ 6,881,507</u></u>

Note D - Related Party Transactions

The Company is managed by MDHA, who has certified to HUD that it is not considered an identity of interest entity. MDHA is paid an annual fee of 8.52% of residential income collected and \$2 per unit per month for special fees, which is included in administrative expenses on the statement of operations. The Company recognized management fee expense of \$171,905 for the period from August 1, 2019 to September 30, 2020.

Note E - Distributions Payable and Surplus Cash

Annual distributions payable from funds provided by rental operations are permitted by Section 14 of the Company's Regulatory Agreement with HUD, provided: (1) surplus cash, as defined by HUD, is available for such purposes; (2) the Project is in compliance with all outstanding notices of requirements for proper maintenance; and, (3) there is no default under the Regulatory Agreement, RAD Agreement or under the mortgage note. The Company made distributions from loan proceeds totaling \$6,144,320 during the period from August 1, 2019 to September 30, 2020. The maximum distributable amount for the period ended September 30, 2020 is \$280,344.

Note F - Member's Equity

Surplus Cash, as defined by HUD, shall be distributed to the sole member of the Company. There have been no changes in the member during the period from August 1, 2019 to September 30, 2020. Attention is directed to the Operating Agreement for further detail on the capital structure of the Company.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Notes to Financial Statements (Continued)
Period from August 1, 2019 to September 30, 2020

Note G - Limited Liability

The liability of the Member for the losses, debts or liabilities of the Company shall not exceed the amount of the Member's equity account.

Note H - Current Vulnerability Due to Certain Concentrations

The Company's sole asset is a government regulated apartment project. The operations of the Company are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

As described in Note A, the Company receives rental assistance payments for 211 apartment units under a Section 8 Housing Assistance Payment ("HAP") contract, which is scheduled to expire in 2037. Renewal of this contract is currently subject to the provisions of the Multifamily Assisted Housing Reform and Affordability Act of 1997 ("MAHRA"), regulations issued by HUD and certain provisions of the annual HUD Fiscal Year Appropriations Act as enacted by U.S. Congress. Provided the Company's contract rent is below or at comparable market rents, HUD will renew contracts at current rents with increases in some circumstances, but in no case above comparable market rents. Management is of the opinion that the Company's current contract will be renewed upon expiration.

Note I - Restricted Deposits and Funded Reserves

Tenant Security Deposits

Under the terms of the Regulatory Agreement with HUD, any funds collected as security deposits are required to be kept separate from all other funds of the Company. The balance in the security deposit account shall at all times equal or exceed the aggregate of the tenant security deposit liability. The use of tenant security deposits for operations is prohibited unless a tenant has forfeited the deposit. At September 30, 2020, the balance of the escrow account is \$31,354. Refundable security deposits of \$28,647 were adequately funded as of September 30, 2020.

Reserves for Replacements and Repairs

Under the terms of the Regulatory Agreement with HUD, the Company is required to make monthly deposits to the Replacement Reserve account which is held by the mortgagee. Withdrawals from the Replacement Reserve account can only be made with written approval from HUD. The balance in the replacement reserve is \$677,713 as of September 30, 2020.

Reserve for Mortgage Insurance Premium

Under the terms of the mortgage note, the Company is required to establish a reserve for mortgage insurance premiums ("MIP") in an amount determined by the insurance provider sufficient to pay the next installment of mortgage insurance premiums on the property. The MIP reserve is funded by monthly deposits in an amount sufficient to cover annual premiums. The balance in the MIP reserve is \$19,191 as of September 30, 2020.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Notes to Financial Statements (Continued)
Period from August 1, 2019 to September 30, 2020

Note I - Restricted Deposits and Funded Reserves (Continued)

Reserve for Taxes and Insurance

Under the terms of the mortgage note, the Company is required to make monthly deposits into a mortgage escrow account in an amount determined by the lender to be sufficient to pay the next installment of payments in lieu of taxes and insurance premiums on the property. The reserve is funded by monthly deposits in an amount sufficient to cover annual costs. The balance in the reserve is \$85,068 as of September 30, 2020.

Repair Escrow

As part of the HUD loan financing, the Company was required to establish a repair escrow in the amount of \$33,693. This escrow is to be utilized for certain repairs as identified in the Escrow Agreement for Deferred Repairs. Withdrawals from this escrow can only be made with written approval from HUD. The balance in the repair escrow is \$33,693 as of September 30, 2020.

Note J - COVID-19 Contingency

In March 2020, the World Health Organization declared the global novel coronavirus disease ("COVID-19") outbreak a pandemic. Further, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States. As of the date the financial statements were available to be issued, the Company's operations have not been significantly impacted by the COVID-19 outbreak. The Company's operations could be adversely affected as a result of COVID-19, but the impact is not known at this point as the scale and severity of the outbreak, and resulting economic impact, is still largely unknown.

Supplementary Information

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information
Balance Sheet Data
September 30, 2020

Assets

Current assets

1120	Cash - operations	\$ 405,056
1130	Accounts receivable - tenant, net	6,680
1135	Accounts receivable - HUD	1,999
1200	Prepaid expenses	<u>4,091</u>

1100T	Total current assets	417,826
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Deposits held in trust - funded

1191	Tenant deposits held in trust	31,354
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Restricted deposits and funded reserves

1310	Escrow deposits	104,259
1320	Replacement reserve	677,713
1330	Other escrows	<u>33,693</u>

1300T	Total restricted deposits and funded reserves	815,665
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Fixed assets

1410	Land and land improvements	437,330
1420	Buildings	17,989,578
1450	Furniture	<u>25,439</u>

1400T	Total fixed assets	18,452,347
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1495	Accumulated depreciation	<u>(7,278,605)</u>
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1400N	Net fixed assets	<u>11,173,742</u>
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1000T	Total assets	<u><u>\$ 12,438,587</u></u>
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See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Balance Sheet Data (Continued)
September 30, 2020

Liabilities and member's equity

Current liabilities

2110	Accounts payable - operations	\$ 56,975
2120	Accrued wages payable	19,149
2131	Accrued interest payable - first mortgage	19,727
2170	Mortgage payable - first mortgage - current portion	108,559
2190	Miscellaneous current liabilities	6,148
2210	Prepaid revenue	<u>6,679</u>

2122T	Total current liabilities	217,237
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Deposit liabilities

2191	Tenant deposits held in trust (contra)	28,647
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Long-term liabilities

2320	Mortgage payable - first mortgage - less current portion	6,772,948
2340	Debt issuance costs	(215,214)
2390	Miscellaneous long-term liabilities	<u>13,753</u>

2300T	Total long-term liabilities	<u>6,571,487</u>
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2000T	Total liabilities	6,817,371
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Member's equity

3130	Member's equity	<u>5,621,216</u>
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2033T	Total liabilities and member's equity	<u><u>\$ 12,438,587</u></u>
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See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Profit and Loss Data
Period From August 1, 2019 to September 30, 2020

Revenues		
5120	Rent revenue - gross potential	\$ 804,636
5121	Tenant assistance payments	1,143,740
5193	Special claims revenue	<u>14,660</u>
5100T	Total potential rent revenue	1,963,036
5220	Vacancies - apartments	<u>(34,074)</u>
5152N	Net rental revenue	1,928,962
5410	Financial revenue - project operations	14,694
5440	Revenue from investments - replacement reserve	375
5490	Revenue from investments - miscellaneous	<u>26</u>
5400T	Total financial revenue	15,095
5910	Laundry and vending revenue	10,492
5920	Tenant charges	20,636
5990	Miscellaneous revenue	<u>23,253</u>
5900T	Total other revenue	<u>54,381</u>
5000T	Total revenues	1,998,438
Expenses		
6250	Other renting expenses	3,963
6310	Office salaries	202,942
6311	Office expenses	38,877
6320	Management fee	171,905
6340	Legal expenses	4,723
6350	Auditing expense	912
6351	Bookkeeping fees/accounting services	14,605
6370	Bad debts	22,639
6390	Miscellaneous administrative expenses	<u>4,151</u>
6263T	Total administrative expenses	464,717
6450	Electricity	233,609
6451	Water	<u>57,405</u>
6400T	Total utilities expense	291,014

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Profit and Loss Data (Continued)
Period From August 1, 2019 to September 30, 2020

Expenses (Continued)		
6510	Payroll	\$ 194,419
6515	Supplies	175,256
6520	Contracts	239,810
6530	Security payroll contract	<u>98,740</u>
6500T	Total operating and maintenance expenses	708,225
6710	Real estate taxes	21,100
6720	Property and liability insurance	27,483
6722	Workmen's compensation insurance	2,645
6790	Miscellaneous taxes, licenses, permits and insurance	<u>307</u>
6700T	Total taxes and insurance	51,535
6820	Interest on first mortgage payable	276,077
6850	Mortgage insurance premium	<u>19,282</u>
6800T	Total financial expenses	<u>295,359</u>
6000T	Total cost of operations before depreciation	<u>1,810,850</u>
5060T	Net profit before depreciation	187,588
6600	Depreciation expense	<u>954,355</u>
3250	Net loss	(766,767)
S1100-010	Member's equity, beginning of period	12,532,303
S1200-420	Distributions	<u>(6,144,320)</u>
3130	Member's equity, end of period	<u><u>\$ 5,621,216</u></u>

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Profit and Loss Data (Continued)
Period From August 1, 2019 to September 30, 2020

S1000-010	Total mortgage principal payments required during the audit period (12 monthly payments).	<u>\$ 104,893</u>
S1000-020	Total of 12 monthly deposits in the audit year into the replacement reserve account, as required by the Regulatory Agreement even if payments may be temporarily suspended or reduced.	<u>\$ 53,435</u>
S1000-030	Replacement reserves, or residual receipts releases which are included as expense items on this profit and loss statement.	<u>\$ -</u>

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Cash Flows Data
Year Ended September 30, 2020

Cash flows from operating activities		
	Receipts	
S1200-010	Rental	\$ 1,926,749
S1200-020	Interest	15,095
S1200-030	Other operating	54,381
		<hr/>
S1200-040	Total receipts	1,996,225
	Disbursements	
S1200-050	Administrative	89,870
S1200-070	Management fee	171,905
S1200-090	Utilities	304,718
S1200-100	Salaries and wages	403,374
S1200-110	Operating and maintenance	474,881
S1200-120	Real estate taxes	21,100
S1200-140	Property insurance	25,301
S1200-150	Miscellaneous taxes and insurance	2,952
S1200-160	Tenant security deposits	742
S1200-180	Interest on first mortgage	250,038
S1200-210	Mortgage insurance premium	19,282
		<hr/>
S1200-230	Total disbursements	1,764,163
		<hr/>
S1200-240	Net cash provided by operating activities	232,062
Cash flows from investing activities		
S1200-245	Net deposits to the mortgage escrow account	(104,259)
S1200-250	Net deposits to the reserve for replacement account	(677,713)
S1200-255	Net deposits to other reserves	(33,693)
		<hr/>
S1200-350	Net cash used in investing activities	(815,665)
Cash flows from financing activities		
S1200-360	Principal payments - first mortgage	(104,893)
S1200-365	Proceeds from mortgage	6,986,400
S1200-420	Distributions	(6,144,320)
S1200-450	Loan fees paid	(106,167)
		<hr/>
S1200-460	Net cash provided by financing activities	631,020
		<hr/>
S1200-470	Net increase in cash	47,417
S1200-480	Cash, beginning of period	357,639
		<hr/>
S1200T	Cash, end of period	\$ 405,056
		<hr/> <hr/>

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Cash Flows Data (Continued)
Year Ended September 30, 2020

Reconciliation of net loss to net cash provided by operating activities		
3250	Net loss	\$ (766,767)
	Adjustments to reconcile net loss to net cash provided by operating activities	
6600	Depreciation expenses	954,355
S1200-486	Amortization of debt issuance costs	6,312
	Changes in certain assets and liabilities	
S1200-490	Decrease in tenant accounts receivable	1,773
S1200-500	(Increase) in accounts receivable - other	(1,087)
S1200-520	Decrease in prepaid expenses	4,582
S1200-530	(Increase) in tenant deposits held in trust	(2,025)
S1200-540	Increase in accounts payable - trade	25,221
S1200-560	(Decrease) in accrued liabilities	(4,072)
S1200-570	Increase in accrued interest payable	19,727
S1200-580	Increase in tenant deposits held in trust (contra)	1,283
S1200-590	(Decrease) in prepaid revenue	(5,299)
S1200-600	(Decrease) in miscellaneous current liabilities	(4,341)
S1200-600	Increase in miscellaneous long-term liabilities	<u>2,400</u>
S1200-610	Net cash provided by operating activities	<u><u>\$ 232,062</u></u>

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Schedule of Reserve for Replacement
Period From August 1, 2019 to September 30, 2020

1320P	Balance at beginning of period	\$ -
1320DT	Total monthly deposits	53,435
1320ODT	Other deposits - initial funding	623,903
1320INT	Interest on replacement reserve account	<u>375</u>
1320	Balance at end of period, confirmed by mortgagee	<u><u>\$ 677,713</u></u>
1320R	Deposits suspended or waived indicator	N

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Computation of Surplus Cash Distributions - Annual
Period From August 1, 2019 to September 30, 2020

Cash		
S1300-010	Cash	\$ 436,410
1135	Accounts receivable - HUD	<u>1,999</u>
S1300-040	Total cash	438,409
Current obligations		
S1300-050	Accrued mortgage interest payable	19,727
S1300-075	Accounts payable due within 30 days	56,975
S1300-100	Accrued expenses not escrowed	25,297
2210	Prepaid revenue	6,679
2191	Tenant security deposit liability	28,647
S1300-110	Current mortgage principal payment, replacement reserve & escrow deposits	<u>20,740</u>
S1300-140	Total current obligations	<u>158,065</u>
S1300-150	Surplus cash	<u><u>\$ 280,344</u></u>

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Schedule of Changes in Fixed Asset Accounts
Period From August 1, 2019 to September 30, 2020

Fixed assets	Beginning balance	Additions	Deductions	Ending balance
1410 Land and land improvements	\$ 437,330	\$ -	\$ -	\$ 437,330
1420 Buildings	17,989,578	-	-	17,989,578
1450 Furniture	25,439	-	-	25,439
1400T Total fixed assets	\$ 18,452,347	\$ -	\$ -	\$ 18,452,347
1495 Accumulated depreciation	\$ 6,324,250	\$ 954,355	\$ -	\$ 7,278,605
1400N Net book value				\$ 11,173,742

See independent auditor's report.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Supplementary Information (Continued)
Miscellaneous Account Detail
Period From August 1, 2019 to September 30, 2020

Profit and loss data

5990 Miscellaneous revenue

Description	Amount
NES Solar Credits	\$ 23,253

Balance sheet data

2190 Miscellaneous current liabilities

Description	Amount
Accrued resident activities	\$ 6,148

2390 Miscellaneous long-term liabilities

Description	Amount
Accrued compensated absences	\$ 13,753

See independent auditor's report.

Reports on Internal Control and Compliance



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Member of
MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of MDHA Madison Towers, LLC (a Tennessee limited liability company), HUD Project No. 086-11116, which comprise the balance sheet as of September 30, 2020, and the related statements of operations, changes in member's equity and cash flows for the period from August 1, 2019 to September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MDHA Madison Towers, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDHA Madison Towers, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of MDHA Madison Towers, LLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDHA Madison Towers, LLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



MCM CPAs & Advisors LLP
27-1235638
Rebekah S. Payne - Engagement Partner
Indianapolis, Indiana
December 30, 2020



Independent Auditor's Report on Compliance for each Major HUD Program and on Internal Control over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs*

To the Member of
 MDHA Madison Towers, LLC
 (A Tennessee Limited Liability Company)

Report on Compliance for Each Major HUD Program

We have audited MDHA Madison Towers, LLC's (a Tennessee limited liability company), HUD Project No. 086-11116, compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") that could have a direct and material effect on each of the major HUD programs of MDHA Madison Towers, LLC for the period from August 1, 2019 to September 30, 2020. MDHA Madison Towers, LLC's major HUD programs and the related direct and material compliance requirements are as follows:

Name of Major HUD Program	Direct and Material Compliance Requirement
Section 223(f) Existing Multifamily Rental Housing	Mortgage Status, Replacement Reserve, Distributions to Owners, Equity Skimming, Cash Receipts, Cash Disbursements, Tenant Security Deposits, Management Functions, Unauthorized Change of Ownership/Acquisition of Liabilities, and Unauthorized Loans of Project Funds
Section 8 Rental Assistance Payments	Tenant Application, Eligibility and Recertification, Units Leased to Extremely Low-Income Families, Tenant Security Deposits, and Management Functions

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

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**Independent Auditor's Report on Compliance for Each
Major HUD Program and on Internal Control over
Compliance Required by the *Consolidated Audit
Guide for Audits of HUD Programs* (Continued)**

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the major HUD programs of MDHA Madison Towers, LLC based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on each of the major HUD programs occurred. An audit includes examining, on a test basis, evidence about MDHA Madison Towers, LLC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each of the major HUD programs. However, our audit does not provide a legal determination of MDHA Madison Towers, LLC's compliance.

Opinion on Each of the Major HUD Programs

In our opinion, MDHA Madison Towers, LLC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the period from August 1, 2019 to September 30, 2020.

Report on Internal Control over Compliance

Management of MDHA Madison Towers, LLC is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered MDHA Madison Towers, LLC's internal control over compliance with the requirements that could have a direct and material effect on each of the major HUD programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major HUD programs and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MDHA Madison Towers, LLC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**Independent Auditor's Report on Compliance for Each
Major HUD Program and on Internal Control over
Compliance Required by the *Consolidated Audit
Guide for Audits of HUD Programs* (Continued)**

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this communication is not suitable for any other purpose.



MCM CPAs & Advisors LLP
27-1235638
Rebekah S. Payne - Engagement Partner
Indianapolis, Indiana
December 30, 2020

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Schedule of Findings, Questioned Costs, and Recommendations
Period from August 1, 2019 to September 30, 2020

Our audit disclosed no findings that are required to be reported herein under the *Consolidated Audit Guide for Audits of HUD Programs*.

MDHA Madison Towers, LLC
(A Tennessee Limited Liability Company)
Project No. 086-11116
Schedule of the Status of Prior Audit Findings,
Questioned Costs, and Recommendations
Period from August 1, 2019 to September 30, 2020

Section 1 - Prior Audit Findings

There have been no HUD audit reports issued by auditors prior to the current audit period.

Section 2 - Findings from Audits, Attestation or Other Studies Performed by HUD, another Federal Agency, or a Contract Administrator Issued During the period from August 1, 2019 through December 30, 2020

There were no reports issued by HUD, other federal agencies, or contract administrators during the period covered by this audit.

Section 3 - Deficiencies listed in letters or reports issued by HUD management as a result of reviews of the entity's activities that relate to the audit objectives during the period from August 1, 2019 through December 30, 2020

There were no letters or reports issued by HUD management during the period covered by this audit.

MORTGAGOR'S CERTIFICATION

WE HEREBY CERTIFY THAT WE HAVE EXAMINED THE ACCOMPANYING FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND REPORTS ON INTERNAL CONTROL AND COMPLIANCE OF MDHA MADISON TOWERS, LLC (A TENNESSEE LIMITED LIABILITY COMPANY), HUD PROJECT NO. 086-11116, AND, TO THE BEST OF OUR KNOWLEDGE AND BELIEF, THE SAME ARE ACCURATE AND COMPLETE.

Sole Member

Telephone Number

December 30, 2020
Date

MANAGING AGENT'S CERTIFICATION

WE HEREBY CERTIFY THAT WE HAVE EXAMINED THE ACCOMPANYING FINANCIAL STATEMENTS, SUPPLEMENTARY INFORMATION AND REPORTS ON INTERNAL CONTROL AND COMPLIANCE OF MDHA MADISON TOWERS, LLC (A TENNESSEE LIMITED LIABILITY COMPANY), HUD PROJECT NO. 086-11116, AND, TO THE BEST OF OUR KNOWLEDGE AND BELIEF, THE SAME ARE ACCURATE AND COMPLETE.

Metropolitan Development and Housing Agency
Managing Agent

Officer

Employer Identification Number