

**East Baton Rouge Community
Development Entity LLC**

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2019 and 2018

East Baton Rouge Community Development Entity LLC

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Independent Auditor's Report

To Management
East Baton Rouge Community Development Entity LLC

We have audited the accompanying financial statements of East Baton Rouge Community Development Entity LLC, which comprise the balance sheets as of December 31, 2019 and 2018, 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 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 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 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 East Baton Rouge Community Development Entity LLC as of December 31, 2019 and 2018, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2019 supplemental information on page 15 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 supplemental 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 our report dated June 24, 2020, on our consideration of East Baton Rouge Community Development Entity 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 solely 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 the effectiveness of East Baton Rouge Community Development Entity LLC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Baton Rouge Community Development Entity LLC's internal control over financial reporting and compliance.



Baltimore, Maryland
June 24, 2020

East Baton Rouge Community Development Entity LLC

**Balance Sheets
December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash	\$ 55,730	\$ 108,489
Accounts receivable	-	8,228
Prepaid expenses	-	64,919
Investment in limited liability companies	-	4,291
	<u>55,730</u>	<u>185,927</u>
Total assets	<u>\$ 55,730</u>	<u>\$ 185,927</u>
<u>Liabilities and Members' Equity</u>		
Liabilities	\$ -	\$ -
Members' equity	<u>55,730</u>	<u>185,927</u>
Total liabilities and members' equity	<u>\$ 55,730</u>	<u>\$ 185,927</u>

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

**Statements of Operations
Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating income		
Asset management fee income	\$ 31,200	\$ 49,150
Other income	536	10,000
Interest income - bank	195	106
Income from investment in limited liability companies	<u>-</u>	<u>68</u>
Total operating income	<u>31,931</u>	<u>59,324</u>
Operating expenses		
Legal fees	491	-
Loss from investment in limited liability companies	597	-
Asset management and structuring fees	<u>161,040</u>	<u>190,347</u>
Total operating expenses	<u>162,128</u>	<u>190,347</u>
Net operating loss	(130,197)	(131,023)
Nonoperating income		
Community reinvestment fee income	<u>-</u>	<u>31,773</u>
Net loss	<u>\$ (130,197)</u>	<u>\$ (99,250)</u>

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

**Statements of Members' Equity
Years Ended December 31, 2019 and 2018**

	East Baton Rouge Redevelopment Authority	City of Baton Rouge/ Parish of East Baton Rouge	Total
Balance, December 31, 2017	\$ 140,048	\$ 145,129	\$ 285,177
Net loss	<u>(48,632)</u>	<u>(50,618)</u>	<u>(99,250)</u>
Balance, December 31, 2018	91,416	94,511	185,927
Net loss	<u>(63,797)</u>	<u>(66,400)</u>	<u>(130,197)</u>
Balance, December 31, 2019	<u>\$ 27,619</u>	<u>\$ 28,111</u>	<u>\$ 55,730</u>

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

**Statements of Cash Flows
Years Ended December 31, 2019 and 2018**

	2019	2018
Cash flows from operating activities		
Net loss	\$ (130,197)	\$ (99,250)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Loss (income) from investment in limited liability companies	597	(68)
Distributions received from limited liability companies	814	1,240
Decrease in assets		
Accounts receivable	8,228	3,992
Prepaid expenses	64,919	137,206
	(55,639)	43,120
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Return of capital from investment in limited liability companies	2,880	-
	2,880	-
Net cash provided by investing activities		
Net (decrease) increase in cash	(52,759)	43,120
Cash, beginning	108,489	65,369
Cash, end	\$ 55,730	\$ 108,489

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2019 and 2018

Note 1 - Organization and summary of significant accounting policies

East Baton Rouge Community Development Entity LLC (the "Company") was formed on February 23, 2009, under the laws of the State of Louisiana. The Company is a qualified Community Development Entity ("CDE") that holds New Market Tax Credits ("NMTC") allocation authority to be used for investment in a Qualified Active Low-Income Community Business ("QALICB") pursuant to Section 45D of the Internal Revenue Code ("IRC"). The Company was granted a seventh-round allocation of \$60,000,000 of NMTC authority from the U.S. Treasury's Community Development Financial Institutions Fund ("CDFI Fund") under an Allocation Agreement dated October 30, 2009. In general, under Section 45D of the IRC, a qualified investor in a CDE can receive NMTC to be used to reduce federal taxes otherwise due in each year of a seven-year period.

Under the Company's Allocation Agreement with CDFI Fund, Redevelopment Authority Fund I, LLC ("Fund I"), Redevelopment Authority Fund II, LLC ("Fund II"), Redevelopment Authority Fund III, LLC ("Fund III"), Redevelopment Authority Fund IV, LLC ("Fund IV") and Redevelopment Authority Fund V, LLC ("Fund V") (collectively, the "Funds") are approved "Subsidiary Allocatees" of the Company. The Company was the managing member of the Subsidiary Allocatees. An Allocation Agreement places restrictions on the CDE's operations, including, but not limited to, a specific geographical area of the low-income communities the CDEs must serve. The Company has been approved to serve low-income communities in East Baton Rouge Parish, Louisiana. As of December 31, 2019 and 2018, the Company had allocated all of its seventh-round NMTC allocation of \$60,000,000 to the Funds.

In accordance with the Company's operating agreement, profits, losses and cash flows (subject to special allocations) are allocated 49% to East Baton Rouge Redevelopment Authority and 51% to the City of Baton Rouge/Parish of East Baton Rouge.

The Company shall continue in full force perpetually unless terminated pursuant to the operating agreement or law.

Financial statement presentation

The Company distinguishes operating revenue and expenses from nonoperating items. The operating revenue and expenses generally result from providing services in connection with the Company's ongoing operations. The principal operating revenue for the Company is asset management fee income, other income, interest income and income from investment in limited liability companies. Operating expenses may include legal fees, asset management and structuring fees, loss from investment in limited liability companies, and miscellaneous administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Accounts receivable and bad debts

Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management.

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2019 and 2018

GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method was not materially different from the results that would have been obtained under the allowance method.

Investment in limited liability companies

The Company accounts for its investment in the limited liability companies using the equity method of accounting due to the significant influence exerted by the Company over the investees. Under the equity method, the investment is recorded at cost and increased or decreased by the Company's share of the limited liability companies' income or losses, and increased or decreased by the amount of any contributions made or distributions received. As of December 31, 2019 and 2018, the Company held a 0.01% membership interest in the Funds.

The Company regularly assesses the carrying value of its investment in the limited liability companies. If the carrying value exceeds the estimated value derived by management, the Company reduces its investment and includes such reduction as an impairment loss. Fair value is measured as the remaining benefits, including NMTCs and flow-through income, to the Company. As of December 31, 2019 and 2018, no impairment loss has been recognized.

Revenue recognition

The Company provides asset management services on a contractual basis for the Funds and is compensated for its services through periodic asset management fees earned based on a fixed fee. These management services represent a series of distinct daily services rendered over time and revenue is recognized at the end of each period for the fees associated with the services performed. The Company is also reimbursed periodically for operating expenses paid on behalf the Funds. The other income is recognized as earned. Community reinvestment fee income is paid to the Company in association with the expiration of the tax credit investment period and is recognized as earned upon conclusion of the applicable Funds' tax credit investment periods.

Income taxes

The Company has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to take any tax positions in order to qualify as a pass-through entity. The Company is required to file and does file tax returns with the Internal Revenue Service ("IRS") and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Company has no other tax positions which must be considered for disclosure. Income tax returns filed by the Company are subject to examination by the IRS for a period of three years. While no income tax returns are currently being examined by the IRS, tax years since 2016 remain open. For income tax purposes, the Company reports on a calendar year basis.

Change in accounting principles

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), as amended by subsequent Accounting Standards Updates (collectively, "ASC 606"). The Company adopted ASC 606 during 2019 and applied the guidance on a retrospective basis. The Company has not experienced significant changes to the pattern of revenue recognition for its contracts, the identification of contracts and performance obligations or the measurement of variable consideration. Adopting the new standard did not have a material effect on the timing of the Company's revenue recognition.

East Baton Rouge Community Development Entity LLC

**Notes to Financial Statements
December 31, 2019 and 2018**

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). ASU 2016-15 changes how an entity classifies distributions received from investees that are accounted for using the equity method of accounting. Under ASU 2016-15, an entity elects either the cumulative earnings approach or the nature of the distribution approach to determine whether distributions received from equity method investees are returns on investment or returns of investment. The Company has elected the nature of the distribution approach and adopted ASU 2016-15 on a retrospective basis. As a result of the adoption of ASU 2016-15, certain distributions received by the Company are now presented as operating cash inflows on the accompanying statements of cash flows.

Note 2 - Related party transactions

Asset management fee income

In accordance with the operating agreements of the Funds, the Company earned annual asset management fees as follows for the year ended December 31, 2019:

Entity	Accounts receivable December 31, 2018	2019 fee earned	2019 fee receipts	Accounts receivable December 31, 2019
Fund III	\$ 8,228	\$ 5,486	\$ 13,714	\$ -
Fund IV	-	12,000	12,000	-
Fund V	-	13,714	13,714	-
Totals	\$ 8,228	\$ 31,200	\$ 39,428	\$ -

In accordance with the operating agreements of the Funds, the Company earned annual asset management fees as follows for the year ended December 31, 2018:

Entity	Accounts receivable December 31, 2017	2018 fee earned	2018 fee receipts	Accounts receivable December 31, 2018
Fund II	\$ 3,992	\$ 9,722	\$ 13,714	\$ -
Fund III	8,228	13,714	13,714	8,228
Fund IV	-	12,000	12,000	-
Fund V	-	13,714	13,714	-
Totals	\$ 12,220	\$ 49,150	\$ 53,142	\$ 8,228

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2019 and 2018

Asset management fee and structuring fee

In accordance with the management services agreement of the Company, the Company shall pay East Baton Rouge Redevelopment Authority a fee up to the amount of 15% of the NMTC Allocation of \$60,000,000, subject to the available cash flow. As of December 31, 2019 and 2018, \$5,744,178 and \$5,583,138, respectively, of this fee has been incurred by the Company. In accordance with the agreement, 80% of the fee will be recognized as an expense in conjunction with the NMTC suballocation for services related to structuring the transaction. The remainder of the fee will be recognized over the remaining NMTC compliance period of seven years.

During the years ended December 31, 2019 and 2018, fees of \$161,040 and \$190,347, respectively, have been expensed, which is comprised of \$84,148 and \$147,833 of management fees, respectively, and \$76,892 and \$42,514, respectively, of structuring fees. As of December 31, 2019 and 2018, prepaid asset management fees are \$0- and \$64,919, respectively.

Community reinvestment fee

During 2018, in accordance with the terms of the operating agreement of Fund II, the Company earned and was paid a community reinvestment fee on October 11, 2018, in the amount of \$31,773.

Other income

During 2019 and 2018, the Company is entitled to fees as consideration for operating expenses paid on behalf of the Funds. For the years ended December 31, 2019 and 2018, \$536 and \$10,000 of such fees were earned and received.

Note 3 - Investment in limited liability companies

The Company's investment balances for the years ended December 31, 2019 and 2018, are summarized as follows:

	2019	2018
Beginning investment balance	\$ 4,291	\$ 5,463
Distributions received	(3,694)	(1,240)
Company's share of (loss) income from investment in limited liability companies	(597)	68
Net investment balance	<u>\$ -</u>	<u>\$ 4,291</u>

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2019 and 2018

The following is the summarized, combined financial information of the Company's investment in the Funds as of and for the years ended December 31, 2019 and 2018. The Funds had no assets or liabilities as of December 31, 2019 and ceased operations during the year ended December 31, 2019.

Summarized Balance Sheets

	<u>Assets</u>	
	Unaudited 2019	2018
Cash	\$ -	\$ 13,243
Accounts receivable	-	21,419
Intangible assets, net	-	53,137
Notes and accrued interest receivable	-	35,793,000
	<hr/>	<hr/>
Total assets	\$ -	\$ 35,880,799

Liabilities and Members' Equity

Liabilities	\$ -	\$ 8,228
Members' equity	-	35,872,571
	<hr/>	<hr/>
Total liabilities and members' equity	\$ -	\$ 35,880,799

Summarized Statements of Operations

	Unaudited 2019	2018
Income		
Interest income	\$ 267,930	\$ 845,633
Other income	12,000	12,000
	<hr/>	<hr/>
Total income	279,930	857,633
Operating expenses	88,448	184,065
	<hr/>	<hr/>
Net income	\$ 191,482	\$ 673,568

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2019 and 2018

Note 4 - Subsequent events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through June 24, 2020 (the date the financial statements were available to be issued) and concluded that the following subsequent event has occurred that requires disclosure in the notes to the financial statements.

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. The spread of this virus has caused business disruption domestically in the United States, the area in which the Company primarily operates. The Company is not able to estimate the length or severity of this outbreak and the related financial impact. As a result of the spread of COVID-19, economic uncertainties have arisen which could have a negative impact on the operations of the Company.

Supplementary Information

East Baton Rouge Community Development Entity LLC
Schedule of Compensation, Benefits and Other Payments
to Agency Head or Chief Executive Officer
Year Ended December 31, 2019

Agency Head Name: Christopher J. Tyson

Purpose	Amount
Salary	\$-0-
Benefits - insurance	\$-0-
Benefits - retirement	\$-0-
Car allowance	\$-0-
Vehicle provided by government	\$-0-
Per diem	\$-0-
Reimbursements	\$-0-
Travel	\$-0-
Registration fees	\$-0-
Conference travel	\$-0-
Continuing professional education fees	\$-0-
Housing	\$-0-
Unvouchered expenses	\$-0-
Special meals	\$-0-

See Independent Auditor's Report.

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 Management
East Baton Rouge Community Development Entity LLC

We have audited, in accordance with the 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 East Baton Rouge Community Development Entity LLC, which comprise the balance sheet as of December 31, 2019, and the related statements of operations, members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Baton Rouge Community Development Entity 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 East Baton Rouge Community Development Entity LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of East Baton Rouge Community Development Entity 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Baton Rouge Community Development Entity 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.

CohnReznick LLP

Baltimore, Maryland
June 24, 2020



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