

**East Baton Rouge Community
Development Entity LLC**

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

December 31, 2017 and 2016

East Baton Rouge Community Development Entity LLC

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Balance Sheets	4
Statements of Operations	5
Statements of Members' Equity	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	
Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer	15
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 <i>Government Auditing Standards</i>	16

Independent Auditor's Report

To the Members
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, 2017 and 2016, 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, 2017 and 2016, 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 2017 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 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 May 17, 2018, 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.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Baltimore, Maryland
May 17, 2018

East Baton Rouge Community Development Entity LLC

Balance Sheets
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash	\$ 65,369	\$ 67,803
Accounts receivable	12,220	12,220
Prepaid expenses	202,125	352,393
Investment in limited liability companies	<u>5,463</u>	<u>6,038</u>
Total assets	<u>\$ 285,177</u>	<u>\$ 438,454</u>
<u>Liabilities and Members' Equity</u>		
Liabilities	\$ -	\$ -
Contingency	-	-
Members' equity	<u>285,177</u>	<u>438,454</u>
Total liabilities and members' equity	<u>\$ 285,177</u>	<u>\$ 438,454</u>

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

Statements of Operations
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating income		
Asset management fee income	\$ 61,656	\$ 64,781
Interest income - bank	30	11
Income from investment in limited liability companies	84	82
	<u>61,770</u>	<u>64,874</u>
Total operating income		
Operating expenses		
Asset management and structuring fees	215,047	162,101
Miscellaneous administrative expenses	-	391
	<u>215,047</u>	<u>162,492</u>
Total operating expenses		
Net loss	<u>\$ (153,277)</u>	<u>\$ (97,618)</u>

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

Statements of Members' Equity
Years Ended December 31, 2017 and 2016

	East Baton Rouge Redevelopment Authority	City of Baton Rouge/ Parish of East Baton Rouge	Total
Balance, December 31, 2015	\$ 262,987	\$ 273,085	\$ 536,072
Net loss	<u>(47,833)</u>	<u>(49,785)</u>	<u>(97,618)</u>
Balance, December 31, 2016	215,154	223,300	438,454
Net loss	<u>(75,106)</u>	<u>(78,171)</u>	<u>(153,277)</u>
Balance, December 31, 2017	<u>\$ 140,048</u>	<u>\$ 145,129</u>	<u>\$ 285,177</u>

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net loss	\$ (153,277)	\$ (97,618)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Income from investment in limited liability companies	(84)	(82)
Decrease in assets		
Prepaid expenses	150,268	162,101
	(3,093)	64,401
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Distributions received from limited liability companies	659	54
	659	54
Net cash provided by investing activities		
Net (decrease) increase in cash	(2,434)	64,455
Cash, beginning	67,803	3,348
Cash, end	\$ 65,369	\$ 67,803

See Notes to Financial Statements.

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2017 and 2016

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") have become approved "Subsidiary Allocatees" of the Company. The Company is 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, 2017 and 2016, the Company has 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, interest income and income from investment in limited liability companies. Operating expenses may include asset management fees 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.

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2017 and 2016

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. 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. 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. The Company holds a 0.01% membership interest in each of the Funds as of December 31, 2017 and 2016.

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, 2017 and 2016, no impairment loss has been recognized.

Revenue recognition

Asset management fees are recognized when earned.

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 2014 remain open. For income tax purposes, the Company reports on a calendar year basis.

Change in accounting principle

During 2017, the Company adopted the provisions of FASB Accounting Standards Update 2015-02, *Consolidations (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"), which amends the consolidation guidance of ASC 810-10 related to both the variable interest model and the voting interest model. The change in accounting under ASU 2015-02 does not change the overall order in which consolidation models are applied, nor does it change the definition of a variable interest. ASU 2015-02 specifically amends the conditions in ASC 810 for evaluating whether the equity investors as a group have the power to direct the activities that most significantly affect the entity's economic performance. ASU 2015-02 has been adopted by the Company on a retrospective basis. The adoption of these provisions had no effect on previously reported earnings.

East Baton Rouge Community Development Entity LLC

**Notes to Financial Statements
December 31, 2017 and 2016**

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, 2017:

<u>Entity</u>	<u>Accounts receivable December 31, 2016</u>	<u>2017 fee earned</u>	<u>2017 fee receipts</u>	<u>Accounts receivable December 31, 2017</u>
Fund I	\$ -	\$ 8,514	\$ 8,514	\$ -
Fund II	3,992	13,714	13,714	3,992
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	\$ 61,656	\$ 61,656	\$ 12,220

In accordance with the operating agreements of the Funds, the Company earned annual asset management fees as follows for the year ended December 31, 2016:

<u>Entity</u>	<u>Accounts receivable December 31, 2015</u>	<u>2016 fee earned</u>	<u>2016 fee receipts</u>	<u>Accounts receivable December 31, 2016</u>
Fund I	\$ -	\$ 11,639	\$ 11,639	\$ -
Fund II	3,992	13,714	13,714	3,992
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	\$ 64,781	\$ 64,781	\$ 12,220

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2017 and 2016

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 subject to the available cash flow. As of December 31, 2017 and 2016, \$5,392,791 and \$5,177,744, 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, 2017 and 2016, fees of \$215,047 and \$162,101, respectively, have been expensed, which is comprised of \$163,222 and \$162,101 of management fees, respectively, and \$51,825 and \$-0-, respectively, of structuring fees. As of December 31, 2017 and 2016, prepaid asset management fees are \$202,125 and \$352,393, respectively.

Note 3 - Investment in limited liability companies

As of December 31, 2017 and 2016, the Company holds membership interests in the Funds as described in Note 1.

The Company's investment balances for the years ended December 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Beginning investment balance	\$ 6,038	\$ 6,010
Distributions received	(659)	(54)
Company's share of income from investment in limited liability companies	<u>84</u>	<u>82</u>
Net investment balance	<u>\$ 5,463</u>	<u>\$ 6,038</u>

East Baton Rouge Community Development Entity LLC

**Notes to Financial Statements
December 31, 2017 and 2016**

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, 2017 and 2016:

Summarized Balance Sheets

	2017	2016
<u>Assets</u>		
Cash	\$ 2,290,351	\$ 1,893,601
Accounts receivable	235	70
Due from affiliate	-	594
Intangible assets, net	136,279	238,527
Notes and accrued interest receivable	58,296,716	58,220,883
 Total assets	 \$ 60,723,581	 \$ 60,353,675

Liabilities and Members' Equity

Liabilities	\$ 20,734	\$ 12,220
Members' equity	60,702,847	60,341,455
 Total liabilities and members' equity	 \$ 60,723,581	 \$ 60,353,675

Summarized Statements of Operations

	2017	2016
Income		
Interest income	\$ 998,284	\$ 983,463
Other income	12,000	12,000
 Total income	1,010,284	995,463
 Operating expenses	 173,903	 184,067
 Net income	 \$ 836,381	 \$ 811,396
 Income allocated to the Company	 \$ 84	 \$ 82

East Baton Rouge Community Development Entity LLC

Notes to Financial Statements December 31, 2017 and 2016

Note 4 - Contingency

The Company's NMTC allocation is contingent on the Company maintaining compliance with applicable sections of 45D of IRC and its Allocation Agreement with the CDFI Fund. Failure to maintain compliance or to correct noncompliance within a specified time period could result in the CDFI Fund exercising its right to take certain actions against the Company as provided for in the Allocation Agreement. Failure to maintain compliance or to correct noncompliance within a specified time period could also result in recapture of previously claimed tax credits plus penalties and interest.

In accordance with the terms of the operating agreement of Fund II, the Company shall be entitled to a Community Reinvestment Fee at the end of the seven-year tax credit compliance period in the amount of \$31,773 from the proceeds of the principal repayment of the A note of Fund II.

Note 5 - Redemption option

In accordance with the operating agreement of Fund II, III, IV and V (the "Redemption Funds"), the investor members of the Redemption Funds have the right and option to require the Redemption Funds to redeem all of the Redemption Funds' investor members' interests in the Redemption Funds. This option may be exercised by the investor members of the Redemption Funds at any time during the 120-day period following the conclusion of the seven-year tax credit compliance period. The purchase price will be the Redemption Funds' investor members' share of any distributable cash held by the Redemption Funds and an assignment of the notes receivable of the Redemption Funds, provided that the Company shall be entitled to retain from the assets of the Redemption Funds cash in the amount of 0.01% of the notes receivable and other assets distributed by the Redemption Funds. After the expiration of the Redemption Funds' investor members' option period, the Company has the option to redeem the Redemption Funds' investor members' option or dissolve the Redemption Funds under the same terms described above.

Note 6 - 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 May 17, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

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, 2017

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 the Members
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, 2017, 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 May 17, 2018.

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 of 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.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Baltimore, Maryland
May 17, 2018

COHN  **REZNICK**
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com