

**East Baton Rouge Community  
Development Entity LLC**

**Financial Statements  
and Independent Auditor's Report**

**December 31, 2012 and 2011**

# East Baton Rouge Community Development Entity LLC

## Index

	Page
Independent Auditor's Report	3
Financial Statements	
Balance Sheets	5
Statements of Operations	6
Statements of Members' Equity	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	16
Auditee's Comments on Audit Resolution Matters Related to Findings	18

## Independent Auditor's Report

To the Members

East Baton Rouge Community Development Entity LLC

Report on the Financial Statements

We have audited the accompanying financial statements of East Baton Rouge Community Development Entity LLC, which comprise the balance sheet as of December 31, 2012, and the related statements of operations, members' equity and cash flows for the year 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 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.

*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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matter*

The financial statements of East Baton Rouge Community Development Entity LLC as of December 31, 2011, were audited by other auditors whose report dated May 25, 2012, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2013 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 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 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.



New York, New York  
June 7, 2013

East Baton Rouge Community Development Entity LLC

Balance Sheets

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash	\$ 188,835	\$ 693,273
Accounts receivable	12,601	15,631
Prepaid expense	896,505	352,907
Investment in limited liability companies	<u>5,935</u>	<u>2,266</u>
Total assets	<u>\$ 1,103,876</u>	<u>\$ 1,064,077</u>
<u>Liabilities and Members' Equity</u>		
Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 650,000
Contingency	-	-
Members' equity	<u>1,103,876</u>	<u>414,077</u>
Total liabilities and members' equity	<u>\$ 1,103,876</u>	<u>\$ 1,064,077</u>

See notes to financial statements

# East Baton Rouge Community Development Entity LLC

## Statements of Operations

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating income		
Fee income	\$ 3,349,350	\$ 1,530,000
Asset management fee income	45,962	15,631
Interest income	879	290
Income from investment in limited liability companies	<u>10</u>	<u>-</u>
Total operating income	<u>3,396,201</u>	<u>1,545,921</u>
Operating expenses		
Asset management fee	106,402	23,993
Structuring fees	2,600,000	1,200,000
Professional fees	-	6,694
Loss from investment in limited liability companies	<u>-</u>	<u>30</u>
Total operating expenses	<u>2,706,402</u>	<u>1,230,717</u>
Net income	<u>\$ 689,799</u>	<u>\$ 315,204</u>

See notes to financial statements

**East Baton Rouge Community Development Entity LLC**

**Statements of Members' Equity**

**Years ended December 31, 2012 and 2011**

	<u>East Baton Rouge Redevelopment Authority</u>	<u>City of Baton Rouge/ Parish of East Baton Rouge</u>	<u>Total</u>
Balance, December 31, 2010	\$ 48,759	\$ 50,114	\$ 98,873
Net income	<u>154,450</u>	<u>160,754</u>	<u>315,204</u>
Balance, December 31, 2011	203,209	210,868	414,077
Net income	<u>338,002</u>	<u>351,797</u>	<u>689,799</u>
Balance, December 31, 2012	<u>\$ 541,211</u>	<u>\$ 562,665</u>	<u>\$ 1,103,876</u>

See notes to financial statements

# East Baton Rouge Community Development Entity LLC

## Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Net income	\$ 689,799	\$ 315,204
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
(Income) loss from investment in limited liability companies	(10)	30
Decrease (increase) in assets		
Accounts receivable	3,030	(12,463)
Prepaid expense	(543,598)	(276,007)
Increase in liabilities		
Accounts payable and accrued expenses	<u>(650,000)</u>	<u>650,000</u>
Net cash (used in) provided by operating activities	<u>(500,779)</u>	<u>676,764</u>
Cash flows from investing activities		
Investment in limited liability companies	(3,690)	(1,700)
Distributions received from limited liability companies	<u>31</u>	<u>17</u>
Net cash used in investing activities	<u>(3,659)</u>	<u>(1,683)</u>
Net (decrease) increase in cash	(504,438)	675,081
Cash, beginning	<u>693,273</u>	<u>18,192</u>
Cash, end	<u>\$ 188,835</u>	<u>\$ 693,273</u>

See notes to financial statements



# East Baton Rouge Community Development Entity LLC

## Notes to Financial Statements

December 31, 2012 and 2011

### 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 Qualified Active Low Income Community Businesses (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 the 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 CDEs' 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, 2012 and 2011, the Company has allocated \$60,000,000 and \$23,100,000, respectively, of its seventh round NMTC allocation of \$60,000,000 to Fund I, Fund II, Fund III, Fund IV and Fund V.

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 fee income, interest income and income from investment in limited liability companies. Operating expenses may include loss from the investment in limited liability companies, management fees, structuring fees,

# **East Baton Rouge Community Development Entity LLC**

## **Notes to Financial Statements - Continued**

**December 31, 2012 and 2011**

professional 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 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.

### **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, 2012.

The Funds are not considered VIEs as the Company is not expected to absorb any expected losses and is not the recipient of the expected benefits. The Company's investment represents its maximum exposure to loss.

### **Revenue Recognition**

Fee income associated with the assignment of NMTC to its Subsidiary Allocatees is recognized when the Subsidiary Allocatees make qualified low-income community investments (QLICI) in QALICBs. 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

# East Baton Rouge Community Development Entity LLC

## Notes to Financial Statements - Continued

December 31, 2012 and 2011

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 2010 remain open. For income tax purposes, the Company reports on a calendar year basis.

### Note 2 - Related Party Transactions

#### Asset Management Fee Income

In accordance with the operating agreements of the Funds, the Company earned an annual asset management fees as follows as of December 31, 2012:

<u>Entity</u>	<u>Accounts Receivable December 31, 2011</u>	<u>2011 Fee Earned</u>	<u>2011 Fee Receipts</u>	<u>Accounts Receivable December 31, 2012</u>
Fund I	\$ 11,639	\$ 11,639	\$ 23,278	\$ -
Fund II	3,992	13,714	13,714	3,992
Fund III	-	8,228	-	8,228
Fund IV	-	12,000	12,000	-
Fund V	-	<u>381</u>	-	<u>381</u>
Totals		<u>\$ 45,962</u>		<u>\$ 12,601</u>

# East Baton Rouge Community Development Entity LLC

## Notes to Financial Statements - Continued

December 31, 2012 and 2011

In accordance with the operating agreements of the Funds, the Company earned an annual asset management fees as follows as of December 31, 2011:

Entity	Accounts Receivable December 31, 2010	2011 Fee Earned	2011 Fee Receipts	Accounts Receivable December 31, 2011
Fund I	\$ 3,168	\$ 11,639	\$ 3,168	\$ 11,639
Fund II	-	3,992	-	3,992
Fund III	-	-	-	-
Fund IV	-	-	-	-
Fund V	-	-	-	-
Totals		<u>\$ 15,631</u>		<u>\$ 15,631</u>

### Fee Income

For the years ended December 31, 2012 and 2011, the Company earned and received fees from its NMTC activities in the amount of \$3,349,350 and \$1,530,000, respectively.

### 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, 2012 and 2011, \$4,100,000 and \$1,500,000, respectively, of this fee has been incurred by the Company. As of December 31, 2012 and 2011, \$0- and \$650,000, respectively, remain payable and included in accounts payable and accrued expenses. 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 NMTC compliance period of seven years. During the period ended December 31, 2012 and 2011, asset management fees of \$106,402 and \$23,993, respectively, and structuring fees of \$2,600,000 and \$1,200,000, respectively, have been expensed. As of December 31, 2012 and 2011, prepaid asset management fees are \$896,505 and \$352,907, respectively.

**East Baton Rouge Community Development Entity LLC**

**Notes to Financial Statements - Continued**

**December 31, 2012 and 2011**

**Note 3 - Investment in Limited Liability Companies**

The following is the summarized condensed and combined financial information of the Company's investment in Fund I, II, III, IV and V as of and for the year December 31, 2012 and in Fund I and II as of and for the year ended December 31, 2011:

Summarized Balance Sheets

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash	\$ 443,780	\$ 84,215
Notes and accrued interest receivable	58,253,909	22,444,541
Intangible assets, net	<u>675,669</u>	<u>149,820</u>
 Total assets	 <u>\$ 59,373,358</u>	 <u>\$ 22,678,576</u>

Liabilities and Members' Equity

Liabilities	\$ 12,601	\$ 15,631
Members' equity	<u>59,360,757</u>	<u>22,662,945</u>
 Total liabilities and members' equity	 <u>\$ 59,373,358</u>	 <u>\$ 22,678,576</u>

Summarized Statements of Operations

	<u>2012</u>	<u>2011</u>
Income		
Interest income	\$ 718,887	\$ 257,591
Other income	<u>12,000</u>	<u>-</u>
 Total income	 730,887	 257,591
Operating expenses	<u>108,259</u>	<u>41,774</u>
 Net income	 <u>\$ 622,628</u>	 <u>\$ 215,817</u>
Income (loss) allocated to the Company	<u>\$ 10</u>	<u>\$ (30)</u>

# East Baton Rouge Community Development Entity LLC

## Notes to Financial Statements - Continued

December 31, 2012 and 2011

### 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.

**East Baton Rouge Community Development Entity LLC**

**Notes to Financial Statements - Continued**

**December 31, 2012 and 2011**

**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 June 7, 2013 (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.



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 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, 2012 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 June 7, 2013.

#### 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 opinions 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.

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 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 East Baton Rouge Community Development Entity LLC's internal control or on compliance. This 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

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

New York, New York  
June 7, 2013

**East Baton Rouge Community Development Entity LLC**

**Auditee's Comments on Audit Resolution Matters  
Related to Findings**

**December 31, 2012**

**Finding No. 1**

In 2011, the Company did not have appropriate controls in place to record and accrue related party fees related to asset management and structuring fees.

**Status**

Cleared.

**Reporting Period**

December 31, 2011.

**Previous Finding Reference Number**

2011-1.