# MM PROPERTY LLC

FINANCIAL STATEMENTS
For the year ended December 31, 2011
with
Report of Independent Auditors

**MM PROPERTY LLC**

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NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

## REPORT OF INDEPENDENT AUDITORS

To the Members of
MM Property LLC:

We have audited the accompanying balance sheet of MM Property LLC, as of December 31, 2011, and the related statements of operations, changes in members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MM Property LLC as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

Bethesda, Maryland
February 29, 2012



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**MM PROPERTY LLC**
BALANCE SHEET
December 31, 2011

| | |
|---|---|
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 48,183 |
| Rent differential reserve | 73,188 |
| Accounts receivable | 125,130 |
| Prepaid expenses | 38,741 |
| Tenant security deposits | 32,160 |
| Total current assets | 317,402 |
| FIXED ASSETS | |
| Land and buildings | 8,054,711 |
| Predevelopment costs | 4,321,366 |
| Total fixed assets | 12,376,077 |
| Less: accumulated depreciation | (319,210) |
| Total net fixed assets | 12,056,867 |
| Total assets | $ 12,374,269 |

see accompanying notes

**MM PROPERTY LLC**
BALANCE SHEET - continued
December 31, 2011

| | |
|---|---|
| CURRENT LIABILITIES | |
| Accounts payable | $ 235,986 |
| Accounts payable - construction | 78,406 |
| Prepaid rent | 662 |
| Accrued expenses | 1,420 |
| Accrued management fee | 5,920 |
| Tenant security deposits payable | 28,303 |
| Total current liabilities | 350,697 |
| LONG-TERM LIABILITIES | |
| Predevelopment advances | 182,571 |
| Due to affiliate | 385,087 |
| Note payable - DHCD | 8,250,000 |
| Bond loan payable - DCHFA | 1,592,675 |
| Total long-term liabilities | 10,410,333 |
| MEMBERS' EQUITY | |
| Member's equity | 1,613,239 |
| Total liabilities and member's equity | $ 12,374,269 |

see accompanying notes

**MM PROPERTY LLC**
STATEMENT OF OPERATIONS
For the year ended December 31, 2011

| | |
|---|---|
| REVENUE | |
| Rental revenue | $ 633,869 |
| Other revenue | 17,212 |
| Total revenue | 651,081 |
| OPERATING EXPENSES | |
| General and administrative | 64,568 |
| Legal and professional fees | 15,737 |
| Payroll | 143,735 |
| Management fees | 71,040 |
| Utilities | 189,026 |
| Repairs and maintenance | 381,696 |
| Insurance | 60,956 |
| Taxes | 107,734 |
| Total operating expenses | 1,034,492 |
| Net operating deficiency | (383,411) |
| OTHER EXPENSES | |
| Interest expense | (6,593) |
| Depreciation | (220,066) |
| Total other expenses | (226,659) |
| Net loss | $ (610,070) |

see accompanying notes

**MM PROPERTY LLC**
STATEMENT OF CHANGES IN MEMBERS' EQUITY
For the year ended December 31, 2011

| | Managing Member | Investor Member | Total Members' Equity |
|---|---|---|---|
| BALANCE, JANUARY 1, 2011 | $ 123,763 | $ - | $ 123,763 |
| Prior period adjustment | (131,833) | - | (131,833) |
| BALANCE, JANUARY 1, 2011, restated | (8,070) | - | (8,070) |
| Capital contributions | - | 2,276,379 | 2,276,379 |
| Syndication costs | | (45,000) | (45,000) |
| Net loss | (457,568) | (152,502) | (610,070) |
| BALANCE, DECEMBER 31, 2011 | $ (465,638) | $ 2,078,877 | $ 1,613,239 |

**MM PROPERTY LLC**
STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net loss | $ (610,070) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation expense | 220,066 |
| Changes in: | |
| Accounts receivable | 69,988 |
| Prepaid expenses | (1,184) |
| Accounts payable | 136,679 |
| Accrued management fee | (160) |
| Accrued expenses | 1,420 |
| Prepaid rent | (5,494) |
| Security deposits, net | 2,306 |
| Net cash used in operating activities | (186,449) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Land and building additions | (618,886) |
| Predevelopment costs paid | (3,352,589) |
| Rent differential reserve | (73,188) |
| Net cash used in investing activities | (4,044,663) |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from note payable - DHCD | 950,000 |
| Repayment of predevelopment advances | (947,254) |
| Proceeds from bonds payable - DCHFA | 1,592,675 |
| Contributions, net of syndication costs | 2,231,379 |
| Net cash provided by financing activities | 3,826,800 |
| Net decrease in cash and cash equivalents | (404,312) |
| Cash and cash equivalents at beginning of year | 452,495 |
| Cash and cash equivalents at end of year | $ 48,183 |
| Supplemental disclosures of cash flow information: | |
| Cash paid for interest, net of amount capitalized | $ 6,593 |

see accompanying notes

**MM PROPERTY LLC**
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

1. General

MM Property LLC, (the "Company") was formed under the laws of the District of Columbia to acquire, rehabilitate, develop and operate Mayfair Mansions III Apartments (the "Property") located in Washington, DC. The Property consists of 160 housing units, being developed under the low-income housing tax credit and historic tax credit programs.

The Company was owned 100% owned by MM Holding, LLC. Pursuant to the Second Amended and Restated Operating Agreement dated October 1, 2011 (the "Operating Agreement"), MM Holding, LLC withdrew as the sole member. The Company is now owned 0.01% by MM Assets LLC (the "Managing Member"), and 99.99% by the investor member, Wells Fargo Affordable Housing Community Development Corporation (the "Investor Member"). Profits and losses are generally allocated 0.01% and 99.99% to the Managing and Investor Member, respectively, pursuant to the Operating Agreement. Under the terms of the Operating Agreement, the Investor Member has agreed to provide capital contributions totaling $13,517,874 and the Managing Member has agreed to provide capital contributions totaling $10. As of December 31, 2011, the Investor Member provided cumulative capital contributions or otherwise received credit for capital contributions totaling $2,276,379 and the Managing Member provided cumulative capital contributions totaling $10. The total capital contributions required pursuant to the Operating Agreement are subject to adjustment based on the amount of low-income housing tax credits ("LIHTC") and historic rehabilitation tax credit ("HTC") allocated to the Company.

Pursuant to the Operating Agreement, Net Cash Flow, as defined, will be distributed as follows:

- First, to the Investor Member to make any unpaid Credit Adjuster payments and any unpaid HTC Adjuster payments, as defined,
- Second, to pay the Asset Management Fee to the Investor Member until the total amount of payments (including payments in all prior years) equals $7,500 per year,
- Third, to replenish the Operating Reserve until the balance in the Operating Reserve is $450,833, and then to replenish the Debt Service Reserve until the balance in the Debt Service Reserve is $315,087,
- Fourth, to pay the amounts owed with respect to any Developer Loan,
- Fifth, to pay required debt service on the Second Mortgage DHCD Loan,
- Sixth, to repay any Operating Deficit Loans, with any such payments to be applied first to accrued but unpaid interest and then to principal, and
- Seventh, to pay Deferred Management Fees to the Management Agent, and
- Eighth, for any taxable year that ends during the Initial HTC Period, 99.99% to the Investor Member and .01% to the Managing Member; for any taxable year beginning after the Initial HTC Period, 10.01% as distributions to the Members in the percentages of 10% to the Investor Member and .01% to the Managing Member and up to 89.99% to the Managing Member to pay the Incentive Management Fee due, provided, however, that any amounts otherwise payable as an Incentive Management Fee and that exceed the limitation set forth in the Operating Agreement shall be paid 100% to the Managing member as an additional distribution.

1. General (continued)

Distributions of Net Cash Flow from a Sale or Refinancing will be in accordance with the Operating Agreement.

2. Summary of significant accounting policies and nature of operations

Basis of accounting
The Company prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition

Restricted cash is not considered cash equivalents and includes cash held with financial institutions for refunds of tenant security deposits, repairs or improvements to the buildings which extend their useful lives, and annual insurance and property tax payments.

The carrying amounts of cash and restricted cash approximate their fair values.

Concentration of credit risk
The Company places its temporary cash investments with high credit quality financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Company has not experienced any losses in such accounts.

Cost of raising capital
Cost of raising capital represents syndication costs of $45,000, which are classified as a reduction of capital.

Economic concentrations
The Company operates one property located in Washington, DC. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in the demand for such housing.

Accounts receivable
Management considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

2. Summary of significant accounting policies and nature of operations (continued)

Fixed assets

Fixed assets are recorded at cost. Depreciation on the main building structures and major improvements is computed using the straight-line method over 27.5 years. Site improvements will be depreciated over a 15 year period under the straight-line method. Personal property will be depreciated over a 5 year period under the straight-line method. Depreciation expense for the year ended December 31, 2011 totaled $220,066, and accumulated depreciation was $319,210.

Expenditures for maintenance and repairs are charged to expense when incurred; expenditures for renewals and betterments which add to the value of the related assets or materially extend the life of the assets are capitalized. When sold, retired, or otherwise disposed of, the costs of assets and related accumulated depreciation will be removed from the accounts and any gain or loss credited or charged to income.

Intangible assets

Amortization will be computed on a straight-line basis. Permanent loan fees will be amortized over the life of the respective loans. Tax credit monitoring fees will be amortized over a fifteen year period which is expected to begin in 2012. Organization costs will be expensed as incurred.

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There was no impairment loss recognized for the year ended December 31, 2011.

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue results from fees for late payments, cleaning, damages, and laundry facilities and is recorded when earned.

Income taxes

Income or loss of the Company is allocated to the members. No income tax provision has been included in the financial statements since profit or loss of the Company is required to be reported by the respective members on their income tax returns.

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes (continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to report information regarding its exposure to various tax positions taken by the Company. The Company has determined whether any tax positions have met the recognition threshold and has measured the Company's exposure to those tax positions. Management believes that the Company has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Company are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Fair value measurements

The Partnership applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost). Upon adoption of the fair value measurement provisions that apply to recurring and nonrecurring fair value measurements of financial assets and liabilities and other provisions, the Partnership determined that no transition adjustments were required.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

*Level 1*: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2*: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3*: Unobservable inputs that reflect the Company's own assumptions.

Subsequent events

Subsequent events have been evaluated through February 29, 2012, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Rent differential reserve

A Rent Differential Reserve was funded in the amount of $73,188 from the Investor Member's initial capital contribution. The reserve is to be maintained until the second anniversary of the last existing tenant's re-occupancy at the Property. Any withdrawal from the reserve requires the approval of both the Managing Member and Investor Member and shall be used to fund operating deficits that occur as the result of the timing of any rent increases, either during lease-up or through the second anniversary of the last existing tenant's re-occupancy. Funds remaining in the reserve on this second anniversary shall be released and used to fund capital expenditures, or treated as cash flow, as defined. As of December 31, 2011, the balance in the rent differential reserve account totaled $73,188.

4. Financing

Tax-Exempt Bonds
Construction financing is being provided in the form of an $11,000,000 loan (the "Senior Loan") from the District of Columbia Housing Finance Agency ("DCHFA"), through the issuance of tax-exempt Multi-Family Housing Revenue Bonds, Series 2009A-10 in the aggregate principal amount of $8,390,000 and DCHFA Multi-Family Housing Revenue Bonds, Series 2011A, in the aggregate principal amount of $2,610,000. Interest only payments are due at the beginning of each month through the Conversion to Permanent Phase Date ("Conversion"), as defined. Interest accrues at a blended rate equal to 4.7881%, including an Issuer's fee equal to the greater of $5,000 or .60% per annum of the bonds outstanding. At Conversion, interest will accrue at a rate of 4.7881% per annum through maturity, January 1, 2044. The Senior Loan is expected to be converted into permanent financing in the amount of $10,640,000. The additional proceeds shall be used in conjunction with the third capital contribution to fund the Operating Reserve, Debt Service Reserve and Replacement Reserve Funds. This Note is secured by the Multifamily Deed of Trust, Assignment of Rents and Security Agreement.

In connection with the Construction Phase Financing Agreement dated October 1, 2011, Wells Fargo Bank, N.A. ("Wells Fargo") agreed to establish, in favor of Freddie Mac, an irrevocable letter of credit in the amount of $2,682,142 to the Company, expecting to expire on July 1, 2014. Wells Fargo Bank, N.A. ("Wells Fargo") agreed to establish a second letter of credit, in favor of Freddie Mac, in the amount of $8,523,308 to the Company, which is also set to expire on July 1, 2014.

Additional construction financing is being provided in the form of a $5,730,000 loan (the "Subordinate Loan") from the District of Columbia Housing Finance Agency ("DCHFA"), through the issuance of tax-exempt Multi-Family Housing Revenue Bonds, Series 2011 (the "Bonds"). Interest only payments are due at the beginning of each month through the earlier of Conversion or May 1, 2015. Interest accrues at a variable rate equal to the one-week Securities Industry and Financial Markets Association (SIFMA) rate plus 2%, plus and Issuer's fee equal to the greater of $5,000 or .50% per annum of the bonds outstanding. This Note is expected to be retired from proceeds of Investor Member capital and is secured by the Construction Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing.

As of December 31, 2011, bond proceeds of $1,592,675 have been drawn. For the year ended December 31, 2011, interest incurred totaled $390,265, all of which has been capitalized.

4. Financing (continued)

DHCD loan
On July 7, 2010 the Company entered into a loan agreement with the District of Columbia Department of Housing and Community Development in the amount of $7,300,000 for the acquisition of the land and building. During 2011, the loan amount was increased to $8,250,000. Interest shall accrue at a rate of 0% per annum until Permanent Loan Closing. From Permanent Loan Closing through the loan term, defined as 40 years from the date of Permanent Loan Closing, interest will accrue at a rate of 1% per annum. As of December 31, 2011, the principal balance was $8,250,000.

5. Related party transactions

Predevelopment advances
An affiliate of the managing member has provided funds which were used for certain predevelopment costs associated with the rehabilitation of the Property. The balance payable as of December 31, 2011, totaled $182,571. These advances do not bear interest and are due on demand.

Predevelopment loan
On September 30, 2011 the Company entered into a loan agreement with MM Asset LLC in the amount of $2,100,000. Interest accrued at a rate equal to the short term applicable federal rate. The loan was repaid on October 1, 2011. As of December 31, 2011, interest expense totaled $6,593, all of which has been paid.

Development fee
For services rendered in connection with the development of the Property and the supervision of the construction, the Company has agreed to pay an affiliate of the Managing Member a development fee in the amount of $3,165,736. The Developer shall be paid its developer fee from debt and equity proceeds as provided for in the Operating Agreement. Any portion which is unpaid after the final capital contribution shall constitute a loan, bearing interest at 5% and payable annually from Cash Flow, in accordance with the Operating Agreement but, in no event, later than December 31, 2025. As of December 31, 2011, $250,000 has been earned and paid.

Asset management fee
Pursuant to the Asset Management Fee Agreement, the Investor Member shall earn a cumulative asset management fee of $7,500 per year, commencing in 2012 and increasing 3% annually, thereafter. Any unpaid fees shall accrue and be paid in subsequent years to the extent there exists sufficient Cash Flow, as defined.

Incentive management fee
Pursuant to the Incentive Management Fee Agreement, the Managing Member may earn a non-cumulative incentive management fee of up to 89.99% of Cash Flow, as defined, commencing in the year after the initial HTC period.

5. Related party transactions (continued)

Construction contract
The Company has entered in a lump sum contract for the rehabilitation of the Property with the contractor, who is an affiliate of the Managing Member. The original contract price was $13,729,821. Change orders, as they may arise, are subject to agreement between the Company and the contractor. Any material change orders must be approved by the Investor Member. As of December 31, 2011, $634,880, including retainage of $38,468, has been earned by the contractor and $346,619 remains payable, which is included in due to affiliate on the balance sheet.

6. Guarantees

Operating deficit guaranty
The Managing Member has guaranteed unlimited operating deficits of the Property until all conditions of the capital contributions have been satisfied. Thereafter, the guarantee will be reduced to $765,920 for at least 60 months. At the end of the 60 month period, the guarantee will be released, provided the operating reserves are fully funded and the Property achieves a debt service coverage ratio of 1.15. Any advances under this guarantee will be treated as operating deficit loans, and will be paid from available Cash Flow, as defined, in accordance with cash flow provisions of the Operating Agreement. As of December 31, 2011, no advances have been made under this guarantee.

Development completion guaranty
The Managing Member and certain affiliates have guaranteed the lien free completion of the Property. The Managing Member and affiliates are obligated to pay all excess development costs pursuant to the Guaranty Agreement. As of December 31, 2011, there have been no advances under this guarantee.

7. Management fee

On August 1, 2010, the Company entered into a property management agreement with Edgewood Management Company, which requires a fee of $5,920 per month until the renovation of the Property is complete. For the year ended December 31, 2011, management fees totaled $71,040. As of December 31, 2011, accrued unpaid management fees totaled $5,920.

8. Purchase option

Pursuant to the Purchase Option Agreement date October 1, 2001, the Managing Member has the right to purchase the entire interest of the Investor Member at the end of the low-income housing tax credit compliance period at a Purchase Option Price, as defined. As a condition to exercise the Purchase Option, the Managing Member shall agree to pay the Investor Member, in addition to the Purchase Option Price, the sum of all unpaid amounts owed to the Investor Member under any provision of the Operating Agreement.

9. Low-income housing tax credits

The Company expects to generate federal low-income housing tax credits ("LIHTCs") from the property. Generally, such LIHTCs become available for use by its members pro-rata over a ten-year period that begins with the placed in service date for each building. To qualify for the LIHTCs, the Company must meet certain requirements, including attaining a qualified eligible basis sufficient to support the allocation, renting the Property pursuant to Internal Revenue Code Section 42 which regulates the use of the Property as to occupant eligibility and unit gross rent, among other requirements. The LIHTCs are subject to complying with certain requirements, and therefore there can be no assurance that the aggregate amount of LIHTCs will be realized and failure to meet all such requirements may result in generating a lesser amount of LIHTCs than expected.

As of December 31, 2011, the Company has not yet generated any LIHTCs.

10. Historic tax credits

The Company expects to generate historic rehabilitation credits ("HTCs") from the Property. Generally, such credits are available for use by the members on the date the Qualified Rehabilitation Expenditures ("QRE's"), as defined, are placed in service and are equal to 20% of the QREs with respect to any Certified Historic Structure. In order to qualify for these HTCs, the Company must comply with various federal requirements. These requirements include, but are not limited to, the Property being listed as a Certified Historic Structure in the National Register, located in a Registered Historic District, certified by the Secretary of the Interior to the Secretary of the Treasury as being of historic significance to the district, and the rehabilitation being performed in a manner consistent with standards established by the Secretary of the Interior. In addition, the Property cannot be sold or transferred for a five year period commencing on the date the QRE's are placed in service. The HTCs are subject to complying with certain requirements, and therefore, there can be no assurance that the aggregate amount of HTCs will be realized. Failure to meet all such requirements may result in generating a lesser amount of HTCs than the expected amount.

As of December 31, 2011, the Company has not yet generated any HTCs.

11. Prior period adjustment

During 2010, the managing member provided funds which were used for certain predevelopment costs associated with the rehabilitation of the Property. These funds were previously recorded as equity, which resulted in an overstatement of equity and an understatement of liabilities in the amount of $131,833 at December 31, 2010. For the year ended December 31, 2011, the adjustment had no effect on operations. Beginning equity has been restated to reflect the adjustment.