

MADISON AREA CLT CORPORATION

FINANCIAL STATEMENTS

December 31, 2004 and 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madison Area CLT Corporation
Madison, Wisconsin

We have audited the accompanying statements of financial position of Madison Area CLT Corporation as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Madison Area CLT Corporation as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Wegner LLP

Wegner LLP
April 22, 2005



MADISON AREA CLT CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash	\$ 170,531	\$ 55,549
Accounts receivable	718,552	585,074
Prepaid expenses	2,036	1,733
Total current assets	891,119	642,356
PROPERTY HELD FOR LEASING		
Land trust	512,124	409,905
Land and buildings	148,567	148,567
Property held for leasing	660,691	558,472
Less accumulated depreciation	34,666	31,881
Property held for leasing - net	626,025	526,591
OTHER ASSETS		
Property development in process	996,773	963,153
Notes receivable	61,356	61,356
Total assets	\$ 2,575,273	\$ 2,193,456
LIABILITIES AND DEFICIT NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 2,637	\$ 61,205
Short-term notes payable	396,181	25,475
Accounts payable and accrued expenses	12,825	12,006
Total current liabilities	411,643	98,686
LONG-TERM LIABILITIES		
Notes payable less current portion	114,991	58,493
Deferred loans	2,215,397	2,215,397
Total liabilities	2,742,031	2,372,576
DEFICIT NET ASSETS		
Unrestricted	(229,650)	(179,120)
Temporarily restricted net assets	62,892	-
Total deficit net assets	(166,758)	(179,120)
Total liabilities and deficit net assets	\$ 2,575,273	\$ 2,193,456

See accompanying notes.

MADISON AREA CLT CORPORATION
STATEMENTS OF ACTIVITIES
Years ended December 31, 2004 and 2003

	2004	2003
UNRESTRICTED NET ASSETS		
SUPPORT, REVENUE AND RECLASSIFICATIONS		
Contributions	\$ 100	\$ 1,350
Member dues	2,249	4,880
Grant income	70,852	17,266
Rental income	44,998	50,095
Interest income	527	579
Developer's fees	-	10,023
Sales of properties	336,680	-
Special events	19,833	-
Miscellaneous income	1,349	1,287
Total support and revenue	476,588	85,480
Net assets released from restrictions	-	10,000
Total support, revenue and reclassifications	476,588	95,480
EXPENSES		
Personnel	58,337	56,598
Accounting	12,105	9,900
Consulting	-	10,950
Cost of properties sold	404,063	-
Depreciation	2,785	2,785
Interest	6,589	7,219
Marketing	197	374
Miscellaneous	3,107	3,183
Office	11,815	11,995
Construction costs	251,695	322,493
Property operation	1,176	188
Taxes and insurance	11,071	10,885
Fundraising events	15,873	705
Capitalized expenses	(251,695)	(333,443)
Total expenses	527,118	103,832
Change in unrestricted net assets	(50,530)	(8,352)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	62,892	-
Net assets released from restrictions	-	(10,000)
Change in net assets	12,362	(18,352)
Deficit net assets - beginning of year	(179,120)	(160,768)
Deficit net assets - end of year	\$ (166,758)	\$ (179,120)

See accompanying notes.

MADISON AREA CLT CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 12,362	\$ (18,352)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	2,785	2,785
(Increase) decrease in assets		
Accounts receivable	(133,478)	(495,386)
Prepaid expenses	(303)	(270)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	819	(7,117)
Net cash used in operating activities	<u>(117,815)</u>	<u>(518,340)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property development in progress	<u>(135,839)</u>	<u>(333,443)</u>
Net cash used in investing activities	<u>(135,839)</u>	<u>(333,443)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable and deferred loans	(2,070)	(1,726)
Proceeds from notes payable and deferred loans	<u>370,706</u>	<u>817,525</u>
Net cash provided by financing activities	<u>368,636</u>	<u>815,799</u>
Net change in cash	114,982	(35,984)
Cash - beginning of year	<u>55,549</u>	<u>91,533</u>
Cash - end of year	<u>\$ 170,531</u>	<u>\$ 55,549</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 6,589	\$ 7,219

See accompanying notes.

MADISON AREA CLT CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Madison Area CLT Corporation (MACLT) assists low and moderate income and disadvantaged people in Dane County, Wisconsin by providing affordable homeownership opportunities. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of MACLT and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, by the actions of MACLT. When a restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets consist of a contribution for providing down payment assistance to home buyers.

Receivables

Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Notes receivable consists of non-interest bearing notes due from individuals. The loans are not payable until the individuals sell the land trust homes that they currently own or certain other contingencies. The notes are secured by the land trust homes occupied by the individuals. Since the payback date of the loans are not certain, the notes have not been discounted.

Property and Equipment Held for Leasing

Purchases of property and equipment in excess of \$500 are recorded at cost and depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful life for the buildings and building improvements is 40 years. Certain funding sources that provided funds for the acquisition of equipment and building improvements may have a reversionary interest in those assets should the program be discontinued.

Income Taxes

MACLT is a tax-exempt public charity under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to federal and state income or franchise taxes.

MADISON AREA CLT CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – SHORT-TERM NOTES PAYABLE

Short-term notes payable consisted of the following at December 31:

	<u>2004</u>	<u>2003</u>
0% CDBG note secured by properties and payable upon sale of the last of these properties.	\$ 196,181	\$ 25,475
4.75% Dane fund note secured by properties and due ratably on the sale of each property.	<u>200,000</u>	<u>-</u>
Short-term notes payable	<u>\$ 396,181</u>	<u>\$ 25,475</u>

NOTE 3 – ECONOMIC DEPENDENCY

MACLT receives a substantial amount of funding from the City of Madison Community Development Block Grant Office and other agencies. If there were a significant reduction in the level of this funding, it could have a significant effect on the Corporation's programs and activities.

NOTE 4 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject MACLT to credit risk consists of cash deposits in excess of insured limits. Cash deposits in excess of the FDIC insured limit were \$68,799 at December 31, 2004. There were no cash deposits in excess of the FDIC insured limit at December 31, 2003.

MADISON AREA CLT CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 5 – NOTES PAYABLE

Notes payable at December 31, 2004 and 2003 consist of the following:

	2004	2003
4.759% mortgage payable, with monthly payment of \$339, including interest, maturing February 2010. Secured by real estate.	\$ 59,330	\$ 60,134
5.875% mortgage payable, with monthly payment of \$376, including interest, maturing November 2029. Secured by real estate.	58,298	59,564
Notes payable	117,628	119,698
Less current portion of notes payable	2,637	61,205
Notes payable less current portion	\$ 114,991	\$ 58,493

Certain notes payable contain covenants, some of which require Madison Area CLT Corporation to comply with certain restrictions as set forth in the note agreements.

Future principal payments are due as follows:

2005	\$ 2,637
2006	2,759
2007	2,888
2008	3,022
2009	3,162
Future	103,160
Total	\$ 117,628

NOTE 6 – DESCRIPTION OF LEASING ARRANGEMENTS

MACLT leases residential housing and land to various individuals to further its mission of providing low cost housing. The leases are made for varying periods. The ground leases include use restrictions. Due to the uncertainty of future rental collections, no amounts are disclosed for future rental income.

MACLT leases space for its administrative office on a month-to-month basis. Rent expense for 2004 and 2003 was \$6,579 and \$5,428.

MADISON AREA CLT CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE 7 – DEFERRED LOANS

MACLT received \$792,050 from the City of Madison Community Development Block Grant program as deferred loans in 2003. These loans are payable upon sale or change of use of the particular property where the loan proceeds were used. Upon sale or change of use of a property, the note amount due will be a percentage of the fair market value of the property, as outlined in each note agreement. Each note is secured by real estate in the City of Madison.

At December 31, 2004 and 2003, these deferred loans had the following balances:

	<u>2004</u>	<u>2003</u>
Troy Gardens Housing Land	\$ 748,350	\$ 748,350
5 Camino del Sol	51,682	51,682
6 Camino del Sol	51,682	51,682
9 Camino del Sol	51,682	51,682
10 Camino del Sol	51,682	51,682
13 Camino del Sol	51,682	51,682
14 Camino del Sol	51,682	51,682
18 Camino del Sol	51,682	51,682
22 Camino del Sol	51,682	51,682
26 Camino del Sol	51,682	51,682
803 Troy Drive	51,682	51,682
805 Troy Drive	51,682	51,682
Anniversary Court	476,076	476,076
Troy Gardens - Conservancy	153,430	153,430
Baldwin Street	39,424	39,424
817 Troy Drive	35,000	35,000
825 Troy Drive	35,000	35,000
833 Troy Drive	35,000	35,000
Emerald Street	35,000	35,000
Lake Point	35,000	35,000
Sequoia Trail	24,332	24,332
Buckeye Road	15,520	15,520
Beld Street	14,763	14,763
	<u> </u>	<u> </u>
Deferred loans	<u>\$ 2,215,397</u>	<u>\$ 2,215,397</u>

NOTE 8 – PRIOR PERIOD ADJUSTMENT

Certain errors resulting in an understatement of previously reported notes receivable was discovered during 2004. Accordingly, an adjustment of \$9,900 was made to increase the December 31, 2002 notes receivable with a corresponding increase in unrestricted net assets.

MADISON AREA CLT CORPORATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – FUNCTIONAL EXPENSES

Functional expenses for 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Program services	\$ 489,018	\$ 83,186
Management and general	20,824	18,569
Fundraising	<u>17,276</u>	<u>2,077</u>
Total expenses	<u>\$ 527,118</u>	<u>\$ 103,832</u>