

USBCDE Sub-CDE 87, LLC
Financial Statements and
Independent Auditor's Report
December 31, 2013 and 2012

USBCDE Sub-CDE 87, LLC

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Independent Auditor's Report

To the Members
USBCDE Sub-CDE 87, LLC

We have audited the accompanying financial statements of USBCDE Sub-CDE 87, LLC, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, members' equity and cash flows for the year ended December 31, 2013 and for the period from August 23, 2012 (inception date) through December 31, 2012, 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. 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 USBCDE Sub-CDE 87, LLC as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the year ended December 31, 2013 and for the period from August 23, 2012 (inception date) through December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Los Angeles, California
April 23, 2014

USBCDE Sub-CDE 87, LLC

Balance Sheets
December 31, 2013 and 2012

	<u>Assets</u>	
	<u>2013</u>	<u>2012</u>
Current assets		
Cash	<u>\$ 751</u>	<u>\$ 6,514,512</u>
Total current assets	<u>751</u>	<u>6,514,512</u>
Other assets		
Sub-allocation fee	61,709	-
Loans receivable - noncurrent	<u>6,448,624</u>	<u>-</u>
Total other assets	<u>6,510,333</u>	<u>-</u>
Total assets	<u>\$ 6,511,084</u>	<u>\$ 6,514,512</u>
	<u>Liabilities and Members' Equity</u>	
Contingency	\$ -	\$ -
Members' equity	<u>6,511,084</u>	<u>6,514,512</u>
Total liabilities and members' equity	<u>\$ 6,511,084</u>	<u>\$ 6,514,512</u>

See Notes to Financial Statements.

USBCDE Sub-CDE 87, LLC

Statements of Income
Year Ended December 31, 2013 and for the Period from
August 23, 2012 (Inception Date) through December 31, 2012

	<u>2013</u>	<u>2012</u>
Income		
Interest income	<u>\$ 24,631</u>	<u>\$ -</u>
Total income	<u>24,631</u>	<u>-</u>
Expenses		
Sub-allocation fee expense	<u>3,428</u>	<u>-</u>
Total expenses	<u>3,428</u>	<u>-</u>
Net income	<u><u>\$ 21,203</u></u>	<u><u>\$ -</u></u>

See Notes to Financial Statements.

USBCDE Sub-CDE 87, LLC

**Statements of Members' Equity
Year Ended December 31, 2013 and for the Period from
August 23, 2012 (Inception Date) through December 31, 2012**

	<u>Managing Member</u>	<u>Investor Member</u>	<u>Total</u>
Balance, August 23, 2012	\$ -	\$ -	\$ -
Contributions from the members	<u>751</u>	<u>6,513,761</u>	<u>6,514,512</u>
Balance, December 31, 2012	751	6,513,761	6,514,512
Distributions to the members	(2)	(24,629)	(24,631)
Net income	<u>2</u>	<u>21,201</u>	<u>21,203</u>
Balance, December 31, 2013	<u>\$ 751</u>	<u>\$ 6,510,333</u>	<u>\$ 6,511,084</u>
Percentage of interest	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

See Notes to Financial Statements.

USBCDE Sub-CDE 87, LLC

**Statements of Cash Flows
Year Ended December 31, 2013 and for the Period from
August 23, 2012 (Inception Date) through December 31, 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Net income	\$ 21,203	\$ -
Adjustments to reconcile net income to net cash provided by operating activities		
Sub-allocation fee	<u>3,428</u>	<u>-</u>
Net cash provided by operating activities	<u>24,631</u>	<u>-</u>
Cash flows from investing activities		
Issuance of loan receivable	<u>(6,448,624)</u>	<u>-</u>
Net cash used in investing activities	<u>(6,448,624)</u>	<u>-</u>
Cash flows from financing activities		
Payment of sub-allocation fee	(65,137)	-
Capital contributions from the members	-	6,514,512
Distributions to the members	<u>(24,631)</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(89,768)</u>	<u>6,514,512</u>
Net (decrease) increase in cash	(6,513,761)	6,514,512
Cash, beginning of year	<u>6,514,512</u>	<u>-</u>
Cash, end of year	<u>\$ 751</u>	<u>\$ 6,514,512</u>

See Notes to Financial Statements.

USBCDE Sub-CDE 87, LLC

Notes to Financial Statements December 31, 2013 and 2012

Note 1 - Organization and nature of operations

USBCDE Sub-CDE 87, LLC (the Company) was formed on March 15, 2012 under the laws of the State of Missouri and commenced operations on August 23, 2012 (date of inception). The Company was formed to obtain qualified equity investments (QEI) from investors and make qualified investments in Qualified Active Low-Income Community Businesses (QALICB) in accordance with the terms of the Florida New Markets Development Program (FLNMDP) pursuant to New Markets Development Program Act (NMDPA), as defined. The managing member of the Company is USBCDE, LLC and the initial investor member was USBCDE, LLC. The operating agreement was amended on August 23, 2012 to withdraw the initial investor member and admit 2012 USB Florida Investment Fund, LLC as the investor member.

The Company's principal business objective is to provide nontraditional investment capital to underserved markets and enhance the return on such investments by providing its investor member with State of Florida New Markets Tax Credits (FLNMTC). Therefore, the Company's principal business consists of investing as a lender in a QALICB. In general, under the NMDPA, a qualified investor in a Community Development Entity (CDE) can receive the FLNMTC to be used to reduce state taxes otherwise due in each year of a seven-year period.

The Company has been certified by the U.S. Treasury's Community Development Financial Institutions Fund (CDFI Fund) as a CDE. As a CDE, the Company's primary mission is to provide loans to qualified businesses in low-income communities of the Company's service area. The Company has entered into an allocation agreement with the CDFI Fund as a "Subsidiary Allocatee" of its managing member. An allocation agreement places restrictions on a CDE's operations, including, but not limited to, the specific geographic area of the low-income communities the CDE must serve. The Company has agreed to serve low-income communities on a national basis. The Company received a final certification letter from the Florida Office of Tourism, Trade and Economic Development (OTTED) certifying that the Company is (i) a CDE under the U.S. Treasury's New Markets Tax Credit program; (ii) certifying the issuance of up to \$100,000,000 in QEI by the Company and; (iii) certifying that this QEI will earn the investor member FLNMTC in accordance with the NMDPA. The Company has not yet made a QEI.

As a CDE, the Company is continually required to demonstrate that its primary mission is serving, or providing investment capital for low-income communities or low-income persons and that it is accountable to residents of the low income communities it serves. As a CDE and Subsidiary Allocatee of FLNMTC, the Company is required to comply with various rules and regulations of the CDFI Fund. Failure to comply with these or other requirements could result in the recapture of FLNMTC already taken by the Company's investor member and the loss of future FLNMTC.

In accordance with the operating agreement of the Company the profits, losses, distributions (subject to certain special allocations), and tax credits are allocated 99.99 percent to the investor member and 0.01 percent to the managing member.

USBCDE Sub-CDE 87, LLC

Notes to Financial Statements December 31, 2013 and 2012

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

Note 2 - Significant accounting policies

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, income is recognized as earned and expenses as incurred, regardless of the timing of payments.

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, 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.

Sub-allocation fee

Sub-allocation fee is expensed over the seven-year NMTC compliance period.

Loan receivable and allowance for loan loss

The Company intends to hold its loan receivable until maturity. The loan receivable is valued at cost. Management has determined that an allowance for loan loss is not required.

Interest income

Interest on the loan receivable is recorded as income 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 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 Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, tax years since 2012 remain open for examination.

Note 3 - Loan receivable

The Company executed a fund loan agreement with USB/HRV Investment Fund III, LLC (Borrower), an affiliate, on August 30, 2013 in the amount of \$6,448,624. The loan bears interest at the rate of 1.1364 percent per annum and matures on August 29, 2043.

USBCDE Sub-CDE 87, LLC

Notes to Financial Statements December 31, 2013 and 2012

Commencing September 25, 2013, quarterly interest-only payments shall be due on the 25th day of the last month of each calendar quarter. Commencing September 25, 2020, quarterly payments of principal and interest will be due to amortize the outstanding unpaid balance over the remaining term of the loan. The loan is secured by a security interest in certain assets of the borrower. All unpaid principal and interest is due at maturity. As of December 31, 2013 and 2012, the loans receivable balance amounted to \$6,448,624 and \$0, respectively.

Note 4 - Related party transactions

Cash

The Company maintains its bank account with U.S. Bancorp, a company related through common ownership and management.

Sub-allocation fee

In compensation for its services provided by USBCDE, LLC, the Company paid the managing member, USBCDE, LLC, a placement fee in an amount equal to \$65,137. The fee is being expensed over the seven-year NMTC compliance period.

Note 5 - Concentration of credit risk

The Company maintains its cash account with U.S. Bancorp. At times, this balance exceeds the federal insurance limits; however, the Company has not experienced any losses with respect to its bank balance in excess of government provided insurance. The Company believes that no significant concentration of credit risks exists with respect to this cash balance at December 31, 2013 and 2012.

Note 6 - Contingency

The Company's FLNMTC are contingent on the Company maintaining compliance with applicable sections of 45D of the Internal Revenue Code and Sections 288.991-288.992 of the NMDPA. Failure to maintain compliance or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus penalties and interest.

Note 7 - 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 USBCDE Sub-CDE 87, LLC through April 23, 2014 and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to financial statements.

USBCDE Sub-CDE 87, LLC

**Independent Auditor's Report
Related to Florida Single Audit Act**

December 31, 2013

USBCDE Sub-CDE 87, LLC

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Independent Auditor's Report on the Schedule of
Expenditures of State Awards Issued in a Program-Specific Audit

To the Members
USBCDE Sub-CDE 87, LLC

Report on the Schedule of Expenditures of State Awards

We have audited the accompanying Schedule of Expenditures of State Awards (the "schedule") for the State of Florida New Markets Development Program ("state program") of USBCDE Sub-CDE 87, LLC for the year ended December 31, 2013.

Management's Responsibility for the Schedule of Expenditures of State Awards

Management is responsible for the preparation and fair presentation of the Schedule 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 a Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act. Those standards and the Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, 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 Schedule 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 Schedule.

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 Schedule referred to above presents fairly, in all material respects, the expenditures of state awards for the state program of USBCDE Sub-CDE 87, LLC for the year ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Los Angeles, California
September 29, 2014

Independent Auditor's Report on Compliance for a State Program
and on Internal Control over Compliance

To the Members
USBCDE Sub-CDE 87, LLC

Report on Compliance for the Florida Single Audit Act

We have audited USBCDE Sub-CDE 87, LLC's compliance with the types of compliance requirements described in Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act that could have a direct and material effect on its State of Florida New Markets Development Program ("state program") for the year ended December 31, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of USBCDE Sub-CDE 87, LLC's state program based on our audit of the types of requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act. Those standards and Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state program occurred. An audit includes examining, on a test basis, evidence about USBCDE Sub-CDE 87, LLC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for USBCDE Sub-CDE 87, LLC's state program. However, our audit does not provide a legal determination of USBCDE Sub-CDE 87, LLC's compliance.

Opinion on Compliance for the State of Florida New Markets Development Program

In our opinion, USBCDE Sub-CDE 87, LLC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its state program for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of USBCDE Sub-CDE 87, LLC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

In planning and performing our audit of compliance, we considered USBCDE Sub-CDE 87, LLC's internal control over compliance with the types of requirements that could have a direct and material effect on its state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its state program and to test and report on internal control over compliance in accordance with Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of USBCDE Sub-CDE 87, LLC's internal control over compliance. Accordingly, we do not express an opinion on USBCDE Sub-CDE 87, LLC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
September 29, 2014

USBCDE Sub-CDE 87, LLC

**Schedule of Expenditures of State Awards
December 31, 2013**

<u>State Agency</u>	<u>State CSFA No.</u>	<u>Qualified Investment Date</u>	<u>Qualified Investment Amount</u>
Office of Tourism, Trade and Economic Development			
New Markets Development Program	40.020	8/30/2013	<u>\$ 6,448,624</u>
Total			<u><u>\$ 6,448,624</u></u>

The accompanying schedule of state awards includes the state grant activity of USBCDE Sub-CDE 87, LLC and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Rules of the Auditor General, Chapter 10.650, Florida Single Audit Act.

USBCDE Sub-CDE 87, LLC

Schedule of Findings and Questioned Costs
December 31, 2013

A. Summary of Independent Auditor's Results

State Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that is
not considered to be a material weakness? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to
be reported in accordance with the Rules of the Auditor
General, Chapter 10.650, Florida Single Audit Act? _____ Yes X No

B. State Award Findings and Questioned Costs

None