

VILLA GARDENS LIMITED PARTNERSHIP

AUDITED FINANCIAL STATEMENTS

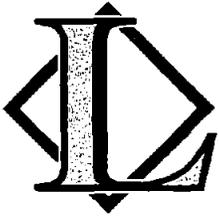
DECEMBER 31, 2013 AND 2012

VILLA GARDENS LIMITED PARTNERSHIP

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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>	22-23



**LITTLE & ASSOCIATES LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

Wm. TODD LITTLE, CPA  
CHARLES R. MARCHBANKS, JR., CPA

**INDEPENDENT AUDITORS' REPORT**

To the Partners  
of Villa Gardens Limited Partnership  
Lafayette, Louisiana

We have audited the accompanying financial statements of Villa Gardens Limited Partnership (a Louisiana Limited Partnership), which comprise the balance sheets as of December 31, 2013 and 2012 and the related statements of operations, partners' 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.

**Auditors' 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 *Governmental 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 auditors' 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 auditors consider 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 Villa Gardens Limited Partnership as of December 31, 2013 and 2012, 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 Schedule of Expenses, the Schedule of Operating Income and Expense Variances – AMEC Model to Actual Comparisons, and the Computation of Surplus Cash, Distributions, and Residual Receipts – LHC – Tax Credit Assistance Program are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 March 29, 2014, on our consideration of Villa Gardens Limited Partnership'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 Villa Gardens Limited Partnership's internal control over financial reporting and compliance.

Monroe, LA  
March 29, 2014

*Latt & Associates LLC*

VILLA GARDENS LIMITED PARTNERSHIP  
BALANCE SHEETS  
DECEMBER 31,

ASSETS

	2013	2012
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 70,617	\$ 49,090
Accounts Receivable - Tenants (Net)	6,393	5,374
Accounts Receivable - Agency Subsidy	3,876	-
Accounts Receivable - Other	-	202
Prepaid Expenses	9,847	9,330
Total Current Assets	90,733	63,996
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>		
Operating Reserve	175,955	175,000
Replacement Reserve	35,435	24,008
Tax and Insurance Escrow	40,214	41,762
Tenants' Security Deposits	31,900	33,250
Total Restricted Deposits and Funded Reserves	283,504	274,020
<b>PROPERTY AND EQUIPMENT</b>		
Buildings	5,977,936	5,977,936
Furniture and Equipment	557,374	557,374
Site Improvements	1,346,514	1,346,514
Total	7,881,824	7,881,824
Less: Accumulated Depreciation	(749,324)	(476,812)
Net Depreciable Assets	7,132,500	7,405,012
Land	415,324	415,324
Total Property and Equipment	7,547,824	7,820,336
<b>OTHER ASSETS</b>		
Permanent Loan Fees	146,210	146,210
Tax Credit Fees	42,250	42,250
Less: Accumulated Amortization	(29,029)	(15,056)
Utility Deposits	900	900
Total Other Assets	160,331	174,304
Total Assets	\$ 8,082,392	\$ 8,332,656

The accompanying notes are an integral part of these financial statements.

VILLA GARDENS LIMITED PARTNERSHIP  
BALANCE SHEETS  
DECEMBER 31,

LIABILITIES AND PARTNERS' EQUITY

	2013	2012
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 2,510	\$ 331
Deferred Revenue	847	2,509
Asset Management Fee Payable	11,612	-
Current Portion of Long-Term Debt	17,191	16,372
Total Current Liabilities	32,160	19,212
<b>DEPOSITS</b>		
Tenants' Security Deposits	31,900	33,250
Total Deposits	31,900	33,250
<b>LONG-TERM LIABILITIES</b>		
Note Payable - Capital One	1,556,811	1,573,608
Note Payable - LPTFA	463,250	463,250
Note Payable - LHC TCAP	833,527	833,528
Accrued Interest Payable - LHC TCAP	111,628	77,921
Accrued Partnership Management Fees Payable	30,563	20,207
Deferred Developer Fee Payable	62,890	134,890
Total Long-Term Liabilities	3,058,669	3,103,404
Total Liabilities	3,122,729	3,155,866
<b>PARTNERS' EQUITY</b>		
Partners' Equity	4,959,663	5,176,790
Total Partners' Equity	4,959,663	5,176,790
Total Liabilities and Partners' Equity	\$ 8,082,392	\$ 8,332,656

The accompanying notes are an integral part of these financial statements.

VILLA GARDENS LIMITED PARTNERSHIP  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
<b>REVENUE</b>		
Rents	\$ 403,048	\$ 390,950
Vacancies	(12,528)	(822)
Late Fees, Deposits Forfeitures, etc.	12,950	6,049
Other Income	10,888	-
Total Revenue	414,358	396,177
<b>EXPENSES</b>		
Maintenance and Repairs	70,038	69,527
Utilities	4,068	3,650
Administrative	41,664	96,187
Management Fees	23,864	23,963
Taxes	11,513	11,584
Insurance	39,410	44,100
Interest	138,868	171,209
Depreciation and Amortization	286,485	284,017
Total Expenses	615,910	704,237
Net Income (Loss) from Operations	(201,552)	(308,060)
<b>OTHER INCOME (EXPENSE)</b>		
Interest Income	1,146	-
Asset Management Fees	(6,365)	(6,180)
Partnership Management Fees	(10,356)	(10,207)
Total Other Income (Expense)	(15,575)	(16,387)
Net Income (Loss)	\$ (217,127)	\$ (324,447)

The accompanying notes are an integral part of these financial statements.

VILLA GARDENS LIMITED PARTNERSHIP  
 STATEMENTS OF PARTNERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Total	General Partner Lafayette Housing Authority	Special Limited Partner Hudson SLP, LLC	Investment Partner Hudson Villa Gardens, LP
Partners' Equity, January 1, 2012	\$ 4,559,325	\$ (45)	\$ (50,045)	\$ 4,609,415
Contributions	941,912	-	-	941,912
Net Loss	<u>(324,447)</u>	<u>(32)</u>	<u>(32)</u>	<u>(324,383)</u>
Members' Equity, December 31, 2012	5,176,790	(77)	(50,077)	5,226,944
Net Loss	<u>(217,127)</u>	<u>(22)</u>	<u>(22)</u>	<u>(217,083)</u>
Partners' Equity, December 31, 2013	<u>\$ 4,959,663</u>	<u>\$ (99)</u>	<u>\$ (50,099)</u>	<u>\$ 5,009,861</u>
Profit and Loss Percentages	<u>100.00%</u>	<u>0.01%</u>	<u>0.01%</u>	<u>99.98%</u>

The accompanying notes are an integral part of these financial statements.

VILLA GARDENS LIMITED PARTNERSHIP  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ (217,127)	\$ (324,447)
Adjustments to Reconcile Net Income (Loss) to Cash		
Provided by (Used in) Operating Activities:		
Depreciation and Amortization	286,485	284,017
(Increase)Decrease in Accounts Receivable - Tenants	(1,019)	2,732
(Increase)Decrease in Accounts Receivable - Agency Subsidy	(3,876)	-
(Increase)Decrease in Accounts Receivable - Other	202	(202)
(Increase)Decrease in Prepaid Insurance	(517)	5,018
(Increase)Decrease in Tax and Insurance Escrow	1,548	(41,762)
Increase(Decrease) in Accounts Payable	2,178	314
Increase(Decrease) in Advanced Revenue Payable	(1,662)	415
Increase(Decrease) in Asset Management Fee Payable	11,612	(6,000)
Increase(Decrease) in Partnership Management Fee Payable	10,356	10,207
Increase(Decrease) in Accrued Interest Payable	33,707	43,622
Total Adjustments	339,014	298,361
Net Cash Provided by (Used in) Operating Activities	121,887	(26,086)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition/Construction of Property and Equipment	-	(708)
Deposits to Operating Reserve	(955)	(175,000)
Deposits to Replacement Reserve	(11,427)	(24,008)
Net Cash Provided by (Used in) Investing Activities	(12,382)	(199,716)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Pay Off Construction Debt	-	(1,600,000)
Proceeds from Long-Term Debt	-	1,600,000
Payment on Long-Term Debt	(15,978)	(10,020)
Payment of Development Costs Payable	-	(32,076)
Payment of Developer Fee Payable	(72,000)	(700,034)
Receipt of Capital Contributions	-	941,912
Payment of Mortgage Costs	-	(49,157)
Net Cash Provided by (Used in) Financing Activities	(87,978)	150,625
Net Increase (Decrease) in Cash and Cash Equivalents	21,527	(75,177)
Cash and Cash Equivalents at Beginning of Year	49,090	124,267
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 70,617</b>	<b>\$ 49,090</b>

The accompanying notes are an integral part of these financial statements.

VILLA GARDENS LIMITED PARTNERSHIP  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash Paid During the Year for:		
Interest	<u>\$ 105,161</u>	<u>\$ 127,587</u>

The accompanying notes are an integral part of these financial statements.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE A – REPORTING ENTITY AND OPERATIONS

Villa Gardens, Limited Partnership, (the Partnership) was formed as a limited partnership under the laws of the State of Louisiana on November 5, 2009, for the purpose to acquire, construct, own, finance, lease, and operate a qualified low income housing project (the Property) within the meaning of Section 42 of the Internal Revenue Code.

The Property consists of a 43 unit, single-family home rental complex, located in Lafayette, Louisiana and was placed in service on March 23, 2011. The Property is eligible for Low-Income Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code (low-income housing tax credit) which regulates the use of the Property with respect to occupant eligibility and unit rent levels, among other requirements.

The major activities and operations of the Partnership are governed by the Amended and Restated Articles of Partnership (the Partnership Agreement) and are subject to the administrative directives, rules, and regulations of federal and state regulatory agencies, including but not limited to, LHC (formerly the Louisiana Housing Finance Agency). Such administrative directives, rules, and regulations are subject to change by federal and state agencies.

NOTE B – PARTNERSHIP AND PARTNERS

Pursuant to the Partnership Agreement, the Partnership is comprised of three partners (collectively, the Partners). The Partnership's general partner, Lafayette Housing Authority (the General Partner); a limited partner, Hudson Villa Gardens LP (the Limited Partner); and, a special limited partner, Hudson SLP LLC (the Special Limited Partner).

The Housing Authority of the City of Lafayette, Louisiana (the Housing Authority) is obligated to guarantee the obligations of the General Partner, pursuant to an Unconditional Guaranty executed by the Housing Authority.

On September 21, 2011, the Special Limited Partner assigned its interest in the Partnership to Hudson VG SLP LLC, which now acts as the Partnership's Special Limited Partner.

As the result of certain circumstances precluding the General Partner from meeting its obligations under the Partnership Agreement, on September 26, 2011, the Special Limited Partner exercised certain of its rights under the Partnership Agreement to cause the authority of the General Partner to be restricted and to require that the Special Limited Partner provide consent to any and all actions of the General Partner.

On January 16, 2012, the Construction Loan matured. Following this maturity, the Construction Loan became subject to remedies of the Construction/Permanent Lender, which remedies include acceleration of the Construction Loan, termination of the permanent loan commitment and/or initiation of foreclosure proceedings.

As the result of non-performance by the General Partner under the provisions of the Partnership Agreement and as the result of the technical default of the Partnership under the Construction Loan, the Special limited Partner issued a Notice of Default to the General Partner on February 3, 2012. This Notice of Default allowed for a 30-day cure period as prescribed by the Partnership Agreement.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE B – PARTNERSHIP AND PARTNERS (CONTINUED)

The General Partner failed to respond to the Notice, and failed to cure the cited defaults within the prescribed cure period.

On March 7, 2012, the Special Limited Partner took action to remove Villa Gardens Housing Corporation as the general partner of the Partnership.

Concurrent with the removal of Villa Gardens Housing Corporation as the general partner of the Partnership, the general partner interest was assigned to the Lafayette Housing Authority. Effective as of March 7, 2012, the Lafayette Housing Authority assumed responsibility as the General Partner of the Partnership.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents represents unrestricted cash and all highly liquid and unrestricted debt instruments purchased with a maturity of three months or less.

Cash and Other Deposits

The Partnership has various checking, escrow, and other deposits at various financial institutions. Noninterest-bearing transaction and interest-bearing accounts, in the aggregate, are insured up to \$250,000 at each financial institution by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2013, there were uninsured deposits of \$103,871.

Collateralization Policy for Financial Instruments

The Partnership does not require collateral to support financial instruments subject to credit risk.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization and Depreciation

Land, buildings, improvements, and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives.

Amortization

Mortgage costs are amortized over the term of the mortgage loan using the straight-line method. Tax Credit Costs are amortized over the ten year tax credit period using the straight-line method.

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account in the name of the apartment complex. At December 31, 2013, the tenants' security deposit was funded in amount equal to the security deposit liability.

Rental Income and Deferred Rents

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

Tenant rent charges for the current month are due on the first of each month. Tenants who are evicted or move out are charged with damages or cleaning fees, if applicable. Tenant accounts receivable consists of amounts due for rental income, other tenant charges and charges for damages and cleaning fees in excess of forfeited security deposits. The Partnership does not accrue interest on the tenant receivable balances.

Tenant receivables are reported net of an allowance for doubtful accounts in the amount of \$3,002 and \$3,497, respectively, as of December 31, 2013 and 2012. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually. The time limit for taxing authorities to examine the Partnership's income tax returns is generally three years from the date of filing or the due date, whichever is later, unless civil or criminal fraud is proven, for which there is no time limit.

FASB ASC 360, *Property, Plant, and Equipment*

FASB ASC 360, *Property, Plant, and Equipment* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Application of the impairment provisions of FASB ASC 360, *Property, Plant, and Equipment* has not materially affected the partnership's reported earnings, financial condition or cash flows.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE D – NOTE PAYABLE

Construction Loan – Capital One

The Partnership entered into a construction loan agreement with Capital One, National Association (the Construction/Permanent Lender) on July 16, 2010 (the Construction Loan). The maximum loan amount that can be drawn is \$6,550,000. Interest on the Construction Loan is based on a fixed rate of 7.34% per annum. The Partnership is to make monthly payments of interest only and the Construction Loan matures on January 16, 2012 unless extended in accordance with Section 2.13 of the agreement. The Construction Loan is primarily collateralized by a mortgage on real property and a security agreement.

In September 2011, the Special Limited Partner caused a principal payment to be made on the Construction Loan utilizing a Limited Partner equity contribution, reducing the principal balance of the Construction Loan to \$1,600,000.

On December 22, 2011, the Construction/Permanent Lender issued notice to the Partnership that it had become aware of certain technical defaults under the terms of the underlying construction loan agreement. The notice advised the Partnership that the Construction/Permanent Lender reserved all of its rights under the construction loan agreement.

The circumstances surrounding subsequent resolution of matters associated with the Construction Loan are more fully disclosed in Note M hereto.

During 2012, the Partnership paid the remaining construction loan in the amount of \$1,600,000 to Capital One.

Permanent Loan – Capital One

On March 7, 2012, the Partnership entered into a permanent loan agreement to receive funds up to the amount of \$1,600,000 from Capital One, National Association. This permanent loan (the Permanent Loan) is payable in monthly installments of principal and interest in the amount of \$11,013 until its maturity in fifteen years, March 7, 2027, at which time any remaining principal and interest is due and payable. The Permanent Loan bears interest at a fixed rate of 7.34% per annum and is collateralized primarily by the Partnership's land and improvements, thereon.

As of December 31, 2013 and 2012, the Permanent Loan had a balance of \$1,574,002 and \$1,589,980, respectively.

Note Payable – LPTFA

The Partnership entered into a permanent loan agreement with Lafayette Public Trust Financing Authority on July 16, 2010 (the LPTFA Loan). The maximum loan amount that can be drawn is \$463,250. The LPTFA Loan bears no interest and is payable solely from 75% of net cash flow of the Partnership commencing on January 2011. The LPTFA Loan matures on June 30, 2025. The LPTFA Loan is primarily collateralized by a mortgage on real property and a security agreement. As of December 31, 2013 and 2012, the total note payable was \$463,250 each year.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE D – NOTE PAYABLE (CONTINUED)

Note Payable – LHC TCAP

The LHC has committed loan proceeds of \$833,528 to the Partnership (the TCAP Loan), of which \$833,528 has been received by the Partnership. The TCAP Loan bears interest at a fixed rate of 4.00% per annum, which accrues on the outstanding principal balance and is payable in annual installments solely from 75% of surplus cash, due on the first day of April commencing April 1, 2012. The TCAP Loan will mature on August 1, 2045, which is the date all unpaid sums under the note are due and payable. The TCAP Loan also details that payments shall be made only out of and to the extent of the cash flow of the Partnership after payment of all operating expenses approved by the LHC. As a condition to obtaining this financing, the Partnership has entered into a regulatory agreement with LHC, whereby rentals are to be restricted to low-income tenants rents charged are to be restricted to a percentage of the tenant’s median income.

Should the LHC issue a written notice to the Partnership of an instance of noncompliance with the regulatory agreement, the Partnership shall have thirty days from the issuance of such notice to correct the noncompliance. Should the noncompliance not be corrected within the thirty days, the LHC has the right to declare the entire amount of mortgage immediately due and payable.

The balance at December 31, 2013 and 2012 was \$833,527 each year, with interest accrued of \$111,628 and \$77,921, respectively.

Maturities of Long-Term Debt

Maturities of long-term debt for the next five years and thereafter are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2014	\$ 17,191
2015	\$ 18,496
2016	\$ 19,900
2017	\$ 21,411
2018	\$ 23,037
Thereafter	\$ 2,770,744

NOTE E – RELATED PARTY TRANSACTIONS

Developer Fee

The Partnership incurred a developer fee of \$1,124,924 to the General Partner, as the Developer, for services rendered to the Partnership for overseeing the construction and development of the Property. The developer fee has been capitalized into the basis of the building. As of December 31, 2013 and 2012, the Partnership owed \$62,890 and \$134,890, respectively, in developer fees. Deferred Developer fees of \$62,890 and \$134,890 were included in the amount above, for the years ended December 31, 2013 and 2012, respectively.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE E – RELATED PARTY TRANSACTIONS (CONTINUED)

Asset Management Fee

The Partnership shall pay the Asset Management Fee annually to the Special Limited Partner for property management oversight, tax credit compliance monitoring, and related services. The Asset Management Fee is an annual fee in the amount of \$6,000, to be increased annually by three percent (3%) and accrues on a cumulative basis. For the years ended December 31, 2013 and 2012, Asset Management Fees incurred totaled \$6,365 and \$6,180, respectively. At December 31, 2013 and 2012, Asset Management Fees payable to the Special Limited Partner, totaled \$6,365 and \$0, respectively.

Partnership Management Fees

The Partnership shall pay to the General Partner a cumulative Partnership Management Fee to be increased annually in the amount and priority specified in section 8.10 of the Partnership Agreement to compensate the General Partner for managing the Partnership's operations and assets and coordinating the preparation of the required State Housing Finance Agency, federal, state, and local tax and other required filings and financial reports. The Partnership Management Fee shall equal \$10,000 per year, increasing annually by the CPI percentage. Any unpaid Partnership Management Fee in a given fiscal year shall accrue and be payable from net cash flow available in future years. For the years ended December 31, 2013 and 2012, Partnership Management Fees incurred totaled \$10,356 and \$10,207, respectively. At December 31, 2013 and 2012, Partnership Management Fees payable totaled \$30,563 and \$20,207, respectively.

NOTE F – RESTRICTED ESCROW DEPOSITS AND RESERVES

Operating Reserve

The General Partner shall establish an operating reserve account (the Operating Reserve) which is to be funded at the time of the funding of the Third Capital Contribution by the Limited Partner in the amount of \$175,000. The operating reserve account shall be maintained for the duration of the Compliance Period (after which, funds on deposit may be released and distributed as net cash flow in accordance with section 7.03 of the Partnership Agreement) and shall be used exclusively to pay for Operating Deficits incurred by the Partnership with the consent of the Special Limited Partner. Subsequent to the initial period, any amounts on deposit in the operating reserve account in excess of \$175,000 may be released to the General Partner. Should the balance in the operating reserve account fall below \$175,000, distributions shall be made from net cash flow to maintain a minimum balance of \$175,000.

As of December 31, 2013 and 2012, the Operating Reserve had a balance of \$175,955 and \$175,000, respectively.

Replacement Reserve

The General Partner shall establish a replacement reserve account (the Replacement Reserve), to be funded each month (on an annualized basis) the greater of (i) the amount required by the Construction/Permanent Lender and (ii) \$300 per unit annually, to be increased annually by 3%.

Monthly funding of the Replacement Reserve is to commence as of the month following substantial completion of the apartment complex, as defined in the Partnership Agreement. The Partnership shall utilize

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE F – RESTRICTED ESCROW DEPOSITS AND RESERVES (CONTINUED)

Replacement Reserve (Continued)

amounts in the Replacement Reserve to fund major repair, capital expenditures and replacement of capital items for the property, subject to consent of the Special Limited Partner. In the event that the reserve minimum payment to the Replacement Reserve required under the terms of the Partnership Agreement exceeds the amount required by the Construction/Permanent Lender, the Special Limited Partner shall establish a separate account called the SLP Replacement Reserve Account, into which the General Partner shall deposit any such excess. Interest earned on either account shall become part of that account.

In accordance with the TCAP Replacement Reserve Agreement, upon execution and delivery of the TCAP loan documents, the Partnership is required to establish a Replacement Reserve Fund. Commencing on the date the first scheduled monthly payment is due under the TCAP Reserve For Replacement Agreement after the conversion and continuing on the same day of each successive month until the end of the Review Period of 60 months after the first scheduled monthly payment date, the Partnership shall pay to LHC or the Permanent Lender of the TCAP Loan \$1,075 per month for deposit into the Replacement Reserve Fund, together with any regular monthly payments as required by the TCAP mortgage.

As of December 31, 2013 and 2012, the Replacement Reserve had a balance of \$35,435 and \$24,008, respectively. For the year ended December 31, 2013, \$13,686 was required to be funded to the Replacement Reserve account. The actual amount funded during 2013 was \$11,236, which resulted in the account being underfunded by \$2,450.

Replacement Reserve	
	2013
Beginning Balance	\$ 24,008
Deposits	11,236
Interest	191
Withdrawals	-
Ending Balance	\$ 35,435

NOTE G – PARTNERS AND CONTRIBUTIONS

Article V of the Partnership Agreement sets forth the capital contributions of the Partners. The General Partner's, Lafayette Housing Authority, capital contribution is \$10. The Special Limited Partner's, Hudson SLP LLC, capital contribution is \$10. The Limited Partner's, Hudson Villa Gardens LP, capital contribution is \$5,999,400. Each of the Partners' capital contributions are subject to adjustments in accordance with the terms of the Partnership Agreement.

The Partnership records capital contributions as received. During the years ended December 31, 2013 and 2012, the Investment Partner contributed capital in the amount of \$0 and \$941,912, respectively.

NOTE H – PARTNERSHIP PROFITS AND LOSSES AND DISTRIBUTIONS

All Partnership profits, losses, and tax credits are allocated among the Partners according to Section 7.02 of the Partnership Agreement, which dictates that .015 is allocated to the General Partner, .015 is allocated to the Special Limited Partner and the remaining 99.98% is allocated to the Limited Partner. Distributions of cash flow are governed by Sections 7.03 of the Partnership Agreement.

VILLA GARDENS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE I – MANAGEMENT FEE

The Partnership pays a property management fee to Latter and Blum Property Management, Inc. equal to six percent (6.0%) of actual rent collections for the preceding month. For the years ended December 31, 2013 and 2012, Management Fees incurred and paid totaled \$23,864 and \$23,963, respectively. At December 31, 2013 and 2012, no Management Fees payable was owed.

NOTE J – ADVERTISING

During 2013 and 2012, no advertising costs were incurred. Advertising costs are expensed as incurred.

NOTE K – TAXABLE INCOME (LOSS)

A reconciliation of financial statement net income to taxable loss of the Partnership for the years ended December 31, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Financial statement net income (loss)	\$ (217,127)	\$ (324,447)
Adjustments:		
Excess of depreciation for income tax purposes over financial reporting purposes	55,018	54,677
Timing difference in income/expense Recognition	<u>(10,986)</u>	<u>10,989</u>
Taxable loss shown on tax return	<u>\$ (173,095)</u>	<u>\$ (258,781)</u>

NOTE L – PROPERTY TAXES

The Partnership is exempt from paying property taxes and therefore did not incur property taxes for the years ended December 31, 2013 and 2012.

NOTE M – SUBSEQUENT EVENTS

The Partnership has evaluated subsequent events through March 29, 2014, the date which the financial statements were available for issue.

SUPPLEMENTARY INFORMATION

VILLA GARDENS LIMITED PARTNERSHIP  
SCHEDULE OF EXPENSES  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2013</u>	<u>2012</u>
<b>MAINTENANCE AND REPAIRS</b>		
Salaries	\$ 11,637	\$ 3,795
Repairs Contract	6,241	1,716
Supplies	5,252	9,167
Painting & Decorating	723	1,194
Cleaning	605	1,204
Grounds	20,809	18,659
Garbage and Trash Removal	1,433	941
Services	15,589	17,271
Miscellaneous	7,749	15,580
Total Maintenance and Repairs	<u>\$ 70,038</u>	<u>\$ 69,527</u>
<b>UTILITIES</b>		
Electricity	\$ 3,193	\$ 3,233
Water and Sewer	875	417
Total Utilities	<u>\$ 4,068</u>	<u>\$ 3,650</u>
<b>ADMINISTRATIVE</b>		
Manager Salaries	\$ 18,142	\$ 20,485
Bank Charges	346	431
Office Expense	2,816	2,363
Telephone	1,673	1,572
Travel	575	1,622
Bookkeeping/Accounting	2,220	2,220
Legal and Professional Fees	9,215	48,981
TCAP Asset Management Fees	5,247	5,160
Other Administrative Expenses	1,430	13,353
Total Administrative	<u>\$ 41,664</u>	<u>\$ 96,187</u>
<b>TAXES</b>		
Payroll Taxes	\$ 11,513	\$ 11,584
Total Taxes	<u>\$ 11,513</u>	<u>\$ 11,584</u>
<b>INSURANCE</b>		
Property and Liability Insurance	\$ 38,871	\$ 42,340
Employee Benefits	539	1,760
Total Insurance	<u>\$ 39,410</u>	<u>\$ 44,100</u>
<b>INTEREST EXPENSE</b>		
Interest on Construction	\$ 103,839	\$ 137,312
Interest on Mortgage	35,029	33,897
Total Interest Expense	<u>\$ 138,868</u>	<u>\$ 171,209</u>

**VILLA GARDENS LIMITED PARTNERSHIP**  
**SCHEDULE OF OPERATING INCOME AND EXPENSE VARIANCES -**  
**AMEC MODEL PROFORMA TO ACTUAL COMPARISONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Project Name: VILLA GARDENS

3.00% Inflation Rate for Income/Expenses  
2.50% Inflation Rate for Replacement Reserve

	2013 Year 3 AMEC Model	2013 Year 3 Actual	Explanation of Variances Exceeding 5.00%
<b>Income Statement</b>			
<b>Rental Income</b>	6%		
Residential-			
5121 Rental Income GROSS VACANCY	\$ 400,957	\$ 424,800	
5121 Rental Income NET VACANCY	-	-	
5190 Other	-	-	
5140 Stores & Commercial-	-	-	
<b>Total Rental Income:</b>	<b>400,957</b>	<b>424,800</b>	
<b>Vacancies: Enter as Negative</b>	-55%		
5220 Apartments-	(28,067)	(12,528)	
5240 Stores & Commercial-	-	-	
5270 Garage & Parking Spaces-	-	-	
5290 Miscellaneous Concessions-	-	-	
<b>Total Vacancies:</b>	<b>(28,067)</b>	<b>(12,528)</b>	
<b>Net Rental Income:</b>	<b>372,890</b>	<b>412,272</b>	
<b>Other Income &amp; Bad Debt</b>	15%		
5910 Laundry & Vending-	-	-	
6370 Apartment Bad Debt- Enter as Neg.	-	-	
6370 Commercial Bad Debt- Enter as Neg.	-	-	
5920 NSF, Damages & Late Charges, Other-	2,737	3,577	
<b>Total Other Income:</b>	<b>2,737</b>	<b>3,577</b>	
<b>EFFECTIVE GROSS INCOME</b>	<b>375,627</b>	<b>415,849</b>	
<b>Admin. Exps</b>	-32%		
6210 Advertising-	1,305	-	
6250 Admin. Exps.-	-	5,181	
6310 Office Salaries-	25,207	-	
6311 Office Supplies-	-	1,659	
6320 Management Fee-	22,526	23,864	
6330 Management or Super. Sal.-	34,776	18,142	
6331 Mgmt. or Super. Free Rent Unit-	-	-	
6340 Legal Expenses (Project)-	-	9,215	
6350 Auditing Exps. (Project)-	7,957	-	
6351 Bookkeeping Fees/Acct. Services-	-	2,220	
6390 LHFA Asset Management Fee	5,304	5,247	
<b>Total Admin. Less Management Fee</b>	<b>74,549</b>	<b>41,664</b>	
<b>Total Admin. Exps.:</b>	<b>97,075</b>	<b>65,528</b>	
<b>Utilities Expense</b>	-23%		
6420 Fuel Oil/Coal-	-	-	
6420 Fuel for Domestic Hot Water-	-	-	
6450 Electricity (Light & Misc. Power)-	3,713	3,193	
6451 Water-	-	263	
6452 Gas-	1,485	-	
6453 Sewer-	-	612	
<b>Total Utilities Exps.:</b>	<b>5,198</b>	<b>4,068</b>	

**VILLA GARDENS LIMITED PARTNERSHIP**  
**SCHEDULE OF OPERATING INCOME AND EXPENSE VARIANCES -**  
**AMEC MODEL PROFORMA TO ACTUAL COMPARISONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Project Name: VILLA GARDENS

3.00% Inflation Rate for Income/Expenses  
2.50% Inflation Rate for Replacement Reserve

	2013 Year 3 AMEC Model	2013 Year 3 Actual	Explanation of Variances Exceeding 5.00%
<b>O &amp; M Expenses</b>	39%		
6510 O&M Payroll-	12,901	19,292	
6515 O&M Supplies-	2,652	7,547	
6520 O&M Contract-	6,365	35,261	
6525 Garbage & Trash Removal-	2,694	1,433	
6530 Security Payroll/Contract-	-	-	
6545 Elevator Maintenance/Contract-	-	-	
6546 HVAC R & M-	5,835	764	
6570 Other Expenses-	3,713	3,735	
6590 Misc. O & M Expenses- Neighborhood Network-	12,732	-	
<b>Total O &amp; M Expenses:</b>	46,892	70,038	
<b>Taxes &amp; Insurance</b>	1%		
6710 Real Estate Taxes-	-	-	
6711 Payroll Taxes (FICA)-	2,652	11,513	
6719 Misc. Taxes, Licenses, & Permits-	-	-	
6720 Property & Liability Insurance-	39,784	38,871	
6721 Fidelity Bond Insurance-	-	-	
6722 Workmen's Compensation-	2,652	-	
6723 Health Ins. & Other Emp. Benefits-	5,167	539	
6279 Other Insurance-	-	-	
<b>Total Taxes &amp; Insurance:</b>	50,255	50,923	
<b>TOTAL OPERATING EXPENSES:</b>	-7%	199,421	190,557
<b>NET OPERATING INCOME:</b>	\$ 176,206	\$ 225,292	
<b>Replacement Reserves</b>	-29%	\$ 13,553	\$ 35,435
<b>ADJUSTED NET OPERATING INCOME</b>	\$ 162,653	\$ 189,857	

VILLA GARDENS LIMITED PARTNERSHIP  
 COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS -  
 LHC - TAX CREDIT ASSISTANCE PROGRAM  
 DECEMBER 31, 2013

U.S. Department of Housing  
 and Urban Development  
 Office of Housing  
 Federal Housing Commissioner

**Computation of Surplus Cash,  
 Distributions and Residual Receipts**

<b>Project Name:</b> Villa Gardens	<b>Fiscal Period Ended:</b> 12/31/2013	<b>Project Number:</b>
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**Part A - Compute Surplus Cash**

<b>Cash</b>		
1. Cash (Accounts 1110, 1120, 1191, 1192)	\$	91,596
2. Tenant subsidy vouchers due for period covered by financial statement	\$	-
3. Other (describe)	\$	-
(a) Total Cash (Add Lines 1, 2 and 3)	\$	91,596

**Current Obligations**

4. Accrued mortgage interest payable	\$	-
5. Delinquent mortgage principal payments	\$	-
6. Delinquent deposits to reserve for replacements	\$	2,450
7. Accounts payable (due within 30 days)	\$	2,510
8. Loans and notes payable (due within 30 days)	\$	1,385
9. Deficient Tax Insurance or MIP Escrow Deposits	\$	-
10. Accrued expenses (not escrowed)	\$	11,612
11. Prepaid Rents (Account 2210)	\$	847
12. Tenant security deposits liability (Account 2191)	\$	31,900
13. Other (Describe)	\$	-
(b) Less Total Current Obligations (Add Lines 4 through 13)	\$	50,704
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))	\$	40,892

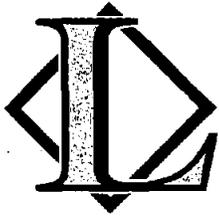
**Part B - Compute Distributions to Owners and Required Deposit to Residual Receipts**

1. Surplus Cash	\$	40,892
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**Limited Dividend Projects**

2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$	-
2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$	-
2c. Distributions Paid During Fiscal Period Covered by Statement	\$	-
3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$	-
4. Amount Available for Distribution During Next Fiscal Period	\$	40,892
5. Deposit Due Residual Receipts (Must be deposited with mortgagee within 60 days after fiscal period ends)	\$	-

<b>Prepared By</b>		<b>Reviewed By</b>	
Loan Technician	Date	Loan Servicer	Date



**LITTLE & ASSOCIATES LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

Wm. TODD LITTLE, CPA  
CHARLES R. MARCHBANKS, JR., CPA

**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***

Independent Auditor's Report

To the Partners  
Villa Gardens Limited Partnership  
Lafayette, Louisiana

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 Villa Gardens Limited Partnership, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Villa Gardens Limited Partnership's basic financial statements, and have issued our report thereon dated March 29, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Villa Gardens Limited Partnership'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 of Villa Gardens Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Villa Gardens Limited Partnership'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Villa Gardens Limited Partnership'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 Villa Gardens Limited Partnership's financial statements are free from 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 Villa Gardens Limited Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Villa Gardens Limited Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Monroe, Louisiana  
March 29, 2014

*Little & Associates, LLC*