

VILLA GARDENS LIMITED PARTNERSHIP

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

VILLA GARDENS LIMITED PARTNERSHIP

TABLE OF CONTENTS

DECEMBER 31, 2016 AND 2015

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS	
BALANCE SHEETS	4-5
STATEMENTS OF OPERATIONS	6
STATEMENTS OF PARTNERS' EQUITY (DEFICIT)	7
STATEMENTS OF CASH FLOWS	8-9
NOTES TO FINANCIAL STATEMENTS	10-17
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENSES	18
SCHEDULE OF OPERATING INCOME AND EXPENSE VARIANCES – AMEC MODEL PROFORMA TO ACTUAL COMPARISONS	19-20
COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS – LHC – TAX CREDIT ASSISTANCE PROGRAM	21
OTHER AUDITORS' REPORTS:	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22-23
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO THE AGENCY HEAD OR CHIEF EXECUTIVE OFFICER	24



Little & Assoc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Partners and Management
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, 2016 and 2015 and the related statements of operations, partners' equity (deficit), 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, 2016 and 2015, and the results of its operations, changes in partners' equity (deficit) 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, the Computation of Surplus Cash, Distributions, and Residual Receipts – LHC – Tax Credit Assistance Program, and the Schedule of Compensation, Benefits, and Other Payments to the Agency Head or Chief Executive Officer 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 13, 2017, 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.

Little & Associates, LLC

Monroe, LA

March 13, 2017

VILLA GARDENS LIMITED PARTNERSHIP
BALANCE SHEETS
DECEMBER 31,

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 107,729	\$ 60,655
Accounts Receivable - Tenants (Net)	5,854	9,554
Accounts Receivable - Other	-	420
Prepaid Expenses	9,210	9,025
Total Current Assets	122,793	79,654
RESTRICTED DEPOSITS AND FUNDED RESERVES		
Operating Reserve	177,546	177,014
Replacement Reserve	79,064	64,038
Tax and Insurance Escrow	51,241	56,316
Tenants' Security Deposits	34,475	34,445
Total Restricted Deposits and Funded Reserves	342,326	331,813
PROPERTY AND EQUIPMENT		
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	(1,566,860)	(1,294,348)
Net Depreciable Assets	6,314,964	6,587,476
Land	415,324	415,324
Total Property and Equipment	6,730,288	7,002,800
OTHER ASSETS		
Tax Credit Fees	42,250	42,250
Less: Accumulated Amortization	(24,646)	(20,421)
Utility Deposits	900	900
Total Other Assets	18,504	22,729
 Total Assets	 \$ 7,213,911	 \$ 7,436,996

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

VILLA GARDENS LIMITED PARTNERSHIP
BALANCE SHEETS
DECEMBER 31,

LIABILITIES AND PARTNERS' EQUITY

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 5,855	\$ 3,774
Deferred Revenue	587	2,722
Asset Management Fee Payable - LHC	-	5,400
Accrued Interest Payable - Capital One	9,288	9,409
Current Portion of Long-Term Debt	21,411	19,900
Total Current Liabilities	<u>37,141</u>	<u>41,205</u>
 DEPOSITS		
Tenants' Security Deposits	34,475	34,445
Total Deposits	<u>34,475</u>	<u>34,445</u>
 LONG-TERM LIABILITIES		
Note Payable - Capital One, Net of Unamortized Debt Issuance Costs	1,397,092	1,408,757
Note Payable - LPTFA	463,250	463,250
Note Payable - LHC TCAP	833,527	833,527
Accrued Interest Payable - LHC TCAP	172,246	138,442
Accrued Partnership Management Fees Payable	62,292	51,623
Total Long-Term Liabilities	<u>2,928,407</u>	<u>2,895,599</u>
 Total Liabilities	<u>3,000,023</u>	<u>2,971,249</u>
 PARTNERS' EQUITY		
Partners' Equity	4,213,888	4,465,747
Total Partners' Equity	<u>4,213,888</u>	<u>4,465,747</u>
 Total Liabilities and Partners' Equity	<u>\$ 7,213,911</u>	<u>\$ 7,436,996</u>

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

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

	2016	2015
REVENUE		
Rents	\$ 424,035	\$ 429,916
Vacancies	(8,775)	(6,948)
Late Fees, Deposits Forfeitures, etc.	14,022	7,371
Total Revenue	429,282	430,339
EXPENSES		
Maintenance and Repairs	102,238	78,933
Utilities	3,867	6,299
Administrative	48,557	49,017
Management Fees	25,907	25,655
Taxes	13,406	12,919
Insurance	37,872	37,142
Interest	155,681	157,094
Depreciation and Amortization	276,737	276,737
Total Expenses	664,265	643,796
Net Income (Loss) from Operations	(234,983)	(213,457)
OTHER INCOME (EXPENSE)		
Interest Income	748	702
Asset Management Fees	(6,955)	(6,754)
Partnership Management Fees	(10,669)	(10,536)
Total Other Income (Expense)	(16,876)	(16,588)
Net Income (Loss)	\$ (251,859)	\$ (230,045)

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

VILLA GARDENS LIMITED PARTNERSHIP
STATEMENTS OF PARTNERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total	General Partner <u>Lafayette Housing Authority</u>	Special Limited Partner <u>Hudson SLP, LLC</u>	Investment Partner <u>Hudson Villa Gardens, LP</u>
Partners' Equity (Deficit), December 31, 2014	\$ 4,695,792	\$ (125)	\$ (50,125)	\$ 4,746,042
Net Loss	<u>(230,045)</u>	<u>(23)</u>	<u>(23)</u>	<u>(229,999)</u>
Partners' Equity (Deficit), December 31, 2015	4,465,747	(148)	(50,148)	4,516,043
Net Loss	<u>(251,859)</u>	<u>(25)</u>	<u>(25)</u>	<u>(251,809)</u>
Partners' Equity (Deficit), December 31, 2016	<u>\$ 4,213,888</u>	<u>\$ (173)</u>	<u>\$ (50,173)</u>	<u>\$ 4,264,234</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,

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (251,859)	\$ (230,045)
Adjustments to Reconcile Net Income (Loss) to Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	286,484	286,484
(Increase)Decrease in Accounts Receivable - Tenants (Net)	3,700	(7,395)
(Increase)Decrease in Accounts Receivable - Agency Subsidy	-	1,787
(Increase)Decrease in Accounts Receivable - Other	420	(105)
(Increase)Decrease in Prepaid Expenses	(185)	98
(Increase)Decrease in Tax and Insurance Escrow	5,075	(3,176)
Increase(Decrease) in Accounts Payable	2,081	(1,824)
Increase(Decrease) in Advanced Revenue Payable	(2,135)	1,334
Increase(Decrease) in Asset Management Fee Payable	-	(6,556)
Increase(Decrease) in Asset Management Fee Payable - LHC	(5,400)	5,400
Increase(Decrease) in Partnership Management Fee Payable	10,669	10,536
Increase(Decrease) in Accrued Interest Payable	33,683	2,524
Total Adjustments	<u>334,392</u>	<u>289,107</u>
Net Cash Provided by (Used in) Operating Activities	<u>82,533</u>	<u>59,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to Operating Reserve	(532)	(530)
Deposits to Replacement Reserve	(15,026)	(14,515)
Net Cash Provided by (Used in) Investing Activities	<u>(15,558)</u>	<u>(15,045)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on Long-Term Debt	(19,901)	(18,496)
Net Cash Provided by (Used in) Financing Activities	<u>(19,901)</u>	<u>(18,496)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	47,074	25,521
Cash and Cash Equivalents at Beginning of Year	<u>60,655</u>	<u>35,134</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 107,729</u>	<u>\$ 60,655</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,

	<u>2016</u>	<u>2015</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>		
Cash Paid During the Year for:		
Interest	<u>\$ 112,251</u>	<u>\$ 144,823</u>

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

VILLA GARDENS LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 AND 2015

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 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, 2016, there were uninsured deposits of \$150,525.

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, 2016 AND 2015

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalization and Depreciation

Land, buildings, improvements, and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method over their estimated service lives as follows:

Buildings	40 years
Furniture, Fixtures and Equipment	10 years
Site Improvements	20 years

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. The resulting gains and losses are reflected in the statement of operations.

Amortization

Organization costs are expensed as incurred. Tax credit costs are amortized over the ten year tax credit period using the straight-line method.

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using the interest method.

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account in the name of the apartment complex. At December 31, 2016, 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 \$0 and \$0, respectively, as of December 31, 2016 and 2015. 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.

VILLA GARDENS LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Change in Accounting Principle

In the year ended December 31, 2016, the Partnership retroactively adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense rather than as amortization expense. The effect of the change for the year ended December 31, 2016 was to decrease Other Assets – Permanent Loan Fees, net and notes payable by \$99,911. The financial statements of the year ended December 31, 2015 have been retroactively restated for this change, which resulted in a decrease to Other Assets – Permanent Loan Fees, net and notes payable of \$109,658. This change does not impact net loss or partners' equity.

NOTE D – NOTE PAYABLE

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, 2016 and 2015, the Permanent Loan had a balance of \$1,518,414 and \$1,538,315, with interest accrued of \$9,288 and \$9,409, respectively.

	2016	2015
Note Payable – Capital One	\$ 1,518,414	\$ 1,538,315
Less: Unamortized Debt Issuance Costs	(99,911)	(109,658)
Note Payable – Capital One, Net	\$ 1,418,503	\$ 1,428,657

VILLA GARDENS LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE D – NOTE PAYABLE (CONTINUED)

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, 2016 and 2015, the total note payable was \$463,250 and \$463,250, respectively.

Note Payable – LHC TCAP

The LHC has committed loan proceeds of \$833,527 to the Partnership (the TCAP Loan), of which \$833,527 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, 2016 and 2015 was \$833,527 and \$833,527, with interest accrued of \$172,246 and \$138,442, respectively.

Maturities of Long-Term Debt

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

Year Ending December 31,	Amount
2017	\$ 21,411
2018	\$ 23,037
2019	\$ 24,786
2020	\$ 26,667
2021	\$ 28,692
Thereafter	\$ 2,690,598

VILLA GARDENS LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE E – RELATED PARTY TRANSACTIONS

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, 2016 and 2015, Asset Management Fees incurred totaled \$6,955 and \$6,754, respectively. At December 31, 2016 and 2015, no Asset Management Fees were owed to the Special Limited Partner.

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, 2016 and 2015, Partnership Management Fees incurred totaled \$10,669 and \$10,536, respectively. At December 31, 2016 and 2015, Partnership Management Fees payable totaled \$62,292 and \$51,623, 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, 2016 and 2015, the Operating Reserve had a balance of \$177,546 and \$177,014, 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

VILLA GARDENS LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE F – RESTRICTED ESCROW DEPOSITS AND RESERVES (CONTINUED)

Replacement Reserve (Continued)

completion of the apartment complex, as defined in the Partnership Agreement. The Partnership shall utilize 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, 2016 and 2015, the Replacement Reserve had a balance of \$79,064 and \$64,038, respectively. For the year ended December 31, 2016, \$14,955 was required to be funded to the Replacement Reserve account. The actual amount funded during the year ended December 31, 2016 was \$14,810, which resulted in the account being underfunded by \$145 for the year ended December 31, 2016. For the year ended December 31, 2015, \$14,519 was required to be funded to the Replacement Reserve account. The actual amount funded during the year ended December 31, 2015 was \$14,344, which resulted in the account being underfunded by \$175 for the year ended December 31, 2015. As of December 31, 2016, the account was underfunded by a total amount of \$2,907.

Replacement Reserve	
	2016
Beginning Balance	\$ 64,038
Deposits	14,810
Interest	216
Withdrawals	—
Ending Balance	\$ 79,064

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 and distributions as paid. During the years ended December 31, 2016 and 2015, there were no capital contributions received and no distributions paid.

VILLA GARDENS LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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.

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, 2016 and 2015, Management Fees incurred and paid totaled \$25,907 and \$25,655, respectively. At December 31, 2016 and 2015, no Management Fees payable was owed.

NOTE J – ADVERTISING

During the years ended December 31, 2016 and 2015, no advertising costs were incurred. Advertising costs are expensed as incurred.

NOTE K – TAXABLE INCOME (LOSS)

A reconciliation of financial statement net income (loss) to taxable loss of the Partnership for the years ended December 31, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Financial statement net income (loss)	\$ (251,859)	\$ (230,045)
Adjustments:		
Excess of depreciation for income tax purposes over financial reporting purposes	55,091	55,091
Timing difference in income/expense Recognition	56	5,400
Taxable loss shown on tax return	<u>\$ (196,712)</u>	<u>\$ (169,554)</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, 2016 and 2015.

NOTE M – SUBSEQUENT EVENTS

The Partnership has evaluated subsequent events through March 13, 2017, 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,

	2016	2015
MAINTENANCE AND REPAIRS		
Salaries	\$ 22,752	\$ 21,740
Repairs Contract	17,422	9,640
Supplies	10,691	8,783
Painting & Decorating	1,104	730
Cleaning	387	70
Grounds	30,957	18,865
Garbage and Trash Removal	1,031	910
Services	17,894	18,117
Miscellaneous	-	78
Total Maintenance and Repairs	\$ 102,238	\$ 78,933
UTILITIES		
Electricity	\$ 3,208	\$ 3,879
Water and Sewer	659	2,420
Total Utilities	\$ 3,867	\$ 6,299
ADMINISTRATIVE		
Manager Salaries	\$ 21,935	\$ 20,650
Bank Charges	844	979
Office Expense	3,243	3,826
Telephone	2,088	1,722
Travel	117	1,108
Bookkeeping/Accounting	2,700	2,700
Legal and Professional Fees	9,435	9,195
Asset Management Fees - LHC	5,400	5,400
Other Administrative Expenses	2,795	3,437
Total Administrative	\$ 48,557	\$ 49,017
TAXES		
Payroll Taxes	\$ 13,406	\$ 12,919
Total Taxes	\$ 13,406	\$ 12,919
INSURANCE		
Property and Liability Insurance	\$ 36,556	\$ 35,901
Employee Benfits	1,316	1,241
Total Insurance	\$ 37,872	\$ 37,142
INTEREST EXPENSE		
Interest on Mortgage	\$ 121,877	\$ 123,290
Interest on Mortgage - LHC TCAP	33,804	33,804
Total Interest Expense	\$ 155,681	\$ 157,094

VILLA GARDENS LIMITED PARTNERSHIP
SCHEDULE OF OPERATING INCOME AND EXPENSE VARIANCES -
AMEC MODEL PROFORMA TO ACTUAL COMPARISONS
FOR THE YEAR ENDED DECEMBER 31, 2016

Project Name: VILLA GARDENS

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

	2016 Year 6 AMEC Model	2016 Year 6 Actual	Explanation of Variances Exceeding 5.00%
Income Statement			
Rental Income	-3%		
Residential-			
5121 Rental Income GROSS VACANCY	\$ 438,136	\$ 424,035	
5121 Rental Income NET VACANCY	-	-	
5190 Other	-	-	
5140 Stores & Commercial-	-	-	
Total Rental Income:	438,136	424,035	
Vacancies: Enter as Negative	-71%		
5220 Apartments-	(30,670)	(8,775)	
5240 Stores & Commercial-	-	-	
5270 Garage & Parking Spaces-	-	-	
5290 Miscellaneous Concessions-	-	-	
Total Vacancies:	(30,670)	(8,775)	
Net Rental Income:	407,466	415,260	
Other Income & Bad Debt	369%		
5910 Laundry & Vending-	-	-	
6370 Apartment Bad Debt- Enter as Neg.	-	-	
6370 Commercial Bad Debt- Enter as Neg.	-	-	
5920 NSF, Damages & Late Charges, Other-	2,991	14,022	
Total Other Income:	2,991	14,022	
EFFECTIVE GROSS INCOME	410,457	429,282	
Admin. Exps	-30%		
6210 Advertising-	1,426	-	
6250 Admin. Exps.-	-	6,383	
6310 Office Salaries-	27,544	-	
6311 Office Supplies-	-	2,704	
6320 Management Fee-	24,615	25,907	
6330 Management or Super. Sal.-	38,001	21,935	
6331 Mgmt. or Super. Free Rent Unit-	-	-	
6340 Legal Expenses (Project)-	-	-	
6350 Auditing Exps. (Project)-	8,695	9,435	
6351 Bookkeeping Fees/Acct. Services-	-	2,700	
6390 LHFA Asset Management Fee	5,796	5,400	
Total Admin. Less Management Fee	81,462	48,557	
Total Admin. Exps.:	106,077	74,464	
Utilities Expense	-32%		
6420 Fuel Oil/Coal-	-	-	
6420 Fuel for Domestic Hot Water-	-	-	
6450 Electricity (Light & Misc. Power)-	4,057	3,208	
6451 Water-	-	209	
6452 Gas-	1,623	-	
6453 Sewer-	-	450	
Total Utilities Exps.:	5,680	3,867	

VILLA GARDENS LIMITED PARTNERSHIP
SCHEDULE OF OPERATING INCOME AND EXPENSE VARIANCES -
AMEC MODEL PROFORMA TO ACTUAL COMPARISONS
FOR THE YEAR ENDED DECEMBER 31, 2016

Project Name: VILLA GARDENS

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

	2016 Year 6 AMEC Model	2016 Year 6 Actual	Explanation of Variances Exceeding 5.00%
O & M Expenses	<i>100%</i>		
6510 O&M Payroll-	14,098	22,752	
6515 O&M Supplies-	2,898	15,444	
6520 O&M Contract-	6,956	52,679	
6525 Garbage & Trash Removal-	2,944	1,031	
6530 Security Payroll/Contract-	-	3,150	
6545 Elevator Maintenance/Contract-	-	-	
6546 HVAC R & M-	6,376	7,182	
6570 Other Expenses-	4,057	-	
6590 Misc. O & M Expenses-	-	-	
Neighborhood Network-	13,911	-	
Total O & M Expenses:	51,240	102,238	
Taxes & Insurance	<i>-7%</i>		
6710 Real Estate Taxes-	-	-	
6711 Payroll Taxes (FICA)-	2,898	13,406	
6719 Misc. Taxes, Licenses, & Permits-	-	-	
6720 Property & Liability Insurance-	43,473	36,556	
6721 Fidelity Bond Insurance-	-	-	
6722 Workmen's Compensation-	2,898	-	
6723 Health Ins. & Other Emp.Benefits-	5,646	1,316	
6279 Other Insurance-	-	-	
Total Taxes & Insurance:	54,915	51,278	
TOTAL OPERATING EXPENSES:	<i>6%</i>	217,912	231,847
NET OPERATING INCOME:	\$ 192,545	\$ 197,435	
Replacement Reserves	<i>1%</i>	\$ 14,595	\$ 14,810
ADJUSTED NET OPERATING INCOME	\$ 177,950	\$ 182,625	

VILLA GARDENS LIMITED PARTNERSHIP
 COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS -
 LHC - TAX CREDIT ASSISTANCE PROGRAM
 DECEMBER 31, 2016

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

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

Project Name: Villa Gardens	Fiscal Period Ended: 12/31/2016	Project Number:
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Part A - Compute Surplus Cash

Cash		
1. Cash (Accounts 1110, 1120, 1191, 1192)	\$	142,204
2. Tenant subsidy vouchers due for period covered by financial statement	\$	-
3. Other (describe)	\$	-
(a) Total Cash (Add Lines 1, 2 and 3)	\$	142,204

Current Obligations		
4. Accrued mortgage interest payable	\$	9,288
5. Delinquent mortgage principal payments	\$	-
6. Delinquent deposits to reserve for replacements	\$	145
7. Accounts payable (due within 30 days)	\$	5,855
8. Loans and notes payable (due within 30 days)	\$	1,725
9. Deficient Tax Insurance or MIP Escrow Deposits	\$	-
10. Accrued expenses (not escrowed)	\$	-
11. Prepaid Rents (Account 2210)	\$	587
12. Tenant security deposits liability (Account 2191)	\$	34,475
13. Other (Describe)	\$	-
(b) Less Total Current Obligations (Add Lines 4 through 13)	\$	52,075
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))	\$	90,129

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

1. Surplus Cash	\$	90,129
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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	\$	90,129
5. Deposit Due Residual Receipts (Must be deposited with mortgagee within 60 days after fiscal period ends)	\$	-

Prepared By		Reviewed By	
Loan Technician	Date	Loan Servicer	Date



Little & Assoc.
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Partners and Management of
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, which comprise the balance sheet as of December 31, 2016, and the related statements of operations, partners' equity (deficit) and cash flows for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2017

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 on the effectiveness 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.

Little & Associates, LLC

Monroe, Louisiana
March 13, 2017

VILLA GARDENS LIMITED PARTNERSHIP
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
TO THE AGENCY HEAD OR CHIEF EXECUTIVE OFFICER
FOR THE YEAR ENDED DECEMBER 31, 2016

Please refer to the Schedule of Compensation, Benefits and Other Payments to the Agency Head or Chief Executive Officer included in the Lafayette Housing Authority's audit report for information relative to compensation, benefits and other payments to the agency head or chief executive officer.

VILLA GARDENS LIMITED PARTNERSHIP
 TCAP COMPUTATION OF SURPLUS CASH
 FOR THE YEAR ENDED DECEMBER 31, 2016

Cash from FY 2016 Operations:

FY 2016 Rent Revenues	\$	429,282
FY 2016 Interest Income		748

Subtotal A		<u>430,030</u>
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Less:

FY 2016 Operating Expenses		231,847
Debt Service due in FY 2016		132,152
FY 2016 Required Replacement Reserves Deposit		14,810
FY 2016 Additional Required Replacement Reserve Deposit		<u>2,907</u>

Subtotal B		<u>381,716</u>
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FY 2016 Surplus Cash (Subtotal A - Subtotal B)	\$	<u><u>48,314</u></u>	See Note (a).
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FY 2016 TCAP Payment Due - See Note (b) below. *	\$	<u><u>36,236</u></u>	75% of FY 2016 Surplus Cash
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NOTES:

(a) As used here, Surplus Cash means all operating revenue earned in FY 2016 in excess of (i) FY 2016 operating expenses (excluding depreciation), (ii) debt service due in FY 2016, (iii) required deposits in FY 2016 to the replacement reserves and (iv) any other required reserve deposits in FY 2016. Foley & Judell, L.L.P., as Asset Manager, will review the audit and adjust the operating budget, if necessary, to eliminate non-operating items such as capital expenditures, distributions, excessive payments to related parties, etc. No TCAP payment is required if a Deferred Developer Fee is shown or if Subtotal B exceeds Subtotal A.

(b) Annual Installments. Payments of interest and principal under the TCAP Note shall be made in annual installments (each, an "Annual Installment") to be paid to LHFA on or before April 1 of each calendar year of the TCAP Loan Term commencing April 1, 2012 (a "Payment Date"). Each Annual Installment shall equal seventy-five percent (75%) of Surplus to be paid solely from Surplus Cash (as described in the TCAP Loan Agreement) to the extent Surplus Cash is generated from the operation of the Project. Notwithstanding the foregoing to the contrary, all outstanding Indebtedness under the TCAP Note is due on the Maturity Date (TCAP Promissory Note Sec. 3(a)).

* TCAP payment is subordinated to required payment to LPTFA.