

**FRENCHMAN'S CREEK LIMITED PARTNERSHIP**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

FRENCHMAN'S CREEK LIMITED PARTNERSHIP

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INDEPENDENT AUDITORS' REPORT

To the Partners  
Frenchman's Creek Limited Partnership

**Report on the Financial Statements**

We have audited the accompanying financial statements of Frenchman's Creek Limited Partnership, (a Louisiana Limited Partnership), which comprise the balance sheets as of December 31, 2017 and 2016, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frenchman's Creek Limited Partnership as of December 31, 2017 and 2016, 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 supplemental information on pages 19 through 21 is presented for purposes of additional analysis and is 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 audit 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 February 21, 2018, on our consideration of Frenchman's Creek Limited Partnership's internal control over financial reporting and 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 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 Frenchman's Creek Limited Partnership's internal control over financial reporting and compliance.

*Bond + Jousignant, LLC*

Monroe, Louisiana  
February 21, 2018

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 53,368	\$ 78,727
Accounts Receivable - Tenants	483	153
Prepaid Expenses	5,871	4,715
Total Current Assets	<u>59,722</u>	<u>83,595</u>
<b>RESTRICTED DEPOSITS AND FUNDED RESERVES</b>		
Operating Deficit Reserve	126,263	68,421
Replacement Reserve Escrow	86,343	74,248
Tenants' Security Deposits	12,310	14,420
Real Estate Tax and Insurance Escrow	17,050	16,210
Total Restricted Deposits and Funded Reserves	<u>241,966</u>	<u>173,299</u>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings	6,119,545	6,119,545
Land Improvements	798,075	798,075
Furniture and Equipment	181,612	181,612
Total	<u>7,099,232</u>	<u>7,099,232</u>
Less: Accumulated Depreciation	<u>(1,686,586)</u>	<u>(1,475,533)</u>
Net Depreciable Assets	<u>5,412,646</u>	<u>5,623,699</u>
Total Property and Equipment	<u>5,412,646</u>	<u>5,623,699</u>
<b>OTHER ASSETS</b>		
Permanent Closing Fees	80,180	80,180
Tax Credit Monitoring Fees	32,700	32,700
Less: Accumulated Amortization	<u>(37,221)</u>	<u>(32,368)</u>
Net Amortizable Assets	<u>75,659</u>	<u>80,512</u>
Syndication Costs	<u>22,500</u>	<u>22,500</u>
Total Other Assets	<u>98,159</u>	<u>103,012</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,812,493</u>	<u>\$ 5,983,605</u>

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

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016

LIABILITIES AND PARTNERS' EQUITY

	<u>2017</u>	<u>2016</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 3,093	\$ -
Accrued Interest Payable	5,084	5,173
Prepaid Rent	147	46
Current Portion of Long-Term Debt	<u>21,921</u>	<u>20,475</u>
Total Current Liabilities	<u>30,245</u>	<u>25,694</u>
<b>DEPOSITS</b>		
Tenants' Security Deposits	<u>12,310</u>	<u>14,421</u>
Total Deposits	<u>12,310</u>	<u>14,421</u>
<b>LONG-TERM LIABILITIES</b>		
Mortgage Payable	1,123,859	1,144,564
Notes Payable - NEF	599,320	599,320
Accrued Interest - NEF	137,884	119,957
Development Fee Payable	256,200	256,200
Asset Management Fees Payable	11,072	7,272
Partnership Management Fees Payable	<u>129,828</u>	<u>111,872</u>
Total Long-Term Liabilities	<u>2,258,163</u>	<u>2,239,185</u>
Total Liabilities	<u>2,300,718</u>	<u>2,279,300</u>
<b>PARTNERS' EQUITY</b>		
Partners' Equity (Deficit)	<u>3,511,775</u>	<u>3,704,305</u>
<b>TOTAL LIABILITIES AND PARTNERS' EQUITY</b>	<u>\$ 5,812,493</u>	<u>\$ 5,983,605</u>

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

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>REVENUE</b>		
Tenant Rents	\$ 359,230	\$ 350,700
Less Vacancies	(26,063)	(17,048)
Late Fees, Deposit Forfeitures, Etc.	<u>8,356</u>	<u>13,200</u>
Total Revenue	<u>341,523</u>	<u>346,852</u>
<b>EXPENSES</b>		
Maintenance and Repairs	86,592	70,314
Utilities	8,341	5,486
Administrative	51,819	53,661
Management Fees	20,492	20,799
Taxes	5,679	6,295
Insurance	24,213	30,165
Interest	99,398	100,727
Depreciation and Amortization	<u>215,907</u>	<u>215,907</u>
Total Expenses	<u>512,441</u>	<u>503,354</u>
Income (Loss) from Rental Operations	<u>(170,918)</u>	<u>(156,502)</u>
<b>OTHER INCOME AND (EXPENSES)</b>		
Interest Income	144	75
Entity Expense - Partnership & Asset Management Fees	<u>(21,756)</u>	<u>(21,123)</u>
Total Other Income (Expense)	<u>(21,612)</u>	<u>(21,048)</u>
Net Income (Loss)	<u>\$ (192,530)</u>	<u>\$ (177,550)</u>

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

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
 STATEMENTS OF PARTNERS' EQUITY (DEFICIT)  
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Total</u>	<u>GENERAL PARTNER FCD GP, LLC</u>	<u>LIMITED PARTNER NEF Assignment Corporation</u>
Partners' Equity (Deficit), January 1, 2016	\$ 3,881,855	\$ (44)	\$ 3,881,899
Net Income (Loss)	<u>(177,550)</u>	<u>(18)</u>	<u>(177,532)</u>
Partners' Equity (Deficit), December 31, 2016	3,704,305	(62)	3,704,367
Net Income (Loss)	<u>(192,530)</u>	<u>(19)</u>	<u>(192,511)</u>
Partners' Equity (Deficit), December 31, 2017	<u>\$ 3,511,775</u>	<u>\$ (81)</u>	<u>\$ 3,511,856</u>
Profit and Loss Percentages	<u>100.00%</u>	<u>0.01%</u>	<u>99.99%</u>

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

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ (192,530)	\$ (177,550)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	215,907	215,907
(Increase) Decrease in:		
Accounts Receivable - Tenants	(330)	950
Prepaid Expense	(1,156)	7,127
Real Estate Tax and Insurance Escrow	(840)	17,128
Increase (Decrease) in:		
Accounts Payable	3,093	-
Accrued Interest Payable	(89)	(84)
Prepaid Rent	101	(1,571)
Net Security Deposits Received (Paid)	(2)	(3)
Net Cash Provided (Used) by Operating Activities	<u>24,154</u>	<u>61,904</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Deposits to Reserve for Replacements	(12,095)	(12,075)
(Increase) Decrease in Operating Reserve	(57,842)	(20,044)
Net Cash Provided (Used) by Investing Activities	<u>(69,937)</u>	<u>(32,119)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on Mortgage Payable	(20,475)	(19,125)
Interest - Loan Fees	1,216	1,236
Increase in Accrued Interest - NEF	17,927	17,975
Increase (Decrease) in Asset Management Fees Payable	3,800	3,690
Increase (Decrease) in Partnership Management Fees Payable	17,956	17,433
Net Cash Provided (Used) by Financing Activities	<u>20,424</u>	<u>21,209</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(25,359)	50,994
Cash and Cash Equivalents, Beginning of Year	<u>78,727</u>	<u>27,733</u>
Cash and Cash Equivalents, End of Year	<u>\$ 53,368</u>	<u>\$ 78,727</u>

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

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for:		
Interest	<u>\$ 80,344</u>	<u>\$ 81,600</u>

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

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE A – ORGANIZATION

Frenchman's Creek Limited Partnership (the Partnership) was organized in 2007 as a limited partnership chartered under the laws of the State of Louisiana to develop, construct, own, maintain and operate a forty unit housing complex intended for rental to persons of low and moderate income. The complex is located in Sulphur, Louisiana and is collectively known as Frenchman's Creek (the Complex). The Complex has qualified and been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42) which regulates the use of the Complex as to occupant eligibility and unit gross rent, among other requirements. The major activities of the Partnership are governed by the Amended and Restated Articles of Partnership in Commendam, including amendments (Partnership Agreement) and are subject to the administrative directives, rules, and regulations of federal and state regulatory agencies, including but not limited to, the state housing finance agency. Such administrative directives, rules, and regulations are subject to change by federal and state agencies.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Change in Accounting Principle

During 2016, the Partnership adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). Under this new accounting policy, the Partnership has retrospectively presented all debt issuance costs as a direct deduction from the carrying amount of the related obligation in the balance sheet. Amortization of the debt issuance costs is calculated using the interest method and is included as a component of interest expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 statements of cash flows, cash and cash equivalents represent unrestricted cash and all highly liquid and unrestricted debt instruments purchased with a maturity of three months or less.

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Other Deposits

The Partnership has various checking, escrow and other deposits at various financial institutions. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017, the Partnership had no uninsured deposits.

Tenant Receivable and Bad Debt Policy

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

The Partnership provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Partnership's estimate is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that the Partnership's estimate of the allowance for doubtful accounts will change. At December 31, 2017 and 2016, accounts receivable are presented net of an allowance for doubtful accounts of \$0 and \$0, respectively.

Capitalization and Depreciation

Land, buildings and improvements are recorded at cost. 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. 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. Estimated useful lives used for depreciation purposes are as follows:

Buildings	40 years
Land Improvements	20 years
Furniture and Equipment	10 years

Amortization

Permanent closing fees resulting from legal costs incurred during closing to permanent financing are amortized over the term of the loan using the straight-line method.

Organization costs are expensed as incurred.

Tax credit monitoring fees are amortized over the fifteen year Low-Income Tax Credit Compliance 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.

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental Income

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.

Income Taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure.

Impairment of Long-Lived Assets

The Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than their carrying amounts, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2017 and 2016.

Subsequent Events

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the partnership through February 21, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

NOTE C – RESTRICTED DEPOSITS AND FUNDED RESERVES

Operating Reserve

The General Partner shall establish the Operating Reserve Account and fund it with the Operating Reserve Target Amount of \$126,222 out of loan and/or equity proceeds at the time of payment of the Fourth Installment. The Operating Reserve will be held in the Operating Reserve Account, under the control of the General Partner (or a Project lender, if required), and the Partnership will maintain this account from the date of the Fourth Installment until the end of the Compliance Period. Withdrawals from the Operating Reserve Account will require the written approval of the Asset Manager. So long as funds remain in the

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE C – RESTRICTED DEPOSITS AND FUNDED RESERVES (CONTINUED)

Operating Reserve, such funds will be used to fund Project operating and debt service deficits. Any excess funds remaining in the Operating Reserve at the end of the Compliance Period shall be released from the Operating Reserve and used by the Partnership to first pay the Limited Partner's exit taxes due upon sale or dissolution. During 2017 and 2016, this account was funded in the amount of \$57,842 and \$20,044, respectively. At December 31, 2017 and 2016, the balance in this account was \$126,263 and \$68,421, respectively.

Replacement Reserve

The General Partner shall establish the Replacement Reserve at the time of payment of the Third Installment. The Replacement Reserve will be held in the Replacement Reserve Account, under the control of the General Partner (unless the Account is under the control of one of the Project Lenders), and the Partnership will maintain this account from the date of payment of the Third Installment until the end of the Compliance Period. Withdrawals from the Replacement Reserve Account in excess of \$3,000 in the aggregate in any given month (unless such withdrawal was provided for in the approved Project budget) will require the written approval of the Asset Manager. The General Partner will also be required to fund the Replacement Reserve Account on a cumulative basis, in the amount of \$300 per unit per year (to be increased annually by 3%) from Project cash flow. Any excess funds remaining in the Replacement Reserve at the end of the Compliance Period shall be released from the Replacement Reserve and applied by the Partnership in the case of a sale or dissolution of the Partnership. Funding amounted to \$12,095 in 2017 and \$12,075 in 2016. Withdrawals amounted to \$0 in 2017 and \$0 in 2016. At December 31, 2017 and 2016, the balance in this account was \$86,343 and \$74,248, respectively.

Real Estate Tax and Insurance Escrow

Transfers of sufficient sums are to be made to this account for payment of insurance and real estate taxes. Funding amounted to \$24,391 in 2017 and \$30,450 in 2016. Withdrawals amounted to \$23,551 in 2017 and \$47,578 in 2016. At December 31, 2017 and 2016, the balance of this account was \$17,050 and \$16,210, respectively.

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account in the name of the Partnership. At December 31, 2017, this account was funded in an amount equal to the security deposit liability.

NOTE D – PARTNERS' CAPITAL

The Partnership has one General Partner – FCD GP, LLC and one Limited Partner – NEF Assignment Corporation. The Partnership records capital contributions as received.

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE E – LONG-TERM DEBT

Mortgage Payable

The Partnership received permanent financing from Pacific Life in September of 2010. The permanent loan was in the original amount of \$1,283,500 and bears an interest rate of 6.84%. The loan has an eighteen (18) year term and an amortization period of thirty (30) years and a maturity date of October 1, 2028. The loan is non-recourse and is collateralized by a first mortgage on the Partnership's land, buildings and equipment. For the years ended December 31, 2017 and 2016, the partnership maintained a debt service coverage ratio of 110% and 126%, respectively. At December 31, 2017 and 2016, the balance of the loan was \$1,163,427 and \$1,183,902 and accrued interest was \$5,084 and \$5,174, respectively.

Debt issuance costs, net of accumulated amortization, of \$17,647 and \$18,863 as of December 31, 2017 and 2016, respectively, are amortized using an imputed interest rate of 1.23%.

Notes Payable - NEF

During 2009, the Partnership received a workout loan from National Equity Fund 2007 Series II Limited Partnership (an affiliate of the Limited Partner) in the amount of \$300,000. Interest accrues on the principal of the loan at a rate of 3.11%. Payments of interest are to be paid annually out of surplus cash and payments of principle shall be made annually to the extent of any surplus cash remaining after the payment of interest. In the event surplus cash is insufficient to pay any such interest for such year, then such interest shall be paid to the extent of any surplus cash and the balance of such interest shall be accrued and paid if, as, and when there is surplus cash after payment of current interest hereunder. Unless sooner paid, the outstanding principal balance of this note and all interest thereon shall be due and payable upon and to the extent of receipt of surplus cash from net proceeds of sale of all or substantially all of the assets of the maker. At December 31, 2017, the balance of this note was \$300,000 and accrued interest was \$75,703.

During 2010, the Partnership received a second workout loan from National Equity Fund 2007 Series II Limited Partnership in the amount of \$340,000. The interest rate on this note is 2.79% and the terms and conditions are the same as the previously mentioned note. At December 31, 2017, the balance of this note was \$299,320 and accrued interest was \$62,181.

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>
2018	\$ 21,921
2019	23,468
2020	25,124
2021	26,898
2022	28,797
Thereafter	\$ 1,636,539

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
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NOTE F — TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Developer Fee

The Partnership has entered into a development services agreement in the amount of \$800,000 with Housing Authority of the City of Sulphur, Louisiana, an affiliate of the General Partner, to render services for overseeing the construction and development of the complex. The developer fee is capitalized in the basis of the building. For the years ended December 31, 2017 and 2016, \$0 and \$0, respectively, of developer fees were paid and the balance of developer fee payable was \$256,200 and \$256,200, respectively.

Asset Management Fee

The Partnership shall pay to the Asset Manager an annual asset management fee in the amount of \$3,000, to be increased annually by three percent (3%) and priority specified in Section 5.1(a) of the Amended and Restated Partnership Agreement, for property management oversight, tax credit compliance monitoring and related services. During years ended December 31, 2017 and 2016, \$0 and \$0 respectively, of asset management fees were paid and the balance of the asset management fee payable was \$11,072 and \$7,272, respectively.

Partnership Management Fee

The Partnership shall pay to the General Partner an annual partnership management fee in the amount of \$14,600, to be increased annually by three percent (3%) and priority specified in Section 5.1(a) of the Amended and Restated Partnership Agreement, 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. During the years ended December 31, 2017 and 2016, no partnership management fees were paid and the balance of the partnership management fee payable was \$129,828 and \$111,872 respectively.

NOTE G – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Frenchman's Creek. The Partnership's operations are concentrated in the affordable housing real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the State Housing Agency. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by the State Housing Agency. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE H – CONTINGENCY

The apartment complex's low-income housing tax credits are contingent on the ability of the Partnership to maintain compliance with applicable sections of Section 42 of the Internal Revenue Code. Failure to maintain compliance with occupant eligibility, and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest.

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE I – PARTNERSHIP PROFITS AND LOSSES AND DISTRIBUTIONS

All profits and losses, other than from capital transactions detailed in the Amended and Restated Partnership Agreement, are allocated .01% to the General Partner and 99.99% to the Limited Partner.

Distribution of distributable cash from operations for each fiscal year will be made as follows:

- (i) To the Limited Partner to the extent of any amount which the Limited Partner is entitled to receive to satisfy any Credit Reduction Payment required pursuant to Section 6.9;
- (ii) Payment of any accrued and payable Asset Management Fees to the Asset Manager;
- (iii) To the Sponsor to pay any unpaid balance of the Deferred Development Fee;
- (iv) To the Operating Reserve Account until such time as such account is equal to the Operating Reserve Target Amount;
- (v) To the Real Estate Tax Reserve Account until such time as such account is equal to the Real Estate Tax Reserve Target Amount;
- (vi) To pay any accrued and unpaid interest and unpaid principal on loans made by the Limited Partner;
- (vii) To pay any accrued and unpaid interest and unpaid principal on loans made by the General Partner;
- (viii) To pay the Partnership Management Fee, on a cumulative basis;
- (ix) To the General Partner (in the order of loans made, with earlier loans repaid in full before subsequent loans are repaid) to repay any amounts treated as loans to the Partnership (without interest) by the General Partner pursuant to Section 6.4(f)(i) or 6.4(f)(ii) and not yet repaid;
- (x) The remaining Cash Flow, if any, shall be distributed 0.01% to the General Partner and 99.99% to the Limited Partner.

NOTE J – TAXABLE INCOME (LOSS)

A reconciliation of financial statement net income (loss) to taxable income (loss) of the Partnership for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Financial Statement Net Income (Loss)	\$ (192,530)	\$ (177,550)
Adjustments:		
Excess of depreciation and amortization for financial reporting purposes over income tax purposes	<u>74,439</u>	<u>74,394</u>
Taxable Income (Loss) as Shown on Tax Return	<u>\$ (118,091)</u>	<u>\$ (103,156)</u>

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

NOTE K – ADVERTISING

The Partnership incurred advertising costs of \$211 during 2017 and \$55 during 2016. These costs are expensed as incurred.

NOTE L – EXEMPTION FROM REAL ESTATE TAXES

Per the requirements set forth in the Louisiana Constitution, Article 7, Section 21, the Partnership is exempt from real estate taxes. The Calcasieu Parish Tax Assessor has concurred with this exemption and therefore no real estate taxes have been assessed.

NOTE M – MANAGEMENT AGENT

The Partnership has entered into an agreement with Tower Management, LLC to provide services in connection with rent-up, leasing and operation of the project. Management fees are charged in an amount equal to the greater of \$800 or 6% of gross rents received per month. Management fees incurred for the years ended December 31, 2017 and 2016 were \$20,492 and \$20,799, respectively.

SUPPLEMENTAL INFORMATION

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
SCHEDULES OF EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>MAINTENANCE AND REPAIRS</b>		
Maintenance Salaries	29,282	33,124
Maintenance Supplies	7,203	7,336
General Maintenance and Repairs	36,691	16,069
Grounds Maintenance	10,814	12,170
Pest Control	2,602	1,615
Total Maintenance and Repairs	<u>\$ 86,592</u>	<u>\$ 70,314</u>
<b>UTILITIES</b>		
Electricity	5,857	3,713
Water and Sewer	1,282	871
Sewer	991	683
Garbage Trash Removal	211	219
Total Utilities	<u>\$ 8,341</u>	<u>\$ 5,486</u>
<b>ADMINISTRATIVE</b>		
Advertising	211	55
Office Supplies	5,840	1,983
Supportive Services	11	-
Bad Debt Expense	171	2,780
Accounting and Auditing	7,000	7,000
Legal	135	967
Administrative Salaries	30,729	35,096
Miscellaneous	2,951	1,302
Telephone	4,771	4,478
Total Administrative	<u>\$ 51,819</u>	<u>\$ 53,661</u>
<b>MANAGEMENT FEES</b>		
Management Fee	20,492	20,799
Total Management Fees	<u>\$ 20,492</u>	<u>\$ 20,799</u>

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
SCHEDULES OF EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>TAXES</b>		
Payroll Taxes & Workers Comp	5,654	6,252
Real Estate Tax	-	28
Misc Permits Taxes Etc	25	15
Total Taxes	<u>\$ 5,679</u>	<u>\$ 6,295</u>
<b>INSURANCE</b>		
Property Insurance	22,394	26,765
Workers Comp	1,669	1,287
Health Other Emp Benefits	-	1,963
Other Taxes Insurance	150	150
Total Insurance	<u>\$ 24,213</u>	<u>\$ 30,165</u>
<b>INTEREST</b>		
Interest	80,255	81,516
Interest - NEF	17,927	17,975
Interest - Loan Fees	1,216	1,236
Total Interest	<u>\$ 99,398</u>	<u>\$ 100,727</u>
<b>DEPRECIATION AND AMORTIZATION</b>		
Depreciation	211,054	211,054
Amortization	4,853	4,853
Total Depreciation and Amortization	<u>\$ 215,907</u>	<u>\$ 215,907</u>

FRENCHMAN'S CREEK LIMITED PARTNERSHIP  
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO  
AGENCY HEAD OR CHIEF EXECUTIVE OFFICER  
FOR THE YEAR ENDED DECEMBER 31, 2017

Agency Head Name: Vena Bertrand, Executive Director of the Housing Authority of the City  
of Sulphur

<u>Purpose</u>	<u>Amount</u>
Salary	\$0
Benefits	\$0
Auto/Mileage	\$0
Travel	\$0
Meals	\$0
Continuing Education, Per Diem, Etc.	\$0
Unvouchered Expenses	\$0

**B&T BOND &  
TOUSIGNANT, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

1500 Lamy Lane, Monroe, LA 71201-3734 • P. O. Box 14065, Monroe, LA 71207-4065  
Phone: (318) 323-0717 • Fax: (318) 323-0719

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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  
Frenchman's Creek Limited Partnership

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 Frenchman's Creek Limited Partnership, which comprise the balance sheets as of December 31, 2017 and 2016, 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, and have issued our report thereon dated February 21, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Frenchman's Creek 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Frenchman's Creek Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Frenchman's Creek 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 the entity'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 Frenchman's Creek 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bond + Jousignant, LLC*

Monroe, Louisiana  
February 21, 2018