OLIVE GROVE MANOR, LTD.
FINANCIAL STATEMENTS
For the year ended December 31, 2013
with
Report of Independent Auditors

NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

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Report of Independent Auditors

To the Partners of
Olive Grove Manor, Ltd.:

Report on the Financial Statements

We have audited the accompanying financial statements of Olive Grove Manor, Ltd., a Texas limited partnership, which comprise the balance sheet as of December 31, 2013, and the related statements of operations, changes in partners' capital and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Olive Grove Manor, Ltd. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

June 9, 2014

OLIVE GROVE MANOR, LTD.
BALANCE SHEET
December 31, 2013

ASSETS

Cash and cash equivalents	$	247,567
Restricted cash		569,763
Prepaid expenses		28,491
Fixed assets, net of accumulated depreciation		11,804,691
Intangible assets, net of accumulated amortization		361,691
Total assets	$	13,012,203

LIABILITIES AND PARTNERS' CAPITAL

Liabilities		
Accounts payable	$	19,024
Tenant security deposits		28,754
Accrued expenses		12,830
Accrued interest		240,832
Due to related party		5,404
HOME loan payable		700,000
Mortgage payable		3,791,680
Total liabilities		4,798,524
Partners' capital		8,213,679
Total liabilities and partners' capital	$	13,012,203

See accompanying notes

OLIVE GROVE MANOR, LTD.
STATEMENT OF OPERATIONS
For the year ended December 31, 2013

REVENUE	
Rental revenue	$ 1,214,724
Other income	20,683
Total revenue	1,235,407
OPERATING EXPENSES	
General and administrative	44,415
Payroll	210,819
Utilities	121,528
Taxes and insurance	81,375
Property management fee	62,689
Repairs and maintenance	134,288
Marketing and advertising	24,405
Legal and professional fees	11,899
Ground lease	1,000
Total operating expenses	692,418
Operating income	542,989
OTHER INCOME AND (EXPENSES)	
Interest income	624
Interest expense	(296,011)
Depreciation and amortization	(475,249)
Incentive management fee	(86,911)
Compliance fee	(6,400)
Net other income and (expenses)	(863,947)
Net loss	$ (320,958)

OLIVE GROVE MANOR, LTD.
STATEMENT OF CHANGES IN PARTNERS' CAPITAL
For the year ended December 31, 2013

	General Partner	Limited Partners	Total Partners' Capital
BALANCE, JANUARY 1, 2013	$ 273,773	$ 8,260,864	$ 8,534,637
Net loss	(32)	(320,926)	(320,958)
BALANCE, DECEMBER 31, 2013	$ 273,741	$ 7,939,938	$ 8,213,679

See accompanying notes

OLIVE GROVE MANOR, LTD.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (320,958)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	475,249
Increase in restricted cash	(21,642)
Decrease in prepaid expenses	8,347
Increase in accounts payable	6,484
Increase in tenant security deposits	2,146
Increase in accrued expenses	4,111
Increase in accrued interest	34,301
Net cash provided by operating activities	188,038
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in restricted cash	(30,455)
Net cash used in investing activities	(30,455)
CASH FLOWS FROM FINANCING ACTIVITIES	
Change in amounts due to related party	361
Payments on mortgage payable	(52,815)
Net cash used in financing activities	(52,454)
NET INCREASE IN CASH AND CASH EQUIVALENTS	105,129
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	142,438
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 247,567
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 261,710

1. General

Olive Grove Manor, Ltd. (the "Partnership"), a Texas limited partnership, was formed in February 2005 to construct, develop and operate a 160-unit apartment project, known as Magnolia Estates (the "Project") in Houston, Texas. The Project is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided under Section 42 of the Internal Revenue Code.

The general partner is HCHA Olive Grove, LLC, a Texas limited liability company (the "General Partner"). The special limited partner is Olive Grove Housing, LLC, a Texas limited liability company (the "Special Limited Partner"), and the investment limited partner is FNBC Leasing Corporation, a Delaware corporation (the "Investment Limited Partner"). The Partnership will operate until December 31, 2080, or until its earlier dissolution or termination.

Profits, losses, and tax credits are allocated in accordance with the Amended and Restated Agreement of Limited Partnership, dated December 21, 2006 (the "Partnership Agreement"). Profits and losses from operations and low- income housing tax credits are allocated 99.98% to the Investment Limited Partner, 0.01% to the General Partner, and 0.01% to the Special Limited Partner.

Pursuant to the Partnership Agreement, the Investment Limited Partner is required to make capital contributions to the Partnership totaling $10,394,435, subject to adjustments based on the amount of low-income housing tax credits allocated to the Project in addition to other occurrences as more fully explained in the Partnership Agreement. As of December 31, 2013, the Investment Limited Partner has provided capital contributions in the amount of $10,047,858, the General Partner has provided capital contributions in the amount of $273,950, and the Special Limited Partner has provided capital contributions in the amount of $10. No further capital contributions are required pursuant to the Partnership Agreement.

2. Summary of significant accounting policies and nature of operations

Basis of accounting
The Partnership prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents
Cash and cash equivalents include all cash balances and highly liquid investments with maturities of three months or less at date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, funding of operating deficits, debt service payments, repairs or improvements to the buildings which extend their useful lives, and insurance payments.

2. Summary of significant accounting policies and nature of operations (continued)

Concentration of credit risk
The Partnership maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable
An allowance for bad debts is not maintained; accounts are written off when they are determined to be uncollectible. Accounting principles generally accepted in the United States of America require that an allowance for uncollectible accounts be maintained in lieu of the direct charge-off method. However, in this case it has been determined that such an allowance would be immaterial with respect to the financial statements taken as a whole.

Income taxes
Income taxes on Partnership income are levied on the partners at the partner level. Accordingly, all profits and losses of the Partnership are recognized by each partner on its respective tax return.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Partnership to report information regarding its exposure to various tax positions taken by the Partnership. Management has determined whether any tax positions have met the recognition threshold and has measured the Partnership's exposure to those tax positions. Management believes that the Partnership has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Partnership are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Revenue recognition
Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income results from fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned.

Ground lease
The Partnership accounts for the ground lease as an operating lease and records rent expense (see Note 4) based on the average minimum yearly base lease accrual calculated over the term of the lease. The ground lease accrues rent at varying amounts over its term.

Economic concentrations
The Partnership operates one property located in Houston, Texas. Future operations could be affected by changes in economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Fixed assets and depreciation
The Partnership records all depreciable assets at cost. Residential rental buildings are depreciated over their estimated useful lives of 40 years using the straight-line method. Site improvements are depreciated over 20 years using the straight-line method. Personal property is depreciated over 10 years using the straight-line method. Depreciation expense during 2013 was $455,893.

2. Summary of significant accounting policies and nature of operations (continued)

Fixed assets and depreciation (continued)

Fixed assets consist of the following as of December 31, 2013:

Buildings	$ 11,486,809
Site improvements	2,219,925
Personal property	577,266
Less: accumulated depreciation	(2,479,309)
Fixed assets, net	$ 11,804,691

Intangible assets and amortization

Intangible assets include financing fees of $586,686 and tax credit fees of $55,005, which are amortized using the straight-line method over the life of the loan and tax credit period, respectively. During 2013, amortization expense was $19,356. Accumulated amortization as of December 31, 2013 was $280,000.

Impairment of long-lived assets

The Partnership reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses recognized during 2013.

Subsequent events

Subsequent events have been evaluated through June 9, 2014, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Restricted cash

Tenant security deposits

Tenant security deposits are placed into the operating account and are generally held until termination of the leases, at which time some or all of the deposits may be returned to the lessees. As of December 31, 2013, the security deposits balance was $27,104.

Operating reserve

Pursuant to the Partnership Agreement, the General Partner is required to establish an operating reserve account in the minimum amount of $215,000, to be funded at the time of the fourth capital contribution, and any shortfall is to be funded by the General Partner and/or the Special Limited Partner. The operating reserve account is to be maintained for the duration of the compliance period and used only to pay operating deficits. All withdrawals are released only with the approval of the Investment Limited Partner. Operating reserve funds are held in various bank accounts. As of December 31, 2013, the operating reserve funds balance was $297,091.

Replacement reserve

Pursuant to the Partnership Agreement, and commencing with the month following final closing, annual deposits of the greater of the amount required by CDT Mortgage LLC (the “Lender”) or $250 per unit are required to be made into the replacement reserve fund. Any interest earned on the replacement reserve account will be deposited into the replacement reserve. As of December 31, 2013, the replacement reserve balance was $167,040.

3. Restricted cash (continued)

Insurance escrow
Monthly deposits are made to the Lender for the payment of property insurance. As of December 31, 2013, the insurance escrow balance was $78,528.

4. Related party transactions

HOME loan
In December 2006, HCHA entered into an agreement to loan the Partnership $700,000 (the "HOME loan"). The HOME loan bears interest annually at the applicable federal rate at the date of the loan agreement, which was 4.90%, and is collateralized by the Project. All principal and accrued interest is due and payable on the maturity date, which is December 30, 2028. As of December 31, 2013, the principal balance outstanding was $700,000 and accrued interest was $240,832.

Ground lease
In December 2006, the Partnership entered into a 45-year ground lease agreement (the "Ground Lease") with HCHA, who is the owner and landlord of the land on which the Project is located. The Partnership is bound by the responsibilities and obligations in the Ground Lease, which requires an annual rental payment of $65,000; however, if no event of default has occurred, and as long as the Project is leased to residents in accordance with all applicable low-income housing requirements, $64,000 of the annual rental payment is waived. As of December 31, 2013, rental payments of $1,000 remained outstanding and are included in "Accrued expenses" on the accompanying balance sheet.

Future minimum rental payments over the next five years are as follows:

Year ending December 31,		
2014	$	1,000
2015		1,000
2016		1,000
2017		1,000
2018		1,000
Total	$	5,000

Incentive partnership management fee
Pursuant to the Partnership Agreement, the General Partner is entitled to receive an annual, non-cumulative incentive partnership management fee not to exceed $75,000, which increases at an annual rate of 3%, for its services in managing the business of the Partnership. The incentive partnership management fee is payable from net cash flow and after payment of any operating deficit loans, as defined in the Partnership Agreement. For the year ended December 31, 2013, an incentive management fee of $86,911 was earned and paid.

Property management fees
Pursuant to the Partnership Agreement, Hettig Management Corp. ("HMC"), an affiliate of the General Partner, receives a property management fee equal to the greater of $1,750 per month or 5% of gross effective income, as defined in the Partnership Agreement. During 2013, HMC earned $62,689 of property management fees. As of December 31, 2013, management fees of $5,404 were payable and included on the accompanying balance sheet in due to related party. This liability bears no interest and is payable from available cash flow.

5. Mortgage payable

On July 21, 2009, the Partnership obtained a permanent loan (the "Permanent Loan") in the principal balance of $4,000,000 from the Lender. The Permanent Loan is collateralized by the Project and bears interest at a rate of 6.85% per annum. Interest and principal payments are due monthly and all principal and accrued interest is due and payable on the maturity date, which is August 1, 2027. As of December 31, 2013, the outstanding principal balance was $3,791,680, and no interest was outstanding.

Future minimum principal payment requirements over each of the next five years and thereafter are as follows:

Year ending December 31,		
2014	$	56,548
2015		60,545
2016		64,825
2017		69,408
2018		74,315
Thereafter		3,466,039
Total	$	3,791,680

6. Low-income housing tax credits

The Partnership expects to generate an aggregate of $10,350,970 of federal low-income housing tax credits ("Tax Credits"). The Tax Credits include an allocation of $9,460,000 from 2005 and an additional allocation of $890,970 in 2008. Generally, such credits become available for use by its partners pro-rata over a ten-year period, which began in 2008. The year in which the credit period begins is determined on a building-by-building basis within the Partnership. In order to qualify for these credits, the Project must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation. The Partnership has also agreed to maintain and operate the Project as low-income housing for an additional 40 years beyond the initial 15 year compliance period. Because the Tax Credits are subject to compliance with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized, and failure to meet all such requirements or to correct noncompliance within a specified time period may result in generating a lesser amount of Tax Credits than expected in future years, and/or recapture of Tax Credits previously allocated. A reduction of future credits or recapture would require credit deficit payments to the Investment Limited Partner under the terms of the Partnership Agreement.

As of December 31, 2013, the cumulative amount of Tax Credits allocated to the Partnership was $5,416,856.

The Partnership anticipates generating additional Tax Credits in future years as follows:

Year ending December 31,		
2014	$	1,035,097
2015		1,035,097
2016		1,035,097
2017		1,035,097
2018		793,251
2019		475
Total	$	4,934,114