**SAMPLE LIMITED PARTNERSHIP**

**Financial Statements**

**December 31, 20XX and 20XX**

(With Independent Auditors' Report Thereon)

**LIMITED PARTNERSHIP NAME**

**Financial Statements**

**December 31, 20XX and 20XX**

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**Independent Auditors’ Report**

To the Partners of

Sample Limited Partnership

(A(n) [State Name] Limited Partnership)

We have audited the accompanying balance sheets of Sample Limited Partnership as of December 31, 20XX and 20XX, and the related statements of operations, changes in partners’ capital 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.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Limited Partnership as of December 31, 20XX and 20XX, and the results of its operations and its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

[INSERT ONLY WHERE APPLICABLE] Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [Identify supplementary information] 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.

Sample Accounting Firm

Sample Location

Report Date

**LIMITED PARTNERSHIP NAME**

**Balance Sheet**

**December 31, 20XX and 20XX**

**[INSERT BALANCE SHEET]**

See accompanying notes to financial statements.

**LIMITED PARTNERSHIP NAME**

**Statement of Operations**

**For the Years Ended December 31, 20XX and 20XX**

**[INSERT INCOME STATEMENT]**

See accompanying notes to financial statements.

**LIMITED PARTNERSHIP NAME**

**Statement of Members' Equity (Deficit)**

**For the Years Ended December 31, 20XX and 20XX**

**[INSERT STATEMENT OF EQUITY]**

See accompanying notes to financial statements.

**LIMITED PARTNERSHIP NAME**

Statement of Cash Flows

**For the Years Ended December 31, 20XX and 20XX**

**[INSERT STATEMENT OF CASH FLOWS]**

See accompanying notes to financial statements.

**LIMITED PARTNERSHIP NAME**

**Notes to Financial Statements**

**December 31, 20XX and 20XX**

**NOTE 1 – ORGANIZATION**

[NAME] (the Partnership) was organized as a limited liability partnership on [MONTH] [DATE], [YEAR] under the laws of the State of [STATE] for the purpose of acquiring, constructing and operating a apartment complex located in [CITY], [STATE] (the Project). The project consists of [NUMBER] units with an occupancy of \_\_\_\_% and \_\_\_\_% at December 31, 20XX and 20XX, respectively, and is currently operating under the name of [APARTMENT NAME]. The property was placed in service on [DATE].

The project has qualified for and been allocated low-income housing credits pursuant to the Internal Revenue Code Section 42 (Section 42), which regulates the use of the project as to occupant eligibility and gross unit rent, among other requirements. The project must meet the provisions of these requirements during each of the 15 consecutive years in order to remain qualified to receive the credits. (If Applicable - In addition, the Partnership has executed a land use restriction agreement which requires the utilization of the project pursuant to Section 42 for a minimum of 30 years, even if the Partnership disposes of the project.)

**Optional -** The General Partner is [NAME] a [STATE] non-profit/for profit corporation. The Limited Partner is the NEF Assignment Corporation (NEFAC). Income, losses and tax credits from operations are allocated [%] to the Limited Partner and [%] to the General Partner. A detailed description of the allocations, including special income and loss allocations, can be found in the partnership agreement*.*

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash Equivalents** (If Applicable)

Included in cash equivalents are short-term investments in money market funds or marketable securities with original maturities of 90 days or less when purchased. The securities are carried at cost, which approximates fair market value.

**Investment Securities** (If Applicable)

(If Applicable) Investment securities consist of marketable U.S. Treasury debt securities and certificate of deposits maturing within five years, which are classified as debt securities held-to-maturity.  The securities are carried at cost, which approximates fair market value.  Because the Company has the ability and intent to hold these investments until a recovery of fair value, which is maturity, the Company does not consider these investments to be impaired at December 31, 20XX.

**Risks and Uncertainties**

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the property is located or by changes in federal low-income housing subsidies or the demand for such housing.

**Cash and Credit Risk** (If Applicable)

The Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At times cash deposits exceed the federally insured limits of the financial institution and expose the Partnership to credit risk. At December 31, 20XX there were no balances over the federally insured limits. The Partnership believes it is not exposed to any significant risk of loss on these funds.

#### **Capitalization and Depreciation**

Land, building and improvements are recorded at cost. Costs incurred in relation to development of the project for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used. For financial statement purposes, the following estimated useful lives are used:

|  |  |  |
| --- | --- | --- |
|  | Estimated Life | Method |
| Land | - | None |
| Building and Improvements | 27.5 | Straight-line |
| Furniture and fixtures | Various | MACRS |

Impairment

The partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management’s estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, 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. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the years ended December 31, 20XX and 20XX.

Rental Income

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

Tenant Receivables

Tenant receivables are reported need of an allowance for doubtful accounts. Management’s estimate of the allowance is based on historical collection experience and a review of the current status of tenant account receivable. It is reasonably possible that management’s estimate of the allowance will change. As of December 31, 20XX and 20XX, allowance for doubtful accounts was $X and $X, respectively.

Advertising Costs

Advertising costs are charged to operations when incurred.

Deferred Fees and Amortization

Financing costs are amortized over the term of the mortgage loan using the straight-line method. Accounting principles generally accepted in the United Sates of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Tax credit fees are amortized over ten years using the straight-line method.

**Derivative Instruments and Hedging Activities** (If Applicable)

During the period MONTH DAY, 20XX (date of purchase) through December 31, 20XX, the Partnership had one interest rate swap outstanding that was used to mitigate the economic impact of changes in interest rates. The swap is designated as an interest rate hedge and is being used to offset the risk of changes in the interest rate associate with benchmark interest payments on its variable rate mortgage loan. Management reassesses the hedge on an annual basis to determine if it continues to be effective. The effective portion of the change in fair value of the hedge is recorded in other comprehensive income (OCI) and the amounts in OCI will be reclassified into earnings over the term of the loan as interest payments are made.

Income Taxes

The Partnership is not a taxpaying entity; thus no provision or benefit for income taxes has been included in these financial statements. All taxable income or loss passes through to, and is reportable by, the managing member and investor member on their respective income tax returns.

(If Applicable) Effective January 1, 2009, the rules governing uncertainty in income taxes for nonpublic enterprises changed. These rules require additional disclosures for situations, if any, where the Partnership’s tax positions are considered uncertain. This did not have a material effect on the partnerships results of operations or financial position.

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.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Boards (FASB) issued The Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Partnership’s accounting policies. The adoption of the Codification did not have a material impact on the Partnership’s financial position or results of operations.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20XX** |  | **20XX** |
| Land | $X,XXX,XXX |  | $X,XXX,XXX |
| Building and Improvements | X,XXX,XXX |  | X,XXX,XXX |
| Furniture and fixtures | XXX,XXX |  | XXX,XXX |
|  | $X,XXX,XXX |  | $X,XXX,XXX |

**NOTE 4 – CAPITALIZED COSTS**

The costs incurred to obtain financing of the project partnership have been capitalized and are being amortized as described below:

[INSERT/DELETE COSTS AS APPROPRIATE, COSTS MUST BE SHOWN GROSS]

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20XX** |  | **20XX** |
| Financing Costs and Tax Credit Fees | $ X,XXX,XXX |  | $ X,XXX,XXX |
| Capitalized Interest | X,XXX,XXX |  | X,XXX,XXX |
| Total | $ X,XXX,XXX |  | $ X,XXX,XXX |
| Less Accumulated Amortization | (XXX,XXX) |  | (XXX,XXX) |
| Net Capitalized Costs | $ X,XXX,XXX |  | $ X,XXX,XXX |

**NOTE X – RESTRICTED ESCROW DEPOSITS AND RESERVES**

**Operating Reserve**

The Partnership is required to fund an operating reserve from Limited Partner capital contributions and surplus cash as defined in the Partnership Agreement in the initial amount of $X. The Operating Reserve has been fully funded in accordance with the partnership agreement.

(If Applicable) The entire Operating Reserve was drawn in 20XX and no additional deposits have been made as of December 31, 20XX.

(If Applicable) The Operating Reserve has been funded as of December 31, 20XX and 20XX only by Limited Partner contributions. Surplus cash has not been available to the extent anticipated in the original projections.

**Replacement Reserve** (If Applicable)

The Partnership is required to fund a replacement reserve from Limited Partner capital contributions followed by annual deposits of $X per unit. The replacement reserve has been fully funded in accordance with the partnership agreement.

**Revenue Deficit Reserve (**If Applicable)

The Partnership agreement requires a Revenue Deficit Reserve which was fully funded in the amount of $X by capital contributions from the Limited Partner at December 31, 20XX.

**Special Purpose Reserve (**If Applicable)

The General Partner shall establish a Special Purpose Reserve for real estate taxes out of loan and/or equity proceeds at the time of payment of the [NUMBER] equity installment. The Special Purpose Reserve shall be increased through Project Cash Flow until it reaches the Special Purpose Reserve Target Amount of $X. Such funds will be held in a Special Purpose Reserve Account and administered by [NAME] pursuant to the [NAME] Agreement. As of December 31, 20XX and 20XX, the balance in this account was $X and $X respectively.

**Insurance Escrow** (If Applicable) – Use structure above as needed.

**Real Estate Tax Escrow** (If Applicable) – Use structure above as needed.

**Development Cost Escrow** (If Applicable) – Use structure above as needed.

**Residual Receipts Escrow** (If Applicable) – Use structure above as needed.

**Working Capital Escrow** (If Applicable) – Use structure above as needed.

NOTE TO AUDITOR: IF THE REQUIRED FUNDINGS TO THE RESERVES HAS NOT OCCURRED, DESCRIBE THE IMPLICATIONS TO THE PARTNERSHIP, IF NONE, SO STATE.

**Alternative Presentation:**

The Partnership agreement requires an Operating Reserve in the initial amount of $X and a [list all reserves] According to the Partnership, loan and other regulatory agreements, the Partnership is required to maintain the following escrow deposits and reserves. The following shows the activity in such accounts during 20XX and 20XX.

The Partnership is required to fund a replacement reserve equal to [\_\_\_%] or [$\_\_\_\_\_\_ per year] of gross residential revenue.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Beginning Balance  December 31, 20XX | Additions and Interest | Withdrawals and Transfers | Ending Balance  December 31, 20XX |
| Real Estate Tax Escrow | $ | $ | $ | $ |
| Insurance Escrow |  |  |  |  |
| Operating Reserve |  |  |  |  |
| Replacement Reserve |  |  |  |  |
| Development Cost Escrow |  |  |  |  |
| Residual Receipts Escrow |  |  |  |  |
| Working Capital Escrow |  |  |  |  |
| Total | $ | $ | $ | $ |

**NOTE X – CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Partnership considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(If Applicable) 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.

(If Applicable) The Partnership maintains an account with a brokerage firm. The account contains cash and securities. The securities mature within one year and are carried at cost. Balances are insured up to $500,000 (with a limit of $100,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on cash and cash equivalents. The Partnership has not experienced any losses in such account. The Partnership believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE X – PARTNERS’ CAPITAL CONTRIBUTIONS**

The Partnership has one General Partner, [NAME], which has a 1% interest and one Limited Partner, [NAME], which has a 99% interest.

The contribution note receivable from the Limited Partner is a non-interest-bearing note secured by the Limited Partner’s interest in the Partnership and is payable to the Partnership as follows:

|  |  |
| --- | --- |
| Year Ending December 31, | Amount |
| 20XX | $X,XXX,XXX |
| 20XX | X,XXX,XXX |
| 20XX | X,XXX,XXX |
| 20XX | XXX,XXX |
| 20XX | XXX,XXX |
| Thereafter | XXX,XXX |
| Total | $X,XXX,XXX |

Contributions under the note are subject to adjustment depending on certain conditions being met, primarily related to the amount and timing of low-income housing tax credits the Partnership is able to obtain.

**NOTE X – MORTGAGE NOTES PAYABLE**

As of December 31, 20XX the Partnership had outstanding mortgage debt of approximately $X.

|  |  |
| --- | --- |
| Mortgage Notes Payable | 20XX 20XX |

|  |  |
| --- | --- |
| [ONLY USED DURING CONSTRUCTION]  The construction loan is for the maximum amount of [$\_\_\_] and bears interest at [\_\_%] until [DATE]. Interest will be adjusted annually on [DATE] 200[\_], to prime plus [\_\_\_%]. The annual increase/decrease in interest is restricted to [\_\_\_%] in any year and cannot exceed [\_\_\_%] or decrease below [\_\_\_%]. The loan is due once all of the draws are taken and the mortgage company has made a determination at final endorsement. Collateralized by investment in real estate.  [Use for fixed debt]  The first mortgage note which was originated on -\_\_\_\_\_\_\_ is held by the [NAME] in the original amount of [$\_\_\_]. The note bears interest at [\_\_\_%] per annum. Monthly installments of principal and interest are based on a [\_\_\_] year amortization of the original note balance and are payable by the partnership in the amount of [$\_\_\_] each month beginning [DATE] and continuing through [DATE]. Collateralized by investment in real estate. |  |
| The second mortgage note which was originated on \_\_\_\_\_\_\_ is held by the [NAME] in the original amount of [$\_\_\_] and is subordinated to the first mortgage. The note bears interest at [\_\_\_%] per annum. Monthly installments of principal and interest are based on a [\_\_\_] year amortization of the original note balance and are payable by the Partnership in the amount of [$\_\_\_] each month beginning [DATE], and continuing through [DATE]. Collateralized by investment in real estate.  TOTAL | $ $ |
|  |  |

[PLEASE MENTION THE TERMS OF THE NOTE AS APPLICABLE.]

If the interest rate on any of the debt is at a below market rate, describe why interest was not imputed.

(If Applicable) The first mortgage/second mortgage is in default. The project is having cash flow difficulties in making the monthly mortgage payments. The project is in arrears [enter $ of payment(s) behind]. [Explain any debt covenant violations and current status.]

Aggregate maturities of mortgage payable for the next five years are as follows:

|  |  |
| --- | --- |
| Year Ending December 31, | Amount |
| 20XX | $X,XXX,XXX |
| 20XX | X,XXX,XXX |
| 20XX | X,XXX,XXX |
| 20XX | XXX,XXX |
| 20XX | XXX,XXX |
| Thereafter | XXX,XXX |
| Total | $X,XXX,XXX |

Interest Rate Swap (If Applicable – Designated Cash Flow Hedge)

During the year ended December 31, 20XX, to protect itself from adverse unexpected interest rate fluctuations, the Partnership entered into an interest rate swap transaction to convert its Series X bonds payable, which are based on a variable interest rate, to fixed rate debt. This derivative instrument has been designated as a cash flow hedging instrument and is reported at its fair value. The swap was issued at market terms so that it had no fair values at inception. The carrying amount of the swap has been adjusted to its fair value at the end of the period, which because of changes in forecasted levels of the USD-SIFMA Municipal Swap Index resulted in reporting a liability/asset of $X, as of December 31, 20XX, which represents the fair value of the future net receipts forecasted under the swap and is included in other accrued liabilities / assets on the balance sheet. Since the critical terms of the swap and the bonds payable are the same, the swap is assumed to be completely effective as a hedge, and none of the change in its fair value is included in the statement of partners’ equity (deficit). Accordingly, the adjustment to the swap’s carrying amount is reported as other comprehensive income.

Under the terms of the Swap Agreement, the Partnership has agreed to pay interest to the Swap Provider at a fixed rate of X% while the Swap Provider has agreed to pay interest on the rate Swap Agreement at a variable rate equal to the X. As of December 31, 20XX the rate was X%. The Partnership has made interest payments totaling $X in connection with the Swap Agreement for the period MONTH, DAY, 20XX (date of purchase) through December 31, 20XX.

Interest Rate Swap (If Applicable – Marked to Market)

During the year ended December 31, 20XX, to protect itself from adverse unexpected interest rate fluctuations, the Partnership entered into an interest rate swap transaction to convert its Series X bonds payable, which are based on a variable interest rate, to fixed rate debt. This derivative instrument is not designated as a cash flow hedging instrument and is being marked to market. The swap was issued at market terms so that it had no fair values at inception. The carrying amount of the swap has been adjusted to its market value at the end of the period, which resulted in reporting a gain / loss of $X, as of December 31, 20XX, which represents the market value of the future net receipts forecasted under the swap and is included in other gain / loss on the Income Statement. As the derivate is being marked to market, changes in its fair value are included in the statement of partners’ equity (deficit). Accordingly, the adjustment to the swap’s carrying amount is reported as comprehensive income.

Under the terms of the Swap Agreement, the Partnership has agreed to pay interest to the Swap Provider at a fixed rate of X% while the Swap Provider has agreed to pay interest on the rate Swap Agreement at a variable rate equal to the X. As of December 31, 20XX the rate was X%. The Partnership has made interest payments totaling $X in connection with the Swap Agreement for the period MONTH, DAY, 20XX (date of purchase) through December 31, 20XX.

**NOTE X – TRANSACTION WITH AFFILIATES AND RELATED PARTIES**

**Development Fee** (If Applicable)

As provided in the Development Services Agreement, the Partnership shall pay the Developer Fee in the amount of $X to [NAME], an affiliate of the General Partner, and [NAME], the General Partner, for services rendered for overseeing the construction and development of the complex. As of December 31, 20XX and 20XX, the Partnership owed $X and $X, respectively, in developer frees. Of this amount, $X is considered deferred developer frees.

**Partnership Management Fee** (If Applicable)

The Partnership shall pay to the General Partner a Partnership Management Fee annually in the amount of $X, to be increased annually by X% to compensate the General Partner for managing the Partnership’s operations and assets and coordinating the preparation of the required State Housing Financing Agency, federal, state, and local tax and other required filings and financial reports. As of December 31, 20XX and 20XX, Partnership Management fees totaled $X and $X, respectively.

**Asset Management Fee** (If Applicable)

The Partnership shall pay the Asset Management Fee annually to the Asset Manager, an affiliate of the Limited Partner, fro property management oversight, tax credit compliance monitoring, and related services in the amount of $X, to be increased annually by X%. The Asset Manager will no incur any liability to the General Partner or the Partnership as a result of the Manager’s performance of or failure to perform its asset management services. The Asset Managers owes no duty to the General Partner or the Partnership and may only be terminated by the Limited Partner. As of December 31, 20XX and 20XX, Asset management fess totaled $X and $X, respectively.

**Special Services Fee** (If Applicable)

The Partnership shall pay the Services Manager ([NAME]) a Services Fee in the amount of $X, increasing by X% annually and in the priority specified in the Partnership Agreement for the provision of services to tenants of the Project. As of December 31, 20XX and 20XX, special services fess totaled $X and $X, respectively.

**Operating Deficit Guarantee** (If Applicable)

The General partner shall be obligated to provide any funds needed by the Partnership, after all funds in the Operating Reserve Account have been used, to fund Operating Deficits during the Operating Deficits Guaranty Period. The General Partner shall be required, upon the reduction of the Operating Reserves Account to zero, to promptly provide funds to the Partnership in an amount up to $X for Operating Deficits occurring during the Operating Deficits Guarantee Period. Such costs shall include all operating and fixed costs accrued or accruable during the Operating Deficits Guaranty Period. Repayments of any borrowings arranged by the General Partner to fulfill its obligations shall be the sole obligation of the General Partner. Funds made available by the General Partner to fulfill its obligations may be reimbursed, without interest, or out of the proceeds of refinancing or sale pursuant to [SECTION] of the Partnership Agreement. No operating deficit existed as of December 31, 20XX and 20XX.

**Disposition Fee** (If Applicable)

The Partnership shall pay the Asset Manager a Disposition Fee equal to X% of the gross sales price out of the net sales proceeds at the time of closing of the sale of the Project or the Limited Partner’s interest in the Project. As of December 31, 20XX and 20XX, no Disposition Fee has been earned or paid.

(If Applicable) The Partnership paid a fee of [$\_\_\_] and [$\_\_\_] in 20XX and 20XX, respectively, to the General Partner for bookkeeping, computer and accounting services. These fees are charged for services, which are not included in the monthly management fee.

(If Applicable) Funds have been advanced to the Partnership by the General Partners to provide working capital in the amount of [$\_\_\_] and [$\_\_\_] in 20XX and 20XX, respectively.

(If Applicable) There have been funds advances [to /from] other partnership(s) in which the General Partner has a partnership interest.

Amounts due to the General Partner at December 31, 20XX and 20XX are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 20XX |  | 20XX |
| Developer Fee | $X,XXX,XXX |  | $X,XXX,XXX |
| Partnership Management Fee | X,XXX,XXX |  | X,XXX,XXX |
| Property Management Fee | X,XXX,XXX |  | X,XXX,XXX |
| Advances to the Partnership | XXX,XXX |  | XXX,XXX |
| Total | $X,XXX,XXX |  | $X,XXX,XXX |

Amounts due from the General Partner at December 31, 20XX and 20XX are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 20XX |  | 20XX |
| Advances from the Partnership | $X,XXX,XXX |  | $X,XXX,XXX |
| Other | X,XXX,XXX |  | X,XXX,XXX |
| Total | $X,XXX,XXX |  | $X,XXX,XXX |

**NOTE X** – **PARTNERSHIP PROFITS AND LOSSES AND DISTRIBUTIONS**

[ENSURE ALL TERMS ARE IN ACCORDANCE WITH PARTNERSHIP AGREEMENT]

All profits and losses are allocated \_\_\_% to the General Partner and \_\_\_% to the Limited Partner.

Distributable cash flow, as defined by the Partnership Agreement, is distributable \_\_\_% to the General Partner and \_\_\_% to the Limited Partner.

Gain, if any, from a sale or exchange or other disposition of the property owned by the Partnership is allocable as follows:

1. To all partners having negative balance in their capital account prior to the distribution of any sale or refinancing proceeds, an amount of such gain to increase their negative balance to zero.
2. \_\_% to the General Partner and \_\_\_% to the Limited Partner until the Limited Partner has received an amount equal to its gross capital contribution.
3. The remainder of such gain, if any, \_\_% to the Limited Partner and \_\_% to the General Partner.

**NOTE X –** **PROPERTY PURCHASE OPTION**

The project partnership has or is expected to grant its General Partner an option to purchase partnership property at the end of the low income housing tax compliance period at a price which would facilitate the purchase while protecting the Partnership’s tax benefits from the project. Such option is based on the project General Partner or sponsor maintaining the low income occupancy of the project and is in a form satisfactory to legal and accounting counsel.

**NOTE X – CONTINGENCY (CONTINGENCIES)**

The project’s low-income housing credits are contingent on its ability to maintain compliance with applicable sections of Section 42. 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.

(If Applicable)The project is experiencing significant cash flow difficulties. Management is considering measures to improve the project operations. If these measures are not successful, the project may face foreclosure action, which could result in a loss of tax benefits.

(If Applicable)The Partnership does not believe there is any litigation pending or threatened against it that, individually or in the aggregate, reasonable may be expected to have a material adverse effect on the Partnership.

(If Applicable)The Partnership, as an owner of real estate, is subject to various Federal, state and local environmental laws. Compliance by the Partnership with existing laws has not had a material adverse effect on the Partnership. However, the Partnership cannot predict the impact of new or changed laws or regulations on its current properties.

**NOTE X – TENANT ACCOUNTS RECEIVABLE**

At December 31, 20XX and 20XX tenant accounts receivable consist of the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  | 20XX |  | 20XX |
| Accounts Receivable – Tenants | $X,XXX,XXX |  | $X,XXX,XXX |
| Accounts Receivable – Subsidy | X,XXX,XXX |  | X,XXX,XXX |
| Allowance for Bad Debt | X,XXX,XXX |  | X,XXX,XXX |
| Total | $X,XXX,XXX |  | $X,XXX,XXX |

**NOTE X – EXEMPTION FROM REAL ESTATE TAXES** (If Applicable)

Describe the conditions of any real estate tax exemptions.

Example: Per the requirements set forth in the [STATE] Constitution, Article X, Section Y, the Partnership is exempt from real estate tax. The [County] Tax Assessor has concurred with this exemption and no real estate taxes have been assessed.

**NOTE X – HOUSING ASSISTANCE PAYMENTS CONTRACT** (If Applicable)

The Partnership executed a Housing Assistance Payments (HAP) Contract with The U.S. Department of Housing and Urban Development providing for payments to the Partnership for [#] units leased to eligible low-income families pursuant to Section 8 of the U.S. Housing Act of 1937. The contract expires [DATE]. Such subsidy revenue represented X% of total revenues from January 1, 20XX through December 31, 20XX.

**NOTE X – CONSTRUCTION AGREEMENT** (If Applicable)

The Partnership entered into a Construction Contract Agreement dated [DATE] in the amount of $X, including change orders, for construction services in connection with the Project. At December 31, 20XX construction in the amount of $X has been completed and billed.

**NOTE X – INSURANCE CLAIMS** (If Applicable)

On [DATE] 20XX, the Partnership experience [TYPE] damage as the result of a [EVENT]. (If Applicable -X units were damaged.) The Partnership submitted a claim to it’s insurance company in connection with the damage to the property resulting from this [EVENT]. The Partnership was awarded $X in insurance proceeds during 20XX, for lost rent, which is included in revenue on the statement of operations. As of December 31, 20XX $X was receivable from the Partnership’s insurance company. As of December 31, 20XX restoration of the property was not complete. Total costs associated with these repairs incurred in 20XX amounted to $X.

(If Applicable) The Partnership was awarded $X in insurance proceeds for the restoration of the damaged property. As a result of the damage, rental property was reduced by $X and accumulated depreciation was reduced by $X, resulting in a reduction to the net book value of the fixed assets of $X. As such, insurance proceeds awarded resulted in a gain of $X, which is included in revenue on the statement of operations.

**NOTE X – COMMERICAL LEASE** (If Applicable)

Effective DATE, the Partnership entered into a lease agreement (the “DATE Lease Agreement”) with [NAME]. The DATE lease agreement provided for monthly lease payments of $X through DATE. Total rent earned under the lease in 2008 and 2009 was $X and $X, respectively. As of December 31, 2009 $X remained receivable from [NAME] and is included in accounts receivable on the balance sheet.

**NOTE X – GROUND LEASE** (If Applicable)

On [DATE] a ground lease between [NAME] and [NAME] was executed. The lease runs from [DATE] through [DATE].

**NOTE X – INVESTMENT SECURITIES** (If Applicable)

(If Applicable) The marketable securities held in the [NAME] reserve were classified as available for sale and recorded at fair value, which approximated cost plus accrued interest. In addition to cash, the [NAME] reserve included U.S. government agency issued debt securities with a recorded fair market value of $X at December 31, 20XX. The amortized cost of these securities was $X.