

OLIVE GROVE MANOR, LTD.
FINANCIAL STATEMENTS
For the year ended December 31, 2008
with
Report of Independent Auditors

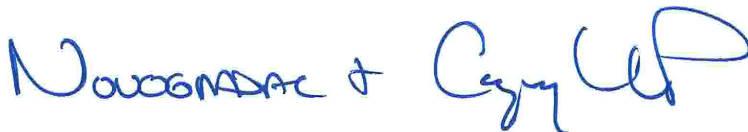
Report of Independent Auditors

To the Partners of
Olive Grove Manor, Ltd.:

We have audited the accompanying balance sheet of Olive Grove Manor, Ltd. as of December 31, 2008, and the related statements of operations, changes in partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Olive Grove Manor, Ltd. as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



June 10, 2009

OLIVE GROVE MANOR, LTD.
BALANCE SHEET
December 31, 2008

ASSETS

Cash and cash equivalents	\$ 2,047
Restricted cash	15,771
Prepaid expenses	13,950
Fixed assets, net of accumulated depreciation	14,084,156
Intangible assets, net of accumulated amortization	<u>222,596</u>
Total assets	<u>\$ 14,338,520</u>

LIABILITIES AND PARTNERS' CAPITAL

Liabilities	
Accounts payable	\$ 19,906
Security deposits payable	20,128
Accrued expenses	14,278
Accrued interest	34,300
Contractor payable	470,000
Development fee payable	1,592,105
HOME loan	700,000
Construction loan payable	<u>5,639,596</u>
Total liabilities	8,490,313
Partners' capital	<u>5,848,207</u>
Total liabilities and partners' capital	<u>\$ 14,338,520</u>

see accompanying notes

OLIVE GROVE MANOR, LTD.
STATEMENT OF OPERATIONS
For the year ended December 31, 2008

REVENUE	
Rental revenue	\$ 288,452
Other income	<u>723</u>
Total revenue	289,175
OPERATING EXPENSES	
General and administrative	25,031
Payroll	166,125
Utilities	86,666
Taxes and insurance	39,212
Property management fee	22,335
Repairs and maintenance	52,206
Marketing and advertising	<u>265,991</u>
Total operating expenses	<u>657,566</u>
Operating loss	(368,391)
OTHER EXPENSES	
Interest expense	(62,770)
Depreciation and amortization	<u>(231,254)</u>
Net other expenses	<u>(294,024)</u>
Net loss	<u><u>\$ (662,415)</u></u>

see accompanying notes

OLIVE GROVE MANOR, LTD.
STATEMENT OF CHANGES IN PARTNERS' CAPITAL
For the year ended December 31, 2008

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total Partners' Capital</u>
BALANCE, JANUARY 1, 2008	\$ 10	\$ 6,236,672	\$ 6,236,682
Capital contributions	273,940	-	273,940
Net loss	<u>(66)</u>	<u>(662,349)</u>	<u>(662,415)</u>
BALANCE, DECEMBER 31, 2008	<u>\$ 273,884</u>	<u>\$ 5,574,323</u>	<u>\$ 5,848,207</u>

see accompanying notes

OLIVE GROVE MANOR, LTD.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (662,415)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	231,254
Increase in restricted cash	(15,503)
Increase in prepaid expenses	(13,950)
Decrease in accounts payable	(934)
Increase in security deposits payable	20,128
Increase in accrued expenses	14,278
Increase in accrued interest	34,300
Net cash used in operating activities	<u>(392,842)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in restricted cash	763,172
Purchase of fixed assets	(741,174)
Purchase of intangible assets	(364,858)
Payment of contractor payable	(2,425,081)
Net cash used in investing activities	<u>(2,767,941)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of related party payables	(130,800)
Payment of development fee payable	(250,000)
Proceeds from HOME loan	70,000
Proceeds from construction loan payable	3,081,396
Proceeds from general partner contribution	273,940
Net cash provided by financing activities	<u>3,044,536</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (116,247)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 118,294

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,047

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest (including capitalized interest of \$39,858)	<u><u>\$ 68,328</u></u>
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see accompanying notes

OLIVE GROVE MANOR, LTD.
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended December 31, 2008

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING
AND FINANCING ACTIVITIES:

Increase in fixed assets from decrease in construction in progress	<u>\$12,080,869</u>
Increase in fixed assets from capitalization of amortization expense	<u>\$ 110,852</u>
Increase in fixed assets from increase in contractor payable	<u>\$ 470,000</u>
Increase in fixed assets from increase in development fee payable	<u>\$ 631,105</u>

see accompanying notes

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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 ("Section 42").

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" and collectively with the Special Limited Partner, the "Limited Partners"). 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, 2008, the Investment Limited Partner has provided capital contributions in the amount of \$6,236,662. As of December 31, 2008, capital contributions in the amount of \$4,157,773 remain outstanding. As of December 31, 2008, the General Partner has provided capital contributions in the amount of \$ 273,950.

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.

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.

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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.

Concentration of credit risk

The Partnership places its temporary cash investments with high credit quality financial institutions. At times, the account balances may exceed the institutions' federally insured limits. The Partnership has not experienced any losses in such accounts

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 period of up to one year, with rental payments due monthly. Other income results from fees earned for late payments, cleaning, damages, and laundry facilities and is recorded when earned.

Tenant receivables

An allowance for bad debts is not maintained. Accounts receivable 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 using the direct charge-off method; however, it has been determined that such an allowance would be immaterial with respect to the financial statements taken as a whole.

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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

Income taxes

Income taxes on Partnership income are levied on the partners in their individual capacity. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No.109* ("FIN 48"). FIN 48 prescribes detailed guidance for financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Pursuant to FSP-FIN 48-3, the effective date has been deferred for nonpublic organizations and will become effective for fiscal years beginning after December 15, 2008. The Partnership has elected to defer the application of FIN 48. Management believes that the implementation of FIN 48 will not have a material effect on the financial statements.

Fixed assets

Fixed assets are recorded at cost. Residential rental buildings are depreciated over 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. During 2008, depreciation expense was \$199,844.

Fixed assets consist of the following as of December 31, 2008:

Buildings	\$	11,486,809
Site improvements		2,219,925
Personal property		577,266
Less: accumulated depreciation		<u>(199,844)</u>
Fixed assets, net	\$	<u>14,084,156</u>

Intangible assets

Intangible assets include financing fees of \$309,853 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 2008, amortization expense was \$142,262, of which \$31,410 was charged to operations and \$110,852 was capitalized into fixed assets.

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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

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 asset is 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 was no impairment loss recognized during 2008.

Ground lease

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

3. Restricted cash

Capital contribution account

Pursuant to the Credit Support and Funding Agreement between the Partnership and JPMorgan Chase Bank, N.A. (the "Lender"), a related party to the Investment Limited Partner, all capital contributions paid by the Investment Limited Partner to the Partnership are deposited into an account held by the Lender until such time that the Partnership requests a withdrawal to pay for costs related to construction. As of December 31, 2008, the balance of the capital contribution account was \$268.

Tenant security deposits

Tenant security deposits are placed into an interest-bearing 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, 2008, the balance of tenant security deposits was \$15,503.

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. As of December 31, 2008, the operating reserve had not been funded.

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

3. Restricted cash (continued)

Replacement reserve

Pursuant to the Partnership Agreement, and commencing with the month following final closing, monthly deposits of the greater of the amount required by 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, 2008, final closing had not occurred.

4. Related party transactions

Contractor payable

The Partnership entered into a construction contract with Inland General Construction Company, a related party of the Special Limited Partner, for services totaling \$11,500,296 related to the construction of the Project. As of December 31, 2008, contractor payable of \$470,000 remained outstanding.

Development fee payable

Artisan/American Corp. (the "Developer"), a related party of the Special Limited Partner, earned a development fee of \$1,842,105 for services related to the construction and development of the Project. Payments of the development fee are to be made from the development proceeds to the extent such funds are available, and then from net cash flow, as described in the Partnership Agreement. Pursuant to a development fee sharing agreement between Harris County Housing Authority ("HCHA"), a related party of the General Partner, and the Partnership, HCHA is entitled to receive \$840,000 of the development fee earned by the Developer. As of December 31, 2008, the total development fee had been incurred and \$1,002,105 and \$590,000 was outstanding to the Developer and HCHA, respectively.

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. During 2008, interest of \$34,300 was incurred. All principal and accrued interest is due and payable on the maturity date, which is December 30, 2028. As of December 31, 2008, the principal balance outstanding was \$700,000 and accrued interest was \$34,300.

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

4. Related party transactions (continued)

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, 2008, rental payments of \$1,000 remain outstanding and are included in "Accrued expenses" on the accompanying balance sheet.

Incentive partnership management fee

Pursuant to the Partnership Agreement, beginning December 21, 2006, the General Partner is entitled to receive an annual, non-cumulative incentive partnership management fee not to exceed \$75,000, which will increase 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, as defined in the Partnership Agreement, after payment of any operating deficit loans. As of December 31, 2008, there was no incentive partnership management fee incurred or outstanding.

Construction completion guaranty

Pursuant to the Partnership Agreement, the General Partner is required to fund excess development costs. Construction completion guaranty advances will not be repaid by the Partnership, nor will they be treated as capital contributions of the General Partner, without the consent of the Investment Limited Partner. During 2008, payments of \$273,940 were received from the General Partner to fund excess development costs and the partners agreed the funds would be considered a capital contribution by the General Partner.

Operating deficit guaranty

Pursuant to the Partnership Agreement, the Special Limited Partner is required to fund up to \$355,000 of operating deficits at any time during the period beginning upon the date breakeven operations is achieved, as defined by the Partnership Agreement, and ending on the third anniversary of such date. Operating deficit advances do not accrue interest, are only payable from net cash flow, as defined in the Partnership Agreement, and are fully subordinated to other Partnership debt. As of December 31, 2008, there were no operating deficit guaranty payments made by the Special Limited Partner.

OLIVE GROVE MANOR, LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

4. Related party transactions (continued)

Construction loan payable

The Partnership obtained a construction loan in the total amount of \$7,017,000 from the Lender. The construction loan payable accrues interest on the outstanding balance at the greater of the adjusted prime rate or 3.85% per annum. As of December 31, 2008, the applicable interest rate was 3.85%. Interest is due and payable monthly, and the principal balance including any accrued interest is due on the earlier of maturity or the conversion to permanent financing, which is expected to occur in June 2009. The construction loan payable is collateralized by the Project. During 2008, interest expense of \$68,328 was incurred, of which \$39,858 was capitalized and included in "Fixed assets, net of accumulated depreciation" on the accompanying balance sheet. As of December 31, 2008, principal of \$5,639,596 was outstanding and no interest was accrued.

5. 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. 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 another 40 years after the above period ends. Because the Tax Credits are subject to complying 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 may result in generating a lesser amount of Tax Credits than the expected amount.

6. Litigation

The Partnership is currently involved in two lawsuits with subcontractors who claim non-payment for services performed during construction of the Project. The first lawsuit is in the discovery stage and the second has been stayed pending arbitration between other parties involved. The Partnership has denied liability for both claims as the contracts for services are between the subcontractors and the general contractor. The Partnership has demanded indemnity from the general contractor with respect to these claims. The outcome is undeterminable and the financial statements do not include any adjustments related to these uncertainties.