

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

LOUETTA VILLAGE APARTMENTS

DECEMBER 31, 2008

Louetta Village Apartments

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
BALANCE SHEET	4
STATEMENT OF OPERATIONS	6
STATEMENT OF PARTNERS' EQUITY (DEFICIT)	7
STATEMENT OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9

INDEPENDENT AUDITORS' REPORT

To the Partners
Louetta Village Apartments

We have audited the accompanying balance sheet of Louetta Village Apartments as of December 31, 2008, and the related statements of operations, partners' equity (deficit) 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 present fairly, in all material respects, the financial position of Louetta Village Apartments 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.



Atlanta, Georgia
March 3, 2009

Louetta Village Apartments

BALANCE SHEET

December 31, 2008

ASSETS

CURRENT ASSETS

Cash	\$	76,442
Tenant accounts receivable		796
Prepaid expenses		14,598
Due from affiliates		8,073
		<hr/>
Total current assets		99,909

RESTRICTED DEPOSITS AND FUNDED RESERVES

Replacement reserve		27,146
Real estate tax and insurance escrow		30,727
Lease up reserve		150,017
Trustee funds		113,080
		<hr/>
Total restricted deposits and funded reserves		320,970

RENTAL PROPERTY

Building and improvements		8,659,086
Land improvements		201,300
Furniture and equipment		462,920
		<hr/>
		9,323,306
Accumulated depreciation		(867,860)
		<hr/>
		8,455,446
Land lease prepayments		347,976
		<hr/>
Total rental property		8,803,422

OTHER ASSETS

Mortgage costs, net		525,177
		<hr/>
Total other assets		525,177
		<hr/>
Total assets	\$	9,749,478

(continued)

Louetta Village Apartments
BALANCE SHEET - CONTINUED
December 31, 2008

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 8,106
Accrued asset management fee	7,066
Accrued interest payable - first mortgage	14,210
Accrued interest payable - other mortgages	138,811
Other accrued expenses	<u>5,804</u>
Total current liabilities	<u>173,997</u>

DEPOSITS AND PREPAID LIABILITY

Tenant security deposits	25,550
Prepaid rent	<u>1,482</u>
Total deposits and prepaid liability	<u>27,032</u>

LONG-TERM LIABILITIES

Mortgages payable - first mortgage	7,100,000
Mortgages payable - other mortgages	714,540
Deferred developer fee payable	<u>366,146</u>
Total long-term liabilities	<u>8,180,686</u>

COMMITMENTS AND CONTINGENCIES

Partners' equity (deficit)	<u>1,367,763</u>
Total liabilities and partners' equity (deficit)	<u><u>\$ 9,749,478</u></u>

See notes to financial statements

Louetta Village Apartments
STATEMENT OF OPERATIONS
Year ended December 31, 2008

Revenue	
Rental income	\$ 973,618
Vacancies and concessions	(29,662)
Other operating income	<u>4,251</u>
Total revenue	<u>948,207</u>
Operating expenses	
Salaries and employee benefits	108,713
Repairs and maintenance	83,577
Utilities	62,205
Property management fee	46,879
Property insurance	40,552
Miscellaneous operating expenses	<u>94,262</u>
Total operating expenses	<u>436,188</u>
Net operating income (loss)	<u>512,019</u>
Other income (expense)	
Interest income	1,969
Interest expense - first mortgage	(280,039)
Interest expense - other loans	(35,353)
Annual fee to affiliate of limited partner	(7,066)
Interest expense - developer fee	(18,818)
Depreciation	(302,852)
Amortization	<u>(25,037)</u>
Total other income (expense)	<u>(667,196)</u>
Net loss	<u><u>\$ (155,177)</u></u>

See notes to financial statements

Louetta Village Apartments

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

Year ended December 31, 2008

	<u>General Partner</u>	<u>Special Limited Partner</u>	<u>Investor Limited Partner</u>	<u>Class B Limited Partner</u>	<u>Total Partners' Equity (Deficit)</u>
Balance, January 1, 2008	\$ (111)	\$ (110)	\$ 1,210,490	\$ (111)	\$ 1,210,158
Net loss	(15)	(16)	(155,130)	(16)	(155,177)
Contributions	<u>-</u>	<u>-</u>	<u>312,782</u>	<u>-</u>	<u>312,782</u>
Balance, December 31, 2008	<u>\$ (126)</u>	<u>\$ (126)</u>	<u>\$ 1,368,142</u>	<u>\$ (127)</u>	<u>\$ 1,367,763</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>0.01%</u>	<u>99.97%</u>	<u>0.01%</u>	<u>100.00%</u>

See notes to financial statements

Louetta Village Apartments
STATEMENT OF CASH FLOWS
Year ended December 31, 2008

Net loss	\$ (155,177)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	302,852
Amortization	25,037
Changes in:	
Tenant accounts receivable	606
Accounts receivable - other	6,452
Prepaid expenses	1,558
Accounts payable	(5,865)
Accrued asset management fee	316
Accrued interest payable - first mortgage	3,298
Accrued interest payable - other mortgages	34,659
Real estate taxes payable	5,804
Tenant security deposits	1,525
Prepaid rent	389
Accrued interest - developer fee payable	(73,422)
Net cash provided by operating activities	<u>148,032</u>
Cash flows from investing activities	
Land lease prepayments	6,756
Change in real estate tax and insurance escrows	(15,335)
Change in reserve for replacements	(23,277)
Change in operating deficit reserves	(95,119)
Change in trustee funds	(90,993)
Net cash used in investing activities	<u>(217,968)</u>
Cash flows from financing activities	
Principal payments on mortgage payable	2,539
Contributions from partners	312,782
Deferred developer fee payable	(221,953)
Net cash provided by financing activities	<u>93,368</u>
Net increase in cash	23,432
Cash, beginning	<u>53,010</u>
Cash, end	<u><u>\$ 76,442</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u><u>\$ 369,675</u></u>

See notes to financial statements

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - DESCRIPTION OF PARTNERSHIP

Louetta Village Apartments (the Partnership) was formed as a limited partnership under the laws of the State of Texas on September 23, 2004. On January 13, 2005, the partnership agreement was amended and restated to allow the admission of the Investor Limited Partner. The Partnership's purpose is to invest in real estate and the construction, operation and sale or leasing of the Partnership property. The Partnership's property consists of a 116-unit low-income apartment complex in Houston, Texas. The project is known as Louetta Village Apartments, L.P. (the Project).

The Project has a carryover allocation of low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provisions of these regulations during each of 15 consecutive years following the initial year of the tax credits. 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 55 years, even after the disposition of the Project by the Partnership.

The Partnership has a General Partner, HCHA Louetta, LLC, a Special Limited Partner, Protech 2004-D, LLC, an Investor Limited Partner, Amtax Holdings 603, LLC and a Class B Limited Partner, T.H. Louetta Village, L.L.C..

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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.

Accounts Receivable and Bad Debts

Tenant receivables are reported net 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 accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Rental Property

Rental property is recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (40 years for buildings, 15 years for land improvements, 7 years for personal property and equipment) 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. Any resulting gains and losses are reflected in the statement of operations.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal 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. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No asset impairment losses have been recognized during the year ended December 31, 2008.

Intangible Assets and Amortization

Mortgage costs are amortized over the term of the mortgage loan using the effective-yield method. Estimated amortization expense for each of the ensuing years through December 31, 2013 is \$25,037 annually.

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 Project are operating leases.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the Partners individually.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. The effective date of FIN 48 was for fiscal years beginning after December 15, 2006. The effective date was delayed in 2007 and was delayed

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

again in 2008 for nonpublic companies. The new effective date for FIN 48 for nonpublic companies is for fiscal years beginning after December 15, 2008. The Partnership has elected to defer application of FIN 48, as permitted by FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," until 2009. The Partnership does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required of situations, if any, where the Partnership's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which pass-through entities such as the Partnership will need to apply the provisions of FIN 48.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - RESTRICTED CASH AND FUNDED RESERVES

Bond Escrows

The escrow accounts were initially established at the bond closing and are held by the Trustee. The escrow funds are invested in highly-liquid, short-term U.S. Treasury obligations. The escrow accounts are stated at cost, which approximates market value. Funds held by the Trustee at As of December 31, 2008 are as follows:

Revenue fee fund	\$ 8,143
Principal reserve fund	104,758
Revenue fund	179
	<u>\$ 113,080</u>

Revenue Fee Fund

Deposits into the revenue fees account are used to pay approved trustee, issuer, and other financing fees.

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Principal Reserve Fund

Deposits into the principal reserve fund are in accordance with the Schedule of Deposits to Principal Reserve Fund and are used to make semi-annual principal payments to the bondholder.

Revenue Fund

Deposits into the Revenue Fund are used to transfer receipts to the Revenue Fee Fund and the Principal Reserve Fund for the required payments noted above.

Replacement Reserve

The Partnership has agreed to establish a reserve account for capital replacement. Monthly deposits equaling \$200 per apartment unit per year beginning one month after the payment of the fourth capital installment will be placed into a replacement reserve account. Every five years the required funding shall increase by \$50 per apartment unit per year. As of December 31, 2008, \$27,146 was funded to this reserve.

Insurance and Tax Escrow

In accordance with the loan agreement, the property is required to make months deposits to the real state tax and insurance escrow. Funds accumulated in this account are utilized to pay for the annual real estate tax and insurance bills. As of December 31, 2008, the balance of this account was \$ 30,727.

Lease-Up Reserve

The Partnership is required to establish a lease-up reserve account to fund any operating deficits prior to stabilization. The sum of \$87,000 shall be initially deposited into the reserve from the proceeds of the second capital installment. Upon stabilization, any remaining funds shall be released to the partnership and treated as net cash flow. As of December 31, 2008, the balance in the lease-up reserve account is \$150,017.

Operating Deficit Reserve

The Partnership is required to establish an operating deficit reserve account in the initial amount of \$150,000 funded from the proceeds of the fifth capital installment. Withdraws from the operating deficit reserve are required to be approved by the Special Limited Partner. The operating deficit reserve shall be released to the Partnership and treated as net cash flow, as follows:

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

- a. One-third of the operating reserve funds shall be released on the first date upon which both (a) the 3rd anniversary of the stabilization has occurred and (b) immediately prior to such release, the Partnership shall have maintained a 1.15 debt service coverage ratio for three consecutive months.
- b. One-third of the operating reserve funds shall be released on the first date upon which both (a) the 4th anniversary of the stabilization has occurred and (b) immediately prior to such release, the Partnership shall have maintained a 1.15 debt service coverage ratio for three consecutive months.
- c. One-third of the operating reserve funds shall be released on the first date upon which both (a) the 5th anniversary of the stabilization has occurred and (b) immediately prior to such release, the Partnership shall have maintained a 1.15 debt service coverage ratio for three consecutive months.

As of December 31, 2008, no amounts were funded to this reserve.

NOTE 4 - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Development Fee

In accordance with the development agreement between the Partnership and JV Developers, LLC (the Developer) provides for a fee of \$1,208,099 or such maximum amount as may be permitted by applicable laws for services rendered to the Partnership for overseeing the construction of the Project. It is anticipated that the development fee will be paid by the Partnership as follows: (a) up to a maximum of \$270,000 of the project loan proceeds, of which \$150,000 can be paid as a lump sum, and the remainder payable in ten monthly installments of \$12,000 as set forth in the construction loan agreement and (b) if still unpaid, the development fee shall be paid from net cash flow and/or sale and/or refinancing proceeds. No portion of the development fee shall be paid to the developer until the conversion date. As of December 31, 2008, \$1,208,099 of this fee has been earned and \$366,146 remains payable.

The deferred developer fee shall bear interest of 4.76 percent, as outlined in the development agreement. The amount of interest expense and accrued interest associated with the deferred developer fee as of December 31, 2008 is \$18,818 and \$0, respectively.

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Incentive Management Fee

Pursuant to the incentive management agreement, the General Partner is to be paid an annual fee for its services in the management of the Partnership equal to 7% of gross revenue. The fee is non-cumulative and payable to the extent of available cash flow in the order of priority stipulated in the partnership agreement. As of December 31, 2008, no amount has been paid or accrued under the agreement.

Asset Management Fee

For its services in monitoring the operations of the Partnership, the Special Limited Partner will receive an annual fee in the amount equal to .25 percent of the Investor Limited Partner's capital contribution (as adjusted annually by the C.P.I.). The fee is payable only out of cash flow, as defined in the partnership agreement, however, if there is insufficient net cash flow in any year, the General Partner and/or guarantor(s) shall make an operating deficit loan to the Partnership to pay the fee. Should the General Partner and/or guarantor(s) fail to make such a loan, the fee shall be cumulative and accrue, and interest shall accrue on any unpaid portion at an annual rate of 12 percent compounded annually. Payment of the asset management fee shall commence upon the admission date. For the year ended December 31, 2008, \$7,066 of fees were incurred and remained payable.

Partnership Management Fee

The Partnership shall pay the General Partner an annual partnership management fee, in an amount equal to the annual asset management fee. The fee shall be non-cumulative and payable solely from net cash flow remaining after payment of other amounts as outlined in the partnership agreement. No fees were accrued or charged to operations for the period ended December 31, 2008.

Management Fee

The property is being managed by an affiliate of the General Partner for a fee equal to 5% of annual gross revenue. During 2008, management fees incurred under this agreement totaled \$46,879, of which \$3,881 remains payable and is included in accounts payable.

Due from Related Party

Each pay period, the Partnership's payroll account is initially funded by Coach Realty based upon a payroll expense estimate. The Partnership then reimburses Coach Realty when the

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

actual payroll report is prepared. This transaction results in a due to / due from for each pay period. The balance of this account at December 31, 2008 is \$8,073.

NOTE 5 - MORTGAGE PAYABLE AND NOTES PAYABLE

The Partnership has a mortgage with Capmark (formerly known as GMAC Commercial Mortgage Corporation) in the original amount of \$7,100,000. The mortgage bears interest at a variable rate until the conversion date, as defined, at which time the rate is fixed until maturity at January 15, 2038.

The mortgage was funded on January 1, 2005, with proceeds from the issuance of \$7,100,000 Harris County Housing Finance Corporation Variable Rate Demand Multifamily Housing Revenue Bonds (Louetta Village Apartments) Series 2005 (the Bonds), dated January 1, 2005. Proceeds were specifically for funding development of the Project, and were placed in a restricted trust account with Wells Fargo Bank, National Association (the Trustee). During development, the Trustee disbursed funds out of the bond escrow accounts for the purpose of paying approved development costs in accordance with the financing agreement. The mortgage matures January 15, 2038. Monthly payments of principal and interest under the mortgage are based on amounts required to make payments of the Bonds. Interest incurred on the mortgage is a variable rate based on the rate of interest paid on the Bonds as set forth in the Trust Indenture. The rate of interest at December 31, 2008 is 0.90 percent. The loan balance and accrued interest associated with this loan at December 31, 2008 are \$7,100,000 and \$14,210, respectively.

To protect against fluctuations in interest rates, the Partnership purchased an interest rate cap (the Cap) for a period of 15 years commencing on May 11, 2005. The cost of the cap is \$183,000. The Cap provides for a rate not to exceed 6% per annum. For the year ended December 31, 2008, the Cap was not utilized. Furthermore, because the Cap was not effective at the time of issuance, the Cap is considered an embedded financial instrument and is not accounted for at fair value. The cost of the Cap is being amortized on a straight line basis over the 15 year term.

The loan is collateralized with a first mortgage on the property and is an assignment of rents. The mortgage is further secured with an irrevocable letter of credit from JPMorgan Chase Bank, N.A. issued through Fannie Mae, in the amount of \$7,212,968. The letter of credit will expire on January 15, 2008.

The liability of the Partnership under the mortgage is limited to the undergoing value of the real estate collateral improvements, easements of other interests, assignment of rents, assignment of leases, and personal property.

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Note Payable - Harris County Housing Authority

The Partnership has a mortgage payable with Harris County Housing Authority in the original amount of \$550,000. The loan is secured by a subordinate deed of trust bearing interest at 4.3 percent. The outstanding principal and unpaid interest are due in full at maturity on January 31, 2038. As of December 31, 2008, the outstanding balance of the loan is \$550,000 and the accrued interest associated with this loan at December 31, 2008 is \$99,235.

Rate Cap Loan

The Partnership entered into a loan agreement with Capmark (formerly known as GMAC Commercial Mortgage Corporation) on January 1, 2005 in order to finance the rate cap agreement aforementioned. The note provides for a maximum loan amount of \$275,000. The loan is secured by a subordinate deed of trust.

Interest shall accrue on the unpaid principal balance of the note at an adjustable rate as outlined in the rate cap loan agreement. Interest payments shall be made upon conversion, as defined and principal payments shall be made to the extent of available operating income. The maturity date of this loan is April 1, 2038. As of December 31, 2008, the balance of the loan was \$164,540 and the accrued interest associated with this loan is \$39,576. The interest rate of this loan at December 31, 2008 was 5.00 percent.

Aggregate annual maturities of the mortgage payable over each of the next five years and thereafter as of December 31, 2007 are as follows:

	<u>Bonds</u>	<u>HCHA</u>	<u>Capmark</u>	<u>Total</u>
2009	\$ 94,894	\$ -	\$ -	\$ 94,894
2010	100,662	-	-	100,662
2011	106,779	-	-	106,779
2012	113,271	-	-	113,271
2013	-	-	-	-
Thereafter	<u>6,684,394</u>	<u>550,000</u>	<u>164,540</u>	<u>7,398,934</u>
Total	<u>\$ 7,100,000</u>	<u>\$ 550,000</u>	<u>\$ 164,540</u>	7,814,540
Less current maturities				<u>(94,894)</u>
Net long-term portion				<u>\$ 7,719,646</u>

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 6 - PARTNERS' CAPITAL CONTRIBUTION

The Partnership has one General Partner, HCHA Louetta, LLC, which has a 0.01% interest, an Investor Limited Partner, Amtax Holdings 603, LLC, which has a 99.97% interest, a Special Limited Partner, Protech 2004-D, LLC, which has a 0.01% and a Class B Limited Partner, T.H. Louetta Village, L.L.C., which has a 0.01%.

Total Investor Limited Partner capital contributions in accordance with the partnership agreement, as amended, are \$2,669,918. As of December 31, 2008, \$2,478,056 has been contributed and \$191,862 remains outstanding. The remaining capital contributions are to be paid pursuant to the terms of the partnership agreement.

NOTE 7 - PARTNERSHIP GUARANTEES

The partnership agreement provides for various agreements between the General Partner and Thomas H. Scott, an individual resident of the state of Texas, Coach Realty Services, Inc., a Texas Corporation, and JV Developers, LLC., a Texas Limited Partnership (collectively, the guarantors) as follows:

Operating Guarantee

The General Partner has agreed to fund any operating deficits (as defined in the partnership agreement) commencing on the final closing and ending on the third anniversary of the stabilization (the Initial Period). Amounts funded during the Initial Period shall be recorded as the operating deficit loans and limited to \$290,000 (which may be reduced as defined in the partnership agreement). Operating expense loans are unsecured, non-interest bearing and payable out of cash flow as defined in the partnership agreement. As of December 31, 2008, no amounts were funded.

NOTE 8 - CASH FLOW DISTRIBUTIONS

Cash flow for each fiscal year shall be distributed or applied, as applicable, within ninety days after the end of each calendar quarter, in the following order of priority:

- a. To the repayment of any credit recovery loans, including all accrued interest thereon;

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

- b. To fund any deficiency in the operating reserve;
- c. To the payment of any accrued and unpaid asset management fee, including all accrued interest thereon;
- d. To the payment of the rate cap loan in accordance with the terms thereof;
- e. To the payment of any outstanding default LP loans and then to the payment of any remaining LP loans;
- f. The subordinated portion of the management fee for the calendar year immediately preceding the payment date, as such subordinate portion is described in the partnership agreement agreement.
- g. To pay the deferred development fee;
- h. To the payment of the outstanding operating deficit loans and then, pro rata, to the payment of the outstanding GP loan and outstanding Class B loans;
- i. To the payment of the partnership management fee;
- j. To pay 10% of the remaining net cash flow to the Investor Limited Partner as a distribution;
- k. To the payment of the incentive management fee and
- l. Thereafter, to the Partners, as distribution in the following percentages: 80 percent to the General Partner, 19.99 percent to the Class B Limited Partner and .01 percent to the Investor Limited Partner.

NOTE 9 - CONTINGENCY

The project's low-income housing tax 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. In addition, such potential noncompliance may require an adjustment to the contributed capital by the limited partner.

NOTE 10 - COMMITMENTS

Land Lease

On January 13, 2005, the Partnership entered into a 65-year ground lease with the Harris County Housing Authority. The rent for the entire term of the lease is \$65,000 annually,

Louetta Village Apartments

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

provided that the first year's rent shall be \$375,000 payable upon execution of the ground lease. After the first year, annual rent is \$65,000 of which \$64,000 of annual rent per lease year shall be automatically waived by the landlord and non-payable on an annual basis, provided no event of default has occurred. Upon execution of the lease, the Partnership prepaid rent in the amount of \$375,000. Upon expiration of the lease, all improvements to the property revert to the Partnership.

For the period ended December 31, 2008, the Partnership recognized \$6,756 of rental expense on a straight-line basis and a \$347,976 prepaid lease.

The estimated amount of land lease expense to be recognized for each of the ensuing years through December 31, 2013 is \$6,756 annually.