

GRA PROPERTIES LIMITED PARTNERSHIP

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2014 AND 2013

GRA PROPERTIES LIMITED PARTNERSHIP

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS	
BALANCE SHEETS	4
STATEMENTS OF PROFIT AND LOSS	6
STATEMENTS OF PARTNERS' EQUITY	8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTAL INFORMATION – SUPPORTING DATA REQUIRED BY HUD	
RESERVE FOR REPLACEMENTS	18
MISCELLANEOUS ADMINISTRATIVE EXPENSES	18
OTHER ENTITY EXPENSES	18
CHANGES IN FIXED ASSET ACCOUNTS	19
COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND RESIDUAL RECEIPTS	20
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE <i>CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS</i>	21
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23
CERTIFICATE OF PARTNERS	25
MANAGING AGENT'S CERTIFICATION	26
INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE	27
ATTACHMENT TO INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE	28



KOZAK, POLLEKOFF & GOLDMAN, P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Partners
GRA Properties Limited Partnership

Report on the Financial Statements

We have audited the accompanying financial statements of GRA Properties Limited Partnership (a District of Columbia Limited Partnership), which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of profit and loss, partners' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

1950 Old Gallows Road • Suite 440 • Vienna, Virginia 22182

Telephone: 703-506-9700 • Fax: 703-506-9707

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GRA Properties Limited Partnership, as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 18 to 20 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 18 to 20 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. Such 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 accompanying supplementary information shown on pages 18 to 20 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2015 on our consideration of GRA Properties Limited Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GRA Properties Limited Partnership's internal control over financial reporting and compliance.

Wick, Peltz & Goldman, P.C.

Vienna, Virginia
February 13, 2015

GRA PROPERTIES LIMITED PARTNERSHIP

BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
1120 Cash and cash equivalents	\$ 1,708,442	\$ 1,623,816
1121 Cash and cash equivalents - development	369	369
1130 Tenant accounts receivable	20,179	55,551
1145 Accounts receivable - Management Company	5,147	-
1200 Prepaid insurance	38,507	39,039
1201 Prepaid expenses	34,568	25,770
Total current assets	<u>1,807,212</u>	<u>1,744,545</u>
DEPOSITS HELD IN TRUST - FUNDED		
1191 Tenant security deposits	<u>159,905</u>	<u>157,567</u>
RESTRICTED DEPOSITS AND FUNDED RESERVES		
1310 Mortgage escrow deposits	142,838	140,260
1320 Replacement reserve	563,682	505,317
1330 Operating reserve	604,226	602,972
	<u>1,310,746</u>	<u>1,248,549</u>
RENTAL PROPERTY		
1410 Land	1,657,368	1,657,368
1420 Land improvements	314,029	308,479
1420 Building	22,310,538	22,218,948
1440 Building equipment	688,523	682,627
	<u>24,970,458</u>	<u>24,867,422</u>
1495 Less accumulated depreciation	<u>(4,775,145)</u>	<u>(4,110,746)</u>
	<u>20,195,313</u>	<u>20,756,676</u>
OTHER ASSETS		
1520 Financing costs, net of accumulated amortization of \$283,503 and \$249,892	1,127,504	1,161,115
1590 Tax credit fees, net of accumulated amortization of \$45,573 and \$39,088	51,706	58,191
	<u>1,179,210</u>	<u>1,219,306</u>
Total assets	<u>\$ 24,652,386</u>	<u>\$ 25,126,643</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP

BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2014 AND 2013

LIABILITIES AND PARTNERS' EQUITY

	2014	2013
CURRENT LIABILITIES		
2110 Accounts payable and accrued expenses	\$ 139,728	\$ 178,546
2111 Accounts payable - construction	10,372	10,372
2113 Accounts payable - partnership management fee	4,502	15,170
2120 Accrued payroll	53,291	36,649
2131 Accrued interest - mortgage loan	51,120	52,255
2150 Accrued property taxes	47,472	47,730
2160 Due to affiliates	260,072	260,072
2170 Mortgage loan payable, current maturities	237,799	248,133
2210 Prepaid rent	617	15,767
Total current liabilities	<u>804,973</u>	<u>864,694</u>
DEPOSITS LIABILITY		
2191 Tenant security deposits	<u>46,082</u>	<u>45,246</u>
LONG-TERM LIABILITIES		
2311 Note payable	3,808,432	4,389,951
2325 Loan payable	950,000	950,000
2320 Mortgage loan payable, net of current maturities	10,938,040	11,175,838
2332 Accrued interest - loan and note payable	716,514	737,686
	<u>16,412,986</u>	<u>17,253,475</u>
PARTNERS' EQUITY		
3130 Partners' equity	<u>7,388,345</u>	<u>6,963,228</u>
Total liabilities and partners' equity	<u>\$ 24,652,386</u>	<u>\$ 25,126,643</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP

**STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

		2014	2013
	REVENUE		
5120	Rent Revenue - Gross Potential	\$ 661,691	\$ 718,763
5121	Tenant Assistance Payments	3,217,945	3,121,933
5140	Rent Revenue - Stores and commercial	-	-
5170	Parking and garage spaces	-	-
5180	Flexible subsidy revenue	-	-
5190	Misc. rent revenue	-	-
5191	Excess rent	-	-
5192	Rent revenue/insurance	-	-
5193	Special claims revenue	-	-
5194	Retained excess income	-	-
5100 T	Total rent revenue	<u>3,879,636</u>	<u>3,840,696</u>
	VACANCIES		
5220	Apartments	(18,066)	(51,993)
5240	Stores and commercial	-	-
5250	Rental concessions	-	-
5270	Garbage and parking space	-	-
5290	Miscellaneous	-	-
5200 T	Total vacancies	<u>(18,066)</u>	<u>(51,993)</u>
5152 N	Net rental revenue	<u>3,861,570</u>	<u>3,788,703</u>
5300	Nursing homes/assisted living/board & care/other	<u>-</u>	<u>-</u>
	FINANCIAL REVENUE		
5410	Financial revenue - project operation	1,255	1,416
5430	Revenue from Investments - Residual Receipts	-	-
5440	Revenue from Investments - Replacement Reserve	333	401
5490	Revenue from Investments - Miscellaneous	-	-
5400 T	Total financial revenue	<u>1,588</u>	<u>1,817</u>
	OTHER REVENUE		
5910	Laundry and vending revenue	23,184	24,709
5920	Tenant charges	4,331	2,917
5945	Interest reduction payments revenue	148,848	149,964
5990	Miscellaneous	4,407	5,217
5900 T	Total other revenue	<u>180,770</u>	<u>182,807</u>
5000 T	Total revenue	<u>4,043,928</u>	<u>3,973,327</u>
	ADMINISTRATIVE EXPENSES		
6203	Conventions and meetings	-	-
6204	Management consultants	-	-
6210	Advertising and marketing	11,480	23,269
6250	Other Renting expenses	1,118	1,459
6310	Office salaries	111,859	44,460
6311	Office expenses	32,813	39,425
6312	Office or model apartment	-	-
6320	Management fee	195,646	185,515
6330	Manager salaries	137,678	109,952
6331	Administrative rent free unit	-	-
6340	Legal expenses	5,023	9,446
6350	Audit expenses	12,750	12,500
6351	Bookkeeping /Accounting services	-	-
6370	Bad debts	1,051	-
6390	Misc. Administrative Expenses	30,939	55,405
6263 T	Total Administrative Expenses	<u>540,357</u>	<u>481,431</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP
STATEMENTS OF PROFIT AND LOSS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

		2014	2013
	UTILITIES		
6420	Fuel oil	-	-
6450	Electricity	79,534	76,406
6451	Water and Sewer	184,853	154,422
6452	Gas	85,234	87,452
6453	Sewer	-	-
6400 T	Total Utilities Expense	<u>349,621</u>	<u>318,280</u>
	OPERATING AND MAINTENANCE		
6510	Payroll	198,254	211,728
6515	Supplies	44,478	93,428
6520	Contracts	167,219	154,527
6521	Operating and maintenance Rent Free Unit	-	-
6525	Garbage and Trash Removal	45,068	43,714
6530	Security Payroll/Contract	176,821	166,149
6531	Security Rent Free Unit	-	-
6546	Heating/Cooling Repairs and Maintenance	10,410	18,594
6548	Snow Removal	2,686	-
6570	Vehicle and Maintenance Equipment Operation and Repairs	-	-
6590	Misc. Operating and Maintenance Expenses	2,086	2,062
6500 T	Total Operating and Maintenance Expenses	<u>647,022</u>	<u>690,202</u>
	INSURANCE AND TAXES		
6710	Real estate taxes	201,430	196,200
6711	Payroll taxes	39,646	-
6720	Property and liability insurance	77,698	80,822
6721	Fidelity bond insurance	-	-
6722	Workers compensation	-	-
6723	Health insurance and other employee benefits	117,815	88,117
6790	Miscellaneous taxes, licenses, permits and insurance	11,980	25,230
6700 T	Total Taxes and insurance	<u>448,569</u>	<u>390,369</u>
	FINANCIAL		
6820	Interest on Mortgage Payable	619,792	633,126
6830	Interest on Notes Payable (Long Term)	241,176	260,728
6840	Interest on Notes Payable (Short Term)	-	-
6850	Mortgage insurance premium/service charge	52,596	52,066
6890	Miscellaneous financial expenses	233	440
6800 T	Total financial expenses	<u>913,797</u>	<u>946,360</u>
	ELDERLY CARE EXPENSES		
6900	Nursing homes/assisted living/Board & care/other	-	-
6000 T	Total Cost of Operations before Depreciation	<u>2,899,366</u>	<u>2,826,642</u>
5060	Profit (Loss) before depreciation	1,144,562	1,146,685
6600	Depreciation expenses	664,399	655,756
6610	Amortization expenses	40,096	40,096
5060 N	Operating profit or (Loss)	<u>440,067</u>	<u>450,833</u>
	ENTITY EXPENSES		
7110	Officer's salaries	-	-
7120	Legal expenses	-	-
7130	Federal, state and other income taxes	-	-
7140	Interest income	-	-
7141	Interest on notes payable	-	-
7142	Social services fee	-	-
7190	Other expense	14,950	49,142
7100 T	Total entity expenses	<u>14,950</u>	<u>49,142</u>
3250	Profit or (Loss)	<u>\$ 425,117</u>	<u>\$ 401,691</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP

STATEMENTS OF PARTNERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Partners' equity, beginning	\$ 6,963,228	\$ 6,561,537
Net income (loss)	<u>425,117</u>	<u>401,691</u>
Partners' equity, ending	<u>\$ 7,388,345</u>	<u>\$ 6,963,228</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	-2014	2013
Rental receipts	\$ 3,881,792	\$ 3,787,995
Interest receipts	1,588	1,817
Other receipts	180,770	182,807
	<u>4,064,150</u>	<u>3,972,619</u>
Administrative	104,735	177,383
Management fees	160,094	181,102
Utilities	348,361	347,767
Salaries	512,783	256,746
Operating and maintenance	476,468	463,061
Real estate taxes	201,688	190,920
Property insurance	77,166	78,077
Miscellaneous taxes and insurance	142,808	113,347
Tenant security deposits (net)	1,502	5,989
Interest on mortgage	620,927	634,202
Other interest	262,348	487,581
Other financial	233	440
Mortgage insurance premium	50,432	51,541
Entity expense- compliance monitoring fee	-	41
Entity expense - support services	-	34,421
Entity expense - partnership management fee	20,317	-
Lender monitor fee	-	5,670
Asset management fee	4,778	4,639
	<u>2,984,640</u>	<u>3,032,927</u>
Net cash provided by operating activities	<u>1,079,510</u>	<u>939,692</u>
Cash flows from investing activities		
Purchase of rental property	(103,036)	(40,621)
Net deposits to replacement reserve	(58,365)	(58,433)
Net deposits to operating reserve	(1,254)	(1,307)
Net (deposits to) withdrawals from mortgage escrows	(2,578)	8,549
Net cash used in investing activities	<u>(165,233)</u>	<u>(91,812)</u>
Cash flows from financing activities		
Principal payments on mortgage loan	(581,519)	(234,909)
Decrease in note payable	(248,132)	-
Decrease in due to affiliates	-	(109,576)
Net cash used in financing activities	<u>(829,651)</u>	<u>(344,485)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,626	503,395
Cash and cash equivalents, beginning	<u>1,624,185</u>	<u>1,120,790</u>
Cash and cash equivalents, ending	<u>\$ 1,708,811</u>	<u>\$ 1,624,185</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

RECONCILIATION OF NET INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:

	<u>2014</u>	<u>2013</u>
Net income	\$ 425,117	\$ 401,691
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	664,399	655,756
Amortization	40,096	40,096
Changes in assets and liabilities		
(Increase) decrease in assets		
Tenant accounts receivable	35,372	(6,373)
Accounts receivable - Management Company	(5,147)	-
Miscellaneous prepaid expenses	(8,266)	3,270
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(38,818)	51,816
Accounts payable - partnership management fee	(10,668)	4,371
Accrued payroll	16,642	12,038
Accrued property taxes	(258)	5,280
Prepaid rent	(15,150)	5,665
Accrued interest	(22,307)	(227,929)
Tenant security deposits - net	(1,502)	(5,989)
Net cash provided by operating activities	<u>\$ 1,079,510</u>	<u>\$ 939,692</u>

See notes to financial statements

GRA PROPERTIES LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

GRA Properties Limited Partnership (the Partnership), a District of Columbia limited partnership, was formed on September 22, 2005 to acquire, improve, develop, construct, lease, operate, finance and manage 183 units of multi-family housing for rental to low-income households in compliance with the low-income housing tax credit requirements of Section 42 of the Internal Revenue Code. The project is known as Golden Rule Apartments and is located in the City of Washington, District of Columbia.

The Project has been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42) which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. The Project must meet the provisions of these regulations during each of fifteen consecutive years in order to remain qualified to receive the tax credits.

Additionally, the Partnership has entered into an Extended Use Housing Agreement with the District of Columbia Housing Finance Agency. This agreement requires the Project to maintain the provisions of Section 42 of the Internal Revenue Code for a minimum of 30 years. The Partnership is required to set aside all available units in the Project for low-income occupants.

Accounting Method

The financial statements have been prepared on the accrual basis of accounting. Accordingly, income is recognized as earned and expenses as incurred, regardless of the timing of the payments.

Rental Revenue

Rental revenue 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 considered to be operating leases.

Advertising

Advertising costs are charged to operations when incurred.

GRA PROPERTIES LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 certain estimates and assumptions. These estimates 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.

Accounts Receivable and Bad Debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Investments in Rental Property

Investments in rental property are carried at cost and include all direct costs of acquisition and construction. Expenditures for maintenance and repairs are charged to expense as incurred while major renewals and betterments are capitalized. Depreciation is provided using the following methods and estimated useful lives.

	<u>Method</u>	<u>Estimated Useful Lives</u>
Building	Straight-line	40 years
Land improvements	Straight-line	15 years
Building equipment	Straight-line	10 years

The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of assets, an impairment loss is recognized for the difference. There were no asset impairments during 2014 and 2013.

Other Assets

Loan financing costs are amortized on a straight-line basis over the life of the related loan. Tax credit fees are amortized on a straight-line basis over the tax credit compliance period.

GRA PROPERTIES LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Income Taxes

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its partners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. These financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions which must be considered for disclosure. The Partnership's federal income tax returns for 2013, 2012 and 2011 are subject to examination by the IRS, generally three years after they were filed.

Cash and Cash Equivalents

Cash includes all cash balances and cash equivalents consisting of all highly liquid debt instruments purchased with a maturity of three months or less. These amounts are available for current operations and exclude amounts restricted for repayment of tenant security deposits, escrows and reserves.

Subsequent Events

Subsequent events were evaluated through February 13, 2015, the date the financial statements were available to be issued.

NOTE B – OWNERSHIP

Ownership

On July 1, 2007, the partnership agreement was amended as the Second Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement") to admit new limited partners, and to permit the withdrawal of the existing limited partner. The general partner is GRA Housing, Inc., the special limited partner is RBC Tax Credit Manager II, Inc., and the investor limited partner is Nationwide Affordable Housing Fund 31 - Apollo Tax Credit Fund 53, LLC.

The ownership percentages are as follows:

	<u>Percentage</u>
General partner	0.009%
Special limited partner	0.001%
Investor limited partner	99.990 %
	<u>100.000%</u>

GRA PROPERTIES LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE B – OWNERSHIP (Continued)

Distributions shall be allocated in accordance with the Partnership Agreement. Upon sale or refinancing, the Partnership Agreement requires special computations to determine profit allocation and cash distributions.

NOTE C – OPERATING RESERVE

In 2009, in accordance with the Partnership Agreement, an operating reserve was established in a segregated account. The reserve may be used to meet operating expenses and debt service of the Partnership when operating revenues are insufficient. The general partner shall be entitled to withdraw funds from the operating reserve subject to the special limited partner's approval. The operating reserve at December 31, 2014 and 2013 was \$604,226 and \$602,972, respectively.

NOTE D – HOUSING ASSISTANCE PAYMENT AGREEMENT

Pursuant to an agreement with HUD under Section 8 of the Housing Assistance Payment Program, the Partnership is entitled to receive housing assistance payments on behalf of qualified tenants. The contract period is January 1, 2008 through December 31, 2027. For the years ended December 31, 2014 and 2013, the Partnership received \$3,217,945 and \$3,121,933 under this program, which was 83% and 82% of the Project's net rental income, respectively.

NOTE E – LOAN PAYABLE

On July 27, 2006 the Partnership entered into a loan agreement with the D.C. Department of Housing and Community Development (DHCD) in the amount of \$950,000. The interest rate on the loan is 3% with a term of 40 years and the loan is collateralized by a deed of trust on the rental property. Commencing July 2008, payments of principal and interest are to be paid out of cash flow, as defined in the Partnership Agreement. As of December 31, 2014 and 2013, the loan payable was \$950,000 and \$950,000 and accrued interest payable totaled \$51,839 and \$59,183, respectively. Interest expense in the years ended December 31, 2014 and 2013 was \$28,500.

NOTE F – MORTGAGE LOAN

In November 2008, the Partnership entered into a \$12,600,000 mortgage loan with Deutsche Bank which bears interest at 5.489% per annum, is payable monthly over a period of 40 years, and matures on April 1, 2048. The balance of this loan as of December 31, 2014 and 2013 was \$11,175,839 and \$11,423,971, respectively. Accrued interest was \$51,120 and \$52,255 at December 31, 2014 and 2013, respectively. The loan is secured by the rental property. In addition, the Partnership is entitled to an interest rate reduction payment from HUD through November 2015. For the years ended December 31, 2014 and 2013, the Partnership received \$148,848 and \$149,964 from HUD. The maximum interest rate reduction in any one year may not exceed \$155,583.

GRA PROPERTIES LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE F – MORTGAGE LOAN (Continued)

Future annual principal maturities of the mortgage note are payable as follows at December 31, 2014:

2015	\$ 237,799
2016	126,299
2017	133,409
2018	140,919
2019	148,851

NOTE G – NOTE PAYABLE

The Partnership entered into a note agreement with Golden Rule Apartments, Inc., the former owner of the Golden Rule Apartments. The outstanding balance of the note payable was \$3,808,432 and \$4,389,951 in 2014 and 2013, respectively. The note bears interest at the rate of 5.29% per annum and payments of principal and interest are payable from 85% of the available net cash flow as defined in the note agreement. The term of the note is 40 years. Accrued interest on the note as of December 31, 2014 and 2013 was \$664,675 and \$678,503, respectively. Interest expense for the years ended December 31, 2014 and 2013 was \$212,676 and \$232,228, respectively.

NOTE H - RELATED PARTY TRANSACTIONS

Property Management Fee

The Partnership entered into a management agreement with Columbus Property Management and Development, Inc. (CPM) to manage the operations of the Project. Under the agreement, CPM charges a property management fee of 5% of gross collections, as defined in the agreement. During the years ended December 31, 2014 and 2013, management fees totaling \$195,646 and \$185,515, respectively, were charged to expense.

CPM charges the Partnership for property management personnel as well as maintenance and administrative support personnel. These charges totaled \$638,489 and \$495,151 during the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, CPM charges for property management personnel and maintenance and administrative personnel of \$53,291 and \$34,463 were included in accrued expenses.

Asset Management Fee

The Partnership incurred an Asset Management Fee totaling \$4,778 and \$4,639 for the years ended December 31, 2014 and 2013, respectively, payable to the special limited partner for a review of the operations of the Partnership and the apartment complex. The fee is paid quarterly, is cumulative and increases 3% annually.

GRA PROPERTIES LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE H - RELATED PARTY TRANSACTIONS (Continued)

Partnership Management Fee

The Partnership incurred a Partnership Management Fee totaling \$4,502 and \$4,371 for the years ended December 31, 2014 and 2013, respectively, payable to the general partner for managing the business of the Partnership. The fee is paid quarterly, is cumulative and increases 3% annually. As of December 31, 2014 and 2013, accrued partnership management fee was \$4,502 and \$15,170, respectively.

Due to Affiliates

The Partnership has received advances from an affiliate of the general partner totaling \$260,072 as of December 31, 2014 and 2013, respectively. The funds are non-interest bearing and are due on demand.

NOTE I - LOW-INCOME HOUSING TAX CREDITS (UNAUDITED)

The Partnership was allocated low-income housing tax credits by the Washington D.C. Housing Finance Agency totaling to \$9,580,190. The prior use and expected availability of the tax credits are as follows:

2007	\$ 812,547
2008	958,019
2009	958,019
2010	958,019
2011	958,019
2012	958,019
2013	958,019
2014	958,019
2015	958,019
2016	958,019
2017	<u>145,472</u>
	<u>\$ 9,580,190</u>

NOTE J – CONCENTRATION OF CREDIT RISK

The Partnership maintains substantially all of its cash accounts at one financial institution. The balances are insured by Federal Deposit Insurance Corporation up to \$250,000 per depositor. At times the balances in the Partnership's cash accounts may exceed the federally insured limit. The Partnership has not experienced any losses in such accounts and monitors the creditworthiness of the financial institutions with which it conducts business. Management believes that the Partnership is not exposed to significant credit risk with regards to its cash balances.

SUPPLEMENTAL INFORMATION
SUPPORTING DATA REQUIRED BY HUD

GRA PROPERTIES LIMITED PARTNERSHIP

SUPPLEMENTARY DATA

DECEMBER 31, 2014

RESERVE FOR REPLACEMENTS

In accordance with the provisions of the regulatory agreement restricted cash is held by Deutsche Bank to be used for replacement of property, subject to the approval of HUD, as follows:

Balance - January 1, 2014	\$505,317
Deposits	58,032
Interest	<u>333</u>
Balance at December 31, 2014	<u>\$563,682</u>

MISCELLANEOUS ADMINISTRATIVE EXPENSES (ACCOUNT 6390)

Professional services	\$ 2,015
Consulting fees	500
Education/training/meeting	5,808
Computer expenses	11,721
Dues and subscriptions	737
Late fees	152
Auto mileage	580
Resident engagement	6,886
Bank charges	120
Miscellaneous	<u>2,420</u>
	<u>\$30,939</u>

OTHER ENTITY EXPENSES (ACCOUNT 7190)

Lender monitor fee	\$ 5,670
Asset management fee	4,778
Partnership management fee	<u>4,502</u>
	<u>\$ 14,950</u>

GRA PROPERTIES LIMITED PARTNERSHIP

SUPPLEMENTAL INFORMATION CHANGES IN FIXED ASSET ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Assets			Accumulated Depreciation			Net Book Value December 31, 2014
	Balance January 1, 2014	Additions	Balance December 31, 2014	Balance January 1, 2014	Provisions	Balance December 31, 2014	
Land	\$ 1,657,368	\$ -	\$ 1,657,368	\$ -	\$ -	\$ -	\$ 1,657,368
Land improvements	308,479	5,550	314,029	112,290	25,109	137,399	176,630
Building	22,218,948	91,590	22,310,538	3,637,001	567,469	4,204,470	18,106,068
Building equipment	682,627	5,896	688,523	361,455	71,821	433,276	255,247
	<u>\$ 24,867,422</u>	<u>\$ 103,036</u>	<u>\$ 24,970,458</u>	<u>\$ 4,110,746</u>	<u>\$ 664,399</u>	<u>\$ 4,775,145</u>	<u>\$ 20,195,313</u>

Details of Fixed Assets additions:

Hot water heaters	\$ 54,100
Flooring	5,962
Lot Paving	5,550
Resident service office	31,528
Desk	5,896
	<u>\$ 103,036</u>

**Computation of Surplus Cash,
Distributions and Residual
Receipts**

**U.S. Department of Housing
and Urban Development**

Office of Housing
Federal Housing Commissioner

Project Name: GRA PROPERTIES LIMITED PARTNERSHIP	Fiscal Period Ended: 12/31/2014	Project Number
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Part A - Compute Surplus Cash

Cash

1. Cash (Accounts 1110, 1120, 1191, 1192)	\$	1,868,347	
2. Tenant subsidy vouchers due for period covered by financial statement	\$		
3. Other (describe)	\$		
(a) Total Cash (Add Lines 1, 2, and 3)	\$		1,868,347

Current Obligations

4. Accrued mortgage interest payable	\$	51,120	
5. Delinquent mortgage principal payments	\$		
6. Delinquent deposits to reserve for replacements	\$		
7. Accounts payable (due within 30 days)	\$	139,728	
8. Loans and notes payable (due within 30 days)	\$		
9. Deficient Tax Insurance or MIP Escrow Deposits	\$		
10. Accrued Expenses (not escrowed)	\$	53,291	
11. Prepaid Rents (Account 2210)	\$	617	
12. Tenant security deposit liability (Account 2191)	\$	46,082	
13. Other (Describe) Due to affiliates	\$	260,072	
(b) Less Total Current Obligations (Add Lines 4 through 13)	\$		550,910
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))	\$		1,317,437

Part B - Compute Distributions to Owners and Required Deposit to Residual Receipts

1. Surplus Cash	\$	1,317,437
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Limited Dividend Projects

2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$		
2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$		
2c. Distributions Paid During Fiscal Period Covered by Statement	\$		
3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$		
4. Amount Available for Distribution During Next Fiscal period	\$		1,317,437
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal period ends)	\$		NONE

Prepared By		Reviewed By	
Loan Technician	Date	Loan Servicer	

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR HUD
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS***

To the Partners of
GRA Properties Limited Partnership

Report on Compliance for Each Major HUD Program

We have audited GRA Properties Limited Partnership's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have a direct and material effect on each of GRA Properties Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2014. GRA Properties Limited Partnership's major HUD programs and the related direct and material compliance requirements are as follows: (a) Section 8 Housing Assistance Program - applications, eligibility, recertification and security deposits; (b) HUD mortgage and interest reduction payments - mortgage status, replacement reserve, distributions to owners, unauthorized change of ownership, acquisition of liabilities, unauthorized transfer of beneficial interest, unauthorized loans of project funds and distributions and electronic submission verification.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance on each of GRA Properties Limited Partnership's major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about GRA Properties Limited Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination of GRA Properties Limited Partnership's compliance.

Opinion on Each Major HUD Program

In our opinion, GRA Properties Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of GRA Properties Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered GRA Properties Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of GRA Properties Limited Partnership's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Wick, Pelletier & Goldman, P.C.

Vienna, Virginia
February 13, 2015

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Partners of
GRA Properties Limited Partnership

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of GRA Properties Limited Partnership, which comprise the balance sheet as of December 31, 2014, and the related statements of profit and loss, changes in partners' equity, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GRA Properties Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GRA Properties Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of GRA Properties Limited Partnership's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GRA Properties Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kyle, Ruff & Goldman, P.C.

Vienna, Virginia
February 13, 2015

GRA PROPERTIES LIMITED PARTNERSHIP

DECEMBER 31, 2014

CERTIFICATE OF PARTNERS

We hereby certify that we have examined the accompanying financial statements and supporting data of GRA Properties Limited Partnership, and, to the best of our knowledge and belief, the same is complete and accurate.

General Partner

Date

Employer Identification Number: 20-2971154

GRA PROPERTIES LIMITED PARTNERSHIP

DECEMBER 31, 2014

MANAGING AGENT'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplemental data of GRA Properties Limited Partnership and, to the best of our knowledge and belief, the same is complete and accurate.

Executive Director Date

Managing Agent
Employer Identification Number:

Property Manager

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

To the Partners
GRA Properties Limited Partnership

We have performed the procedure described in the second paragraph of this report, which was agreed to by GRA Properties Limited Partnership and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), solely to assist them in determining whether the electronic submission of certain information agrees with the related hard copy documents. GRA Properties Limited Partnership is responsible for the accuracy and completeness of the electronic submission. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We compared the electronic submission of the items listed in the "UFRS Rule Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non agreement of electronically submitted information and hard copy documents as shown in the attached chart.

We were engaged to perform an audit of the financial statements of GRA Properties Limited Partnership as of and for the year ended December 31, 2014, and have issued our reports thereon dated February 13, 2015. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product, of that audit. Further, our opinion on the fair presentation of the supplemental financial data templates dated February 13, 2015, was expressed in relation to the basic financial statements of GRA Properties Limited Partnership taken as a whole.

A copy of the financial statement package, which includes our auditors' reports, is available in its entirety from GRA Properties Limited Partnership. We have not performed any additional auditing procedures since the date of the aforementioned audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

This report is intended solely for the information and use of GRA Properties Limited Partnership and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

Vienna, Virginia
February 13, 2015

Kyle, Polchiff & Goldman, P.C.

**ATTACHMENT TO INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURE**

UFRS Rule Information	Hard Copy Document(s)	Findings
Balance Sheet, Revenue and Expense and Cash Flow Data (account numbers 1120 to 7100T and the S1200 series)	Supplementary Information with Financial Statement Data	Agrees
Surplus Cash (S1300 Series of accounts)	Computation of Surplus Cash, Distributions and Residual Receipts (Annual)	Agrees
Footnotes (S3100 Series of accounts)	Notes to the Audited Financial Statements	Agrees
Type of Opinion on the Financial Statements and Compliance (account numbers S2100-020, S2300-020)	Auditors' Reports on the Financial Statements, Compliance and Internal Control	Agrees
Type of Opinion on Supplemental Data (account number S2100-100)	Auditors' Report on Supplementary Information	Agrees
Audit Findings Narrative (S2700 Series of accounts)	Schedule of Findings, Questioned Costs and Recommendations	Agrees