

**GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
HUD PROJECT NO. DC39-H001-002**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015



GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP

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Independent Auditors' Report

To the Partners
Garfield Hills Preservation Associates, Limited Partnership

Report on the Financial Statements

We have audited the accompanying financial statements of Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership (a limited partnership), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in partners' (deficit) capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project'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 Project's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership, as of December 31, 2016 and 2015, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information shown on pages 21-35 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplemental information shown on pages 21-35 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 supplemental information shown on pages 21-35 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2017, on our consideration of Project No. DC39-H001-002, Garfield Hills Preservation Associates, 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 Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership's internal control over financial reporting and compliance.

 Mark Nelson LLC

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND 2015

Assets	2016	2015
Current assets:		
Cash - operations	\$ 42,360	\$ 68,258
Cash - entity	31,698	31,698
Tenant accounts receivable, net of allowance of \$0 (\$1,274 - 2015)	7,285	13,368
Accounts receivable - HUD	-	3,307
Accounts receivable - other	9,623	2,929
Prepaid expenses	8,062	3,984
Total current assets	99,028	123,544
Deposits held in trust - funded:		
Tenant security deposits held in trust	22,471	22,424
Restricted deposits and funded reserves:		
Escrow deposits	70,802	69,441
Replacement reserve	80,652	80,895
Other reserves	377,643	378,136
Total restricted deposits and funded reserves	529,097	528,472
Fixed assets:		
Land and improvements	479,246	479,246
Building and improvements	9,389,302	9,389,302
Office furniture and equipment	84,637	84,637
	9,953,185	9,953,185
Less accumulated depreciation	(3,366,114)	(3,017,401)
Net fixed assets	6,587,071	6,935,784
Other assets:		
Tax credit fees, net of accumulated amortization of \$11,379 (\$10,241 - 2015)	5,688	6,826
Total assets	\$ 7,243,355	\$ 7,617,050

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

BALANCE SHEETS - CONTINUED

AS OF DECEMBER 31, 2016 AND 2015

Liabilities and Partners' (Deficit) Capital

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable - operations	\$ 65,672	\$ 53,895
Accrued partnership fees	96,433	47,504
Accrued wages payable	5,776	12,703
Accrued management fee payable	7,633	3,816
Accrued interest payable - first mortgage	85,625	87,623
Accrued property taxes payable	12,752	12,752
First mortgage payable - current maturities	90,000	85,000
Prepaid revenue	4,215	2,597
Deferred revenues	60,257	60,257
Miscellaneous current liabilities	<u>19,708</u>	<u>18,383</u>
Total current liabilities	448,071	384,530
Deposits and Prepayment Liabilities		
Tenant security deposits held	19,054	19,487
Long-term liabilities:		
First mortgage payable, net	3,070,947	3,147,744
Other mortgage payable - surplus cash	2,625,523	2,533,720
Deferred grant revenue	1,149,981	1,204,737
Other loans and notes payable	<u>124,000</u>	<u>-</u>
Total long-term liabilities	<u>6,970,451</u>	<u>6,886,201</u>
Total liabilities	7,437,576	7,290,218
Partners' (deficit) capital	<u>(194,221)</u>	<u>326,832</u>
Total liabilities and partners' (deficit) capital	<u>\$ 7,243,355</u>	<u>\$ 7,617,050</u>

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Rental revenue:		
Rent revenue - gross potential	\$ 264,753	\$ 233,102
Tenant assistance payments	<u>1,008,002</u>	<u>1,016,245</u>
Total rental revenue	1,272,755	1,249,347
Vacancies:		
Apartments	(9,039)	(2,530)
Net rental revenue	1,263,716	1,246,817
Financial revenue:		
Financial revenue - project operations	219	274
Revenue from investments - replacement reserve	<u>3</u>	<u>3</u>
Total financial revenue	222	277
Other revenue:		
Laundry and vending	509	364
Tenant charges	4,043	3,033
Miscellaneous revenue	<u>100,240</u>	<u>59,496</u>
Total other revenue	<u>104,792</u>	<u>62,893</u>
Total revenue	1,368,730	1,309,987

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Administrative expenses:		
Conventions and meetings	\$ 4,035	\$ 7,063
Management consultants	527	1,169
Advertising and marketing	1,763	598
Other renting expenses	1,595	-
Office salaries	33,523	36,115
Office expenses	59,908	57,557
Management fee	45,797	45,797
Manager or superintendent salaries	69,728	73,282
Audit expense	8,050	7,950
Bad debts	14,963	3,503
Miscellaneous administrative expenses	35,783	6,247
Total administrative expenses	275,672	239,281
Utilities expenses:		
Electricity	3,752	4,824
Water	59,232	45,831
Gas	1,073	963
Sewer	81,012	61,521
Total utilities expenses	145,069	113,139
Operating and maintenance expenses:		
Payroll	94,775	83,133
Supplies	51,384	29,524
Contracts	377,892	243,023
Garbage and trash removal	34,429	28,996
Security payroll/contract	12,353	1,863
Heating/cooling repairs and maintenance	32,038	31,421
Snow removal	1,032	1,199
Total operating and maintenance expenses	603,903	419,159
Taxes and insurance expenses:		
Real estate taxes	51,010	51,275
Payroll taxes	16,677	15,607
Property and liability insurance	42,486	40,287
Workmen's compensation	1,602	12,060
Health insurance and other employee benefits	15,170	16,545
Miscellaneous taxes, licenses, permits and insurance	7,060	1,100
Total taxes and insurance expenses	134,005	136,874

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Financial expenses:		
Interest on first mortgage payable	\$ 185,510	\$ 189,388
Interest on other mortgages	91,803	91,780
Miscellaneous financial expenses	<u>50,856</u>	<u>48,884</u>
Total financial expenses	<u>328,169</u>	<u>330,052</u>
Total cost of operations before depreciation and amortization	<u>1,486,818</u>	<u>1,238,505</u>
(Loss) income before depreciation and amortization	(118,088)	71,482
Depreciation and amortization:		
Depreciation expense	348,713	350,755
Amortization expense	<u>1,138</u>	<u>1,138</u>
Total depreciation and amortization	<u>349,851</u>	<u>351,893</u>
Operating loss	(467,939)	(280,411)
Corporate or mortgagor entity revenue and expenses:		
Partnership fees	<u>53,114</u>	<u>51,412</u>
Net loss	<u>\$ (521,053)</u>	<u>\$ (331,823)</u>

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Preservation of Affordable Housing, Inc	POAH Garfield Hills, LLC	NEF Assignment Corporation	Total
Profit and loss percentages	<u>0.005%</u>	<u>0.005%</u>	<u>99.99%</u>	<u>100.00%</u>
Partners' capital (deficit), December 31, 2015	\$ (75)	\$ (93)	\$ 327,000	\$ 326,832
2016 net loss	<u>(26)</u>	<u>(26)</u>	<u>(521,001)</u>	<u>(521,053)</u>
Partners' (deficit), December 31, 2016	<u>\$ (101)</u>	<u>\$ (119)</u>	<u>\$ (194,001)</u>	<u>\$ (194,221)</u>

	Preservation of Affordable Housing, Inc	POAH Garfield Hills, LLC	NEF Assignment Corporation	Total
Profit and loss percentages	<u>0.005%</u>	<u>0.005%</u>	<u>99.99%</u>	<u>100.00%</u>
Partners' capital (deficit), December 31, 2014	\$ (58)	\$ (76)	\$ 658,789	\$ 658,655
2015 net loss	<u>(17)</u>	<u>(17)</u>	<u>(331,789)</u>	<u>(331,823)</u>
Partners' capital (deficit), December 31, 2015	<u>\$ (75)</u>	<u>\$ (93)</u>	<u>\$ 327,000</u>	<u>\$ 326,832</u>

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Rental receipts	\$ 1,283,763	\$ 1,236,725
Interest receipts	(9,039)	277
Other operating receipts	<u>43,564</u>	<u>1,958</u>
Total receipts	1,318,288	1,238,960
Administrative expenses paid	(125,161)	(80,923)
Management fees paid	(41,980)	(45,797)
Utilities paid	(143,393)	(108,882)
Salaries and wages paid	(234,144)	(213,622)
Operating and maintenance paid	(503,246)	(323,383)
Real estate taxes paid	(51,009)	(51,008)
Property insurance paid	(46,565)	(39,784)
Miscellaneous taxes and insurance paid	(8,562)	(12,665)
Net tenant security deposits (paid) received	(480)	230
Interest paid on first mortgage	(174,305)	(178,065)
Interest paid on other mortgages	-	(31,461)
Miscellaneous financial expenses paid	(49,531)	(48,066)
Net entity disbursements	<u>(4,185)</u>	<u>(107,843)</u>
Total disbursements	(1,382,561)	(1,241,269)
Net cash used in operating activities	(64,273)	(2,309)
Cash flows from investing activities:		
Net deposits to mortgage escrows	(1,361)	(6,618)
Net withdrawals from replacement reserve	243	5,204
Net withdrawals from other reserves	493	319
Net purchases of fixed assets	<u>-</u>	<u>(27,316)</u>
Net cash used in investing activities	(625)	(28,411)
Cash flow from financing activities:		
Mortgage principal payments - first mortgage	(85,000)	(80,000)
Loan proceeds	<u>124,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>39,000</u>	<u>(80,000)</u>
Net decrease in cash	(25,898)	(110,720)
Cash, beginning	<u>99,956</u>	<u>210,676</u>
Cash, ending	<u>\$ 74,058</u>	<u>\$ 99,956</u>

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF CASH FLOWS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net loss	\$ (521,053)	\$ (331,823)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	348,713	350,755
Amortization	1,138	1,138
Amortization of debt issuance costs included in interest expense	13,203	13,203
(Increase) decrease in assets:		
Tenant accounts receivable	6,083	(9,772)
Accounts receivable - subsidy	3,307	(796)
Accounts receivable - other	(6,694)	(2,929)
Tenant security deposits funded	(47)	(45)
Prepaid expenses	(4,078)	503
Increase (decrease) in liabilities:		
Accounts payable	11,777	29,013
Accrued entity expenses	48,929	(56,251)
Accrued liabilities	(3,110)	(377)
Accrued interest payable	89,805	58,259
Tenant security deposits held in trust	(433)	275
Prepaid revenue	1,618	476
Miscellaneous current liabilities	1,325	818
Deferred grant revenue	<u>(54,756)</u>	<u>(54,756)</u>
Total adjustments	<u>456,780</u>	<u>329,514</u>
Net cash used in operating activities	<u>\$ (64,273)</u>	<u>\$ (2,309)</u>

The accompanying notes are an integral part of these financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

1. Nature of Operations

Garfield Hills Preservation Associates, L.P. (the Partnership) was organized as a Limited Partnership in 2006 to operate a multi-family housing project (the Project) of 94 units in Washington, D.C. The Partnership receives government assistance in the form of housing assistance payments under Section 8 of the United States Housing Act of 1937, as amended by the U.S. Housing and Community Development Act of 1974. The Project's major program is its Section 8 rent subsidy.

Such projects are regulated by HUD as to rent charges and operating methods. The regulatory agreement, dated May 1, 2006, limits annual distributions of net operating receipts to surplus cash available at the end of each year. There was no surplus cash available at December 31, 2016 (2015 - \$0).

The Project has been approved for Low-Income Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

A summary of the Project's significant accounting policies applied in the preparation of the accompanying financial statements follows:

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

2. Summary of Significant Accounting Policies (Continued)

b. Accounts Receivable

Management provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in collection of all receivables. The estimated losses are based on management's evaluation of outstanding receivables at year end. Allowance for doubtful accounts is \$0 at December 31, 2016 (2015 – \$1,274).

c. Debt

The Project has not elected to use the optional fair value recording for debt obligations. Rather, debt has been recorded at the original amount reduced by all principal payments made since origination.

d. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

e. Tenant Security Deposits

Tenant security deposits are held in a separate bank account in the name of the Project.

f. Depreciation

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 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. The resulting gains and losses are reflected in the statement of operations. The major components of the depreciable assets and their respective depreciable lives are as follows:

	<u>Method</u>	<u>Useful Life</u>
Buildings	Straight-line	27.5 years
Building equipment	Straight-line	5-7 years
Tax credit fees	Straight-line	10 years

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

2. Summary of Significant Accounting Policies (Continued)

f. Depreciation (Continued)

In accordance with FASB ASC-360-10-35-16 and 17, the Project reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including the Low-Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized for the years ended December 31, 2016 and 2015.

g. Debt Issuance Costs and Amortization

Debt issuance costs are amortized over the term of the mortgage loan and tax credit fees over the term of the tax credit period using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize debt issuance costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization expense on tax credit fees for the year ended December 31, 2016 was \$1,138 (2015 - \$1,138). Estimated amortization expense on tax credit fees for each of the ensuing years through December 31, 2021 is \$1,138. Amortization expense on debt issuance costs and included in interest on first mortgage payable was \$13,203 for the year ended December 31, 2016 (2015 - \$13,203). Estimated amortization expense on debt issuance costs and included in interest on first mortgage payable for each of the ensuing years through December 31, 2021 is \$13,203.

h. Method of Accounting for Leasing Activities

All leases are classified as operating leases whereby rent is reported as income over the lease term as it becomes available. Rental payments received in advance are deferred until earned.

i. Uncertainty in Income Taxes

Income taxes on Partnership income is levied on the Partners at the partner level. Accordingly, all profits and losses of the Partnership are recognized by each partner on its respective tax return. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Partnership are recorded in operating expenses. For the years ended December 31, 2016 and 2015, there were no interest or penalties recorded in the accompanying financial statements.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

2. Summary of Significant Accounting Policies (Continued)

j. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Project considers all unrestricted investment instruments purchased with original maturities of three months or less to be cash equivalents. Restricted cash held in security deposit accounts are not considered a cash equivalent because balances therein are considered by HUD to be held by the Project in an agency capacity for tenants.

k. Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

3. Restricted Deposits and Funded Reserves

Under an agreement with the District of Columbia Housing Finance Agency (DCHFA), the Project is required to maintain escrow deposits for taxes and insurance and maintain a replacement reserve. The replacement reserve is fully funded at December 31, 2016 and 2015.

4. Concentration of Credit Risk

The Partnership maintains its cash balances in several accounts at three banks. The Partnership also has escrows and reserves held in trust with the lender. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Partnership has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration exists with respect to these cash balances at December 31, 2016 or 2015.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

5. Special Limited Partner

On April 14, 2010, the Partnership admitted Preservation of Affordable Housing, Inc (POAH, Inc.) as Special Limited Partner. POAH, Inc. agreed to contribute \$100 in exchange for a 0.005% Special Limited Partner Interest in the Partnership. As of December 31, 2016 and December 31, 2015, no contribution has been made. Any income recognized as a result of receipt of the GRP Grant (see Note 15) shall be allocated one hundred percent (100%) to the Special Limited Partner.

6. Rent Increases

Under the regulatory agreement, the Project may not increase rents charged to tenants without prior HUD approval.

7. Partnership Profits and Losses and Distributions

All profits and losses are allocated to the Partners in accordance with the Partnership Agreement. No distributions were paid to the Partners during the years ended December 31, 2016 and 2015.

8. Property Management Fee

The Project is managed by POAH Communities, LLC (POAHC) under an agreement approved by HUD, which provides for a management fee of \$40.60 per unit per month. Management fees of \$45,797 were earned for the year ended December 31, 2016 (2015 - \$45,797) and \$7,633 was payable at December 31, 2016 (2015 - \$3,816).

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

9. Mortgages and Notes Payable

	<u>2016</u>	<u>2015</u>
<p>The mortgage bonds, which originated on May 10, 2006, are held by DCHFA, in the original amount of \$5,110,000. The bonds bear interest at an average rate of 6.34% per annum. The bonds are payable in semi-annual payments of principal and interest, as defined by the note, through 2031. \$1,000,000 was paid at construction completion. The Project is pledged as collateral for the bonds.</p>		
Note payable to MHDC	\$ 3,425,000	\$ 3,510,000
Less: Unamortized debt issuance costs	<u>(264,053)</u>	<u>(277,256)</u>
Note payable to MHDC, less unamortized debt issuance costs	3,160,947	3,232,744
<p>The second mortgage, which originated on March 24, 2006, is held by POAH, LLC, in the original amount of \$1,668,723. The note bears interest at 5.50% per annum. The mortgage is payable in an amount equal to 75% of surplus cash. Any unpaid principal and interest are due at maturity on July 22, 2031. Accrued interest at December 31, 2016 is \$956,800 (2015 - \$864,997) and is included in other mortgages payable. The note is collateralized by investment in real estate.</p>		
	<u>2,625,523</u>	<u>2,533,720</u>
<p>On December 30, 2016, the General Partner, loaned \$124,000 to the Partnership to fund operating deficits at the Project. The note bears interest of 2.26%. The entire outstanding principal balance together with accrued but unpaid interest thereon shall be due and payable at maturity on January 1, 2032. At December 31, 2016, the outstanding principal balance is \$124,000.</p>		
	<u>124,000</u>	<u>-</u>
Total	<u>5,910,470</u>	<u>5,766,464</u>
Less current maturities	<u>(90,000)</u>	<u>(85,000)</u>
Long-term portion	\$ <u><u>5,820,470</u></u>	\$ <u><u>5,681,464</u></u>

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

9. Mortgages and Notes Payable (Continued)

Under agreements with the mortgage lender and HUD, the Partnership is subject to restrictions as to operating expenditures and distributions to Partners.

The liability of the Partnership under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with the lender.

Maturities are as follows for the year ending December 31:

	Sinking Fund Requirements		Bond and Loan Maturities	
	2016	2015	2016	2015
2016	\$ -	\$ 306,564	\$ -	\$ 85,000
2017	306,564	306,564	90,000	90,000
2018	306,564	306,564	95,000	95,000
2019	306,564	306,564	100,000	100,000
2020	306,564	306,564	110,000	110,000
2021	306,564	-	115,000	-
Thereafter	4,138,626	4,445,190	5,664,523	5,563,720
	5,671,446	5,978,010	6,174,523	6,043,720
Less current maturities	(306,564)	(306,564)	(90,000)	(85,000)
Long-term portion	<u>\$ 5,364,882</u>	<u>\$ 5,671,446</u>	<u>\$ 5,960,523</u>	<u>\$ 5,958,720</u>

10. Related Parties

The Partnership engages POAH Communities, LLC (POAHC), an affiliated company of POAH Garfield Hills, LLC, the General Partner, to manage the Project. During the year ended December 31, 2016, management fees paid were \$41,980 (2015 - \$45,797) with \$7,633 payable at December 31, 2016 (2015 - \$3,816). The Project also paid POAHC \$264,488 (2015 - \$259,073) for reimbursement of payroll, payroll taxes, insurance, and technical support, with \$5,240 payable at December 31, 2016 (2015 - \$9,849).

POAH Garfield Hills, LLC is owed Partnership Management Fees of \$77,146 as of December 31, 2016 (2015 - \$38,003). No Partnership Management Fees were paid in 2016 (2015 - \$94,434).

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

10. Related Parties (Continued)

The Project owes POAH, LLC principal of \$1,668,723 on the mortgage restructuring deed of trust note at December 31, 2016 (2015 - \$1,668,723). Interest on the note of \$956,800 has been accrued as of December 31, 2016 (2015 - \$864,997). No amount of interest was paid to POAH, LLC during 2016 (2015 - \$0).

During 2016, no Asset Management Fee was paid to NEF Assignment Corp., the Limited Partner (2015 - \$9,224). \$19,287 is payable as of December 31, 2016 (2015 - \$9,501). During 2016, NEF Assignment Corp. made no capital contributions (2015 - \$0).

On December 30, 2016, the General Partner, loaned \$124,000 to the Partnership to fund operating deficits at the Project. The note bears interest of 2.26%. The entire outstanding principal balance together with accrued but unpaid interest thereon shall be due and payable at maturity on January 1, 2032. At December 31, 2016, the outstanding principal balance is \$124,000.

11. Partnership Fees

In accordance with the Partnership Agreement, there are two types of partnership fees charged by the Partners or related parties of the Partners. These fees increase by 3% annually and are payable out of cash flow only.

The fee earned by NEF is an annual Asset Management Fee of \$9,786 (2015 - \$9,224) and the fee earned by POAH Garfield Hills, LLC is an annual Partnership Management Fee of \$39,143 (2015 - \$38,003). During 2016, no Asset Management Fee was paid to NEF (2015 - \$9,224) and no Partnership Management Fees were paid to POAH Garfield Hills, LLC (2015 - \$94,434). As of December 31, 2016, there was an accrual of \$19,287 (2015 - \$9,501) for Asset Management Fees and \$77,146 (2015 - \$38,003) for Partnership Management Fees.

12. General Partner Guarantees and Obligations

The General Partner is obligated to provide Operating Deficit Loans to pay Operating Deficits up to a maximum of \$495,358. This obligation begins with the Date of Achievement of Breakeven Operations and ends on the later of the third anniversary of the Date of Achievement of Breakeven Operations or the date upon which the Partnership achieves, following the closing of or conversion to the Permanent Loan, 36 consecutive calendar months during which there is an average Debt Service Coverage Ratio of 1.20 or better. No amounts have been required to be paid under the obligation as of December 31, 2016 and 2015.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

13. Economic Dependency

The Project, in the ordinary course of business, receives monthly rent subsidies from HUD through a Section 8 Housing Assistance Payments (HAP) contract. These subsidies are meant to maintain the low-income character of Garfield Hills Preservation Associates, Limited Partnership. Through its regulations and requirements, HUD is able to influence management significantly. The contract expires on July 31, 2024. Rental revenue from the contract for the year ended December 31, 2016 was \$1,008,002 or 79% (2015 - \$1,016,245 or 81%) of tenant rent revenue. If HUD terminated its support of Garfield Hills Preservation Associates, Limited Partnership, the operating character of the Project could be altered significantly.

14. Current Vulnerability Due to Certain Concentrations

The Partnership's sole asset is a 94-unit low income housing project in Washington D.C. The Partnership's operations are concentrated in the multifamily low-income housing market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules, and regulations of state and federal agencies, including DCHFA and HUD. Such administrative directives, rules, and regulations are subject to change by an act of Congress or an administrative change mandated by the DCHFA. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the administrative burden to comply with a change.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016 AND 2015

15. HUD Green Retrofit Program

In 2010, the Project was approved for a grant from HUD's Green Retrofit Program authorized by Title XII of the American Recovery and Reinvestment Act of 2009. This grant was used to finance Green Retrofits that will reduce ongoing utility consumption, benefit resident health, and/or benefit the environment. The Project's period of performance for completing all Green Retrofits was generally twelve months, but not to exceed twenty-four months. The Owner agreed that the Project is subject to certain rental restrictions and other requirements stated in the Program's Use Agreement executed on April 15, 2010.

The Use Agreement will remain in effect until July 21, 2069. The total amount of the grant is \$1,549,184. During 2011, the Project had received \$1,505,901. The remaining \$43,283 was not needed, so the total obligation was reduced by that amount. The funds have been used to make various improvements to reduce utility consumption. These improvements are included in building and improvements in the amount of \$1,505,901. The grant is accounted for using the grant income approach over the useful life of the asset. During 2016, \$54,756 was recognized as income (2015 - \$54,756) and \$1,210,238 is Deferred Grant Revenue (2015 - \$1,264,994).

16. Subsequent Events

Subsequent events have been evaluated through February 28, 2017, which is the date the financial statements are available to be issued.

SUPPLEMENTAL INFORMATION

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

BALANCE SHEETS DATA

AS OF DECEMBER 31, 2016 AND 2015

Assets

		<u>2016</u>	<u>2015</u>
Current assets:			
1120	Cash - operations	\$ 42,360	\$ 68,258
1125	Cash - entity	31,698	31,698
1130	Tenant accounts receivable	7,285	14,642
1131	Allowance for doubtful accounts	-	(1,274)
1130N	Net tenant accounts receivable	7,285	13,368
1135	Accounts receivable - HUD	-	3,307
1140	Accounts and notes receivable - operations	9,623	2,929
1200	Miscellaneous prepaid expenses	<u>8,062</u>	<u>3,984</u>
1100T	Total current assets	99,028	123,544
Deposits held in trust - funded:			
1191	Tenant deposits	22,471	22,424
Restricted deposits and funded reserves:			
1310	Escrow deposits	70,802	69,441
1320	Replacement reserve	80,652	80,895
1330	Other reserves	<u>377,643</u>	<u>378,136</u>
1300T	Total restricted deposits and funded reserves	529,097	528,472
Fixed assets:			
1410	Land	479,246	479,246
1420	Building	9,389,302	9,389,302
1450	Furniture - project use	54,199	54,199
1465	Office furniture and equipment	<u>30,438</u>	<u>30,438</u>
1400T	Total fixed assets	9,953,185	9,953,185
1495	Less accumulated depreciation	<u>(3,366,114)</u>	<u>(3,017,401)</u>
1400N	Net fixed assets	6,587,071	6,935,784
Other assets:			
1590	Miscellaneous other assets, net of accumulated amortization of \$11,379 (\$10,241 - 2015)	<u>5,688</u>	<u>6,826</u>
1000T	Total assets	<u>\$ 7,243,355</u>	<u>\$ 7,617,050</u>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

BALANCE SHEETS DATA - CONTINUED

AS OF DECEMBER 31, 2016 AND 2015

Liabilities and Partners' (Deficit) Capital

		<u>2016</u>	<u>2015</u>
Current liabilities:			
2110	Accounts payable - operations	\$ 65,672	\$ 53,895
2113	Accounts payable - entity	96,433	47,504
2120	Accrued wages payable	5,776	12,703
2123	Accrued management fee payable	7,633	3,816
2131	Accrued interest payable - first mortgage	85,625	87,623
2150	Accrued property taxes payable	12,752	12,752
2170	First mortgage payable - current maturities	90,000	85,000
2190	Miscellaneous current liabilities	79,965	78,640
2210	Prepaid revenue	<u>4,215</u>	<u>2,597</u>
2122T	Total current liabilities	448,071	384,530
Deposit liabilities:			
2191	Tenant deposits held in trust (contra)	19,054	19,487
Long-term liabilities:			
2320	First mortgage payable, less current maturities	3,335,000	3,147,744
2322	Second mortgage payable	1,668,723	1,945,979
2324	Other loans and notes payable	124,000	-
2330	Interest on notes payable	956,800	864,997
2340	Debt issuance costs	(264,053)	(277,256)
2390	Miscellaneous long term liabilities	<u>1,149,981</u>	<u>1,204,737</u>
2300T	Total long-term liabilities	<u>6,970,451</u>	<u>6,886,201</u>
2000T	Total liabilities	7,437,576	7,290,218
3130	Partners' (deficit) capital	<u>(194,221)</u>	<u>326,832</u>
2033T	Total liabilities and partners' capital	<u>\$ 7,243,355</u>	<u>\$ 7,617,050</u>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS DATA

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		<u>2016</u>	<u>2015</u>
Rental revenue:			
5120	Rent revenue - gross potential	\$ 264,753	\$ 233,102
5121	Tenant assistance payments	<u>1,008,002</u>	<u>1,016,245</u>
5100T	Total rental revenue	1,272,755	1,249,347
Vacancies:			
5220	Apartments	<u>(9,039)</u>	<u>(2,530)</u>
5152N	Net rental revenue	1,263,716	1,246,817
Financial revenue:			
5410	Financial revenue - project operations	219	274
5440	Revenue from investments - replacement reserve	<u>3</u>	<u>3</u>
5400T	Total financial revenue	222	277
Other revenue:			
5910	Laundry and vending	509	364
5920	Tenant charges	4,043	3,033
5990	Miscellaneous revenue	<u>100,240</u>	<u>59,496</u>
5900T	Total other revenue	<u>104,792</u>	<u>62,893</u>
5000T	Total revenue	1,368,730	1,309,987

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Administrative expenses:		
6203 Conventions and meetings	\$ 4,035	\$ 7,063
6204 Management consultants	527	1,169
6210 Advertising and marketing	1,763	598
6250 Other renting expenses	1,595	-
6310 Office salaries	33,523	36,115
6311 Office expenses	42,034	43,710
6320 Management fee	45,797	45,797
6330 Manager or superintendent salaries	69,728	73,282
6340 Legal expense - project	12,234	8,207
6350 Audit expense	8,050	7,950
6351 Bookkeeping fees	5,640	5,640
6370 Bad debts	14,963	3,503
6390 Miscellaneous administrative expenses	35,783	6,247
6263T Total administrative expenses	275,672	239,281
Utilities expenses:		
6450 Electricity	3,752	4,824
6451 Water	59,232	45,831
6452 Gas	1,073	963
6453 Sewer	81,012	61,521
6400T Total utilities expenses	145,069	113,139
Operating and maintenance expenses:		
6510 Payroll	94,775	83,133
6515 Supplies	51,384	29,524
6520 Contracts	377,892	243,023
6525 Garbage and trash removal	34,429	28,996
6530 Security payroll/contract	12,353	1,863
6546 Heating/cooling repairs and maintenance	32,038	31,421
6548 Snow removal	1,032	1,199
6500T Total operating and maintenance expenses	603,903	419,159
Taxes and insurance expenses:		
6710 Real estate taxes	51,010	51,275
6711 Payroll taxes	16,677	15,607
6720 Property and liability insurance	42,486	40,287
6722 Workmen's compensation	1,602	12,060
6723 Health insurance and other employee benefits	15,170	16,545
6790 Miscellaneous taxes, licenses, permits and insurance	7,060	1,100
6700T Total taxes and insurance expenses	134,005	136,874

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Financial expenses:		
6820 Interest on first mortgage payable	\$ 185,510	\$ 189,388
6890 Miscellaneous financial expenses	<u>50,856</u>	<u>48,884</u>
6800T Total financial expenses	<u>236,366</u>	<u>238,272</u>
6000T Total cost of operations before depreciation and amortization	<u>1,395,015</u>	<u>1,146,725</u>
5060T (Loss) income before depreciation and amortization	(26,285)	163,262
Depreciation and amortization:		
6600 Depreciation expense	348,713	350,755
6610 Amortization expense	<u>1,138</u>	<u>1,138</u>
Total depreciation and amortization	<u>349,851</u>	<u>351,893</u>
5060N Operating loss	(376,136)	(188,631)
Corporate or mortgagor entity revenue and expenses:		
7142 Interest on mortgage payable	91,803	91,780
7190 Other expenses	<u>53,114</u>	<u>51,412</u>
7100T Total entity expenses	<u>144,917</u>	<u>143,192</u>
3250 Net loss	<u>\$ (521,053)</u>	<u>\$ (331,823)</u>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF OPERATIONS - CONTINUED

AS OF DECEMBER 31, 2016

S1000-010	Total first mortgage (or bond) principal payments required during the audit year (12 monthly payments). Applies to all direct loans and HUD-held and fully-insured first mortgages.	\$ <u>85,000</u>
S1000-020	Total of 12 monthly deposits in the audit year made to the replacement reserve account, as required by the Regulatory Agreement, even if payments may be temporarily suspended or reduced.	\$ <u>30,552</u>
S1000-030	Replacement reserve, or residual receipts and releases which are included as expense items on the statement of operations.	\$ <u>30,798</u>
S1000-040	Project improvement reserve releases under the flexible subsidy program which are included as expense items on the statement of operations.	\$ <u>-</u>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF CHANGES IN PARTNERS' (DEFICIT) CAPITAL DATA

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

S1100-010	Partners' capital, December 31, 2015	\$ 326,832
	3250 Net loss	<u>(521,053)</u>
	3130 Partners' capital, December 31, 2016	<u>\$ (194,221)</u>
S1100-010	Partners' capital, December 31, 2014	\$ 658,655
	3250 Net loss	<u>(331,823)</u>
	3130 Partners' capital, December 31, 2015	<u>\$ 326,832</u>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF CASH FLOWS DATA

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
S1200-010 Rental receipts	\$ 1,283,763	\$ 1,236,725
S1200-020 Interest receipts	(9,039)	277
S1200-030 Other operating receipts	43,564	1,958
	<hr/>	<hr/>
S1200-040 Total receipts	1,318,288	1,238,960
S1200-050 Administrative expenses paid	(125,161)	(80,923)
S1200-070 Management fees paid	(41,980)	(45,797)
S1200-090 Utilities paid	(143,393)	(108,882)
S1200-100 Salaries and wages paid	(234,144)	(213,622)
S1200-110 Operating and maintenance paid	(503,246)	(323,383)
S1200-120 Real estate taxes paid	(51,009)	(51,008)
S1200-140 Property insurance paid	(46,565)	(39,784)
S1200-150 Miscellaneous taxes and insurance paid	(8,562)	(12,665)
S1200-160 Net tenant security deposits (paid) received	(480)	230
S1200-180 Interest paid on first mortgage	(174,305)	(178,065)
S1200-181 Interest received (paid) on second mortgage	-	(31,461)
S1200-220 Miscellaneous financial expenses paid	(49,531)	(48,066)
S1200-225 Entity/construction disbursements	(4,185)	(107,843)
	<hr/>	<hr/>
S1200-230 Total disbursements	(1,382,561)	(1,241,269)
S1200-240 Net cash used in operating activities	(64,273)	(2,309)
Cash flows from investing activities:		
S1200-245 Net deposits to mortgage escrows	(1,361)	(6,618)
S1200-250 Net withdrawals from replacement reserve	243	5,204
S1200-255 Net withdrawals from other reserves	493	319
S1200-330 Net purchases of fixed assets	-	(27,316)
	<hr/>	<hr/>
S1200-350 Net cash used in investing activities	(625)	(28,411)
Cash flows from financing activities:		
S1200-360 Mortgage principal payments - first mortgage	(85,000)	(80,000)
S1200-365 Proceeds from notes payable	124,000	-
	<hr/>	<hr/>
S1200-460 Net cash provided by (used in) financing activities	39,000	(80,000)
S1200-470 Net decrease in cash	(25,898)	(110,720)
S1200-480 Cash, beginning	99,956	210,676
	<hr/>	<hr/>
S1200T Cash, ending	\$ 74,058	\$ 99,956
	<hr/>	<hr/>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

STATEMENTS OF CASH FLOWS DATA - CONTINUED

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of net loss to net cash used in operating activities:		
3250 Net loss	\$ (521,053)	\$ (331,823)
Adjustments to reconcile net loss to net cash used in operating activities:		
6600 Depreciation	348,713	350,755
6610 Amortization	1,138	1,138
Changes in asset and liability accounts:		
(Increase) decrease in assets		
S1200-486 Amortization of debt issuance costs	13,203	13,203
S1200-490 Tenant accounts receivable	6,083	(9,772)
S1200-500 Accounts receivable - other	(6,694)	(2,929)
S1200-510 Accrued receivable	3,307	(796)
S1200-520 Prepaid expenses	(4,078)	503
S1200-530 Tenant security deposits funded	(47)	(45)
Increase (decrease) in liabilities		
S1200-540 Accounts payable	11,777	29,013
S1200-560 Accrued liabilities	(1,785)	441
S1200-570 Accrued interest payable	89,805	58,259
S1200-580 Tenant security deposits held in trust	(433)	275
S1200-590 Prepaid revenue	1,618	476
S1200-600 Other adjustments to reconcile net loss to net cash provided by operating activities	(54,756)	(54,756)
S1200-605 Entity/construction liabilities	<u>48,929</u>	<u>(56,251)</u>
Total adjustments	<u>456,780</u>	<u>329,514</u>
S1200-610 Net cash used in operating activities	<u>\$ (64,273)</u>	<u>\$ (2,309)</u>

See the independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

SUPPLEMENTAL INFORMATION REQUIRED BY HUD

FOR THE YEARS ENDED DECEMBER 31, 2016

	Balance, Beginning of Period	Additions	Deductions	Balance, End of Period
Changes in fixed assets:				
Land and improvements	\$ 479,246	\$ -	\$ -	\$ 479,246
Buildings and improvements	9,389,302	-	-	9,389,302
Furniture - project use	54,199	-	-	54,199
Office furniture and fixtures	30,438	-	-	30,438
Totals	9,953,185	-	-	9,953,185
Accumulated depreciation	(3,017,401)	(348,713)	-	(3,366,114)
Net book value	\$ 6,935,784	\$ (348,713)	\$ -	\$ 6,587,071

Replacement reserve:

In accordance with the provisions of the bond indenture and Partnership Agreement, restricted cash is held by Wells Fargo Bank, N.A. (Bond Trustee) and Prudential Asset Resources to be used for replacement of property with approval from the General Partner as follows:

Balance, December 31, 2015, confirmed by mortgagee	\$ 80,895
Deposits	30,552
Withdrawals	(30,798)
Interest	3
Balance, December 31, 2016, confirmed by mortgagee	\$ 80,652

Residual receipts:

None

Operating reserve - Prudential:

Balance, December 31, 2015, confirmed by mortgagee	\$ 164,181
Interest	46
Balance, December 31, 2016, confirmed by mortgagee	\$ 164,227

See independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

SUPPLEMENTAL INFORMATION REQUIRED BY HUD

FOR THE YEARS ENDED DECEMBER 31, 2016

Operating reserves - owner controlled:

Balance, December 31, 2015	\$ 49,139
Interest	<u>124</u>
Balance, December 31, 2016	<u>\$ 49,263</u>

Mortgage escrows:

Balance, December 31, 2015, confirmed by mortgagee	\$ 69,441
Deposits	120,838
Transfers out	(27,574)
Withdrawals:	
Real estate tax payments	(51,009)
Property insurance payments	<u>(40,894)</u>
Balance, December 31, 2016, confirmed by mortgagee	<u>\$ 70,802</u>

Bond reserves:

Balance, December 31, 2015, confirmed by mortgagee	\$ 164,816
Deposits	286,791
Interest	1
Withdrawals:	
Principal and interest payments	(259,305)
Payment of bond trustee fees	<u>(28,150)</u>
Balance, December 31, 2016, confirmed by mortgagee	<u>\$ 164,153</u>

Schedule of miscellaneous prepaid expenses:

Prepaid audit fees	\$ 2,100
Prepaid Yardi license fee	1,212
Prepaid monitoring fee	4,185
Prepaid electricity	179
Prepaid compliance consulting	104
Prepaid insurance	<u>282</u>
Total miscellaneous prepaid expenses	<u>\$ 8,062</u>

Schedule of miscellaneous current liabilities:

Deferred grant revenue - current	\$ 60,257
Accrued bond trustee fees	9,519
Collections of failure to report liability	<u>10,189</u>
Total miscellaneous current liabilities	<u>\$ 79,965</u>

Schedule of miscellaneous long-term liabilities:

Deferred grant revenue - long-term	<u>\$ 1,149,981</u>
Total miscellaneous long-term liabilities	<u>\$ 1,149,981</u>

See independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

SUPPLEMENTAL INFORMATION REQUIRED BY HUD

FOR THE YEARS ENDED DECEMBER 31, 2016

Schedule of Miscellaneous Revenue:

Grant revenue - GRP	\$ 54,756
Grant revenue - POAH	11,971
Insurance claim proceeds	30,461
Miscellaneous revenue	3,052
Total Miscellaneous Revenue	<u>\$ 100,240</u>

Schedule of Miscellaneous Financial Expenses:

Bond trustee fees	\$ 50,856
Total Miscellaneous Financial Expenses	<u>\$ 50,856</u>

Schedule of Miscellaneous Administrative Expenses:

Credit reference	\$ 2,263
Travel	5,289
Drug testing	774
Resident services	24,115
Bank service charges	3,342
Total Miscellaneous Administrative Expenses	<u>\$ 35,783</u>

Schedule of Miscellaneous Taxes, Licenses, Permits, and Insurance:

License renewal	\$ 6,160
Corporate taxes due	900
Total Miscellaneous Taxes, Licenses, Permits, and Insurance	<u>\$ 7,060</u>

Schedule of Other Entity Expenses:

Asset management fee	\$ 9,786
Tax credit monitoring fee	4,185
Partnership management fee	39,143
Total Other Entity Expenses	<u>\$ 53,114</u>

Schedule of Accrued Expenses for Surplus Cash Computation:

Accrued wages payable	\$ 5,776
Accrued management fee payable	7,633
Collections of failure to report	10,189
Total Accrued Expenses for Surplus Cash Computation	<u>\$ 23,598</u>

Income Tax Reconciliation:

	2016	2015
Loss per books	\$ (521,053)	\$ (331,823)
Prepaid income per books	4,215	2,597
Prior year prepaid income per books	(2,597)	(2,121)
Additional depreciation taken on book	23,059	26,015
Additional amortization taken on tax	(13,771)	(13,771)
Additional bad debt expense taken on book	(1,274)	1,009
Non deductible 1/2 meals and entertainment	426	208
Additional interest included on book	13,203	13,203
Additional income included on book	\$ (54,756)	\$ (54,756)
Taxable loss	<u>(552,548)</u>	<u>(359,439)</u>

See independent auditors' report.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

SUPPLEMENTAL INFORMATION REQUIRED BY HUD

FOR THE YEARS ENDED DECEMBER 31, 2016

Schedule of Funds in Financial Institutions

A. Funds held by mortgagor, regular operating account:

Bank of America (Operating)	\$ 41,110
Bank of America (Money Market, 0.06%)	750
	<u>41,860</u>

Funds held by mortgagor, development: Citizens Bank (Checking)	31,698
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Funds held by mortgagor, operating reserve: Mission Bank, .25%	49,263
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B. Funds held by mortgagor in trust, tenant security deposit account:

Country Club Bank (Money Market)	8,631
The Mission Bank (CD, 0.50%)	13,840
	<u>22,471</u>

Funds held by mortgagor, total	145,292
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C. Funds Held by Mortgagee, (in Trust):

Tax and Insurance Escrow, Prudential	70,802
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Operating reserves:	
Prudential	164,227

Replacement reserves:	
Wells Fargo, various	80,652

Bond reserves, Wells Fargo, various	<u>164,153</u>
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Funds held by mortgagee, total	<u>479,834</u>
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Total funds in financial institutions	\$ <u><u>625,126</u></u>
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See independent auditors' report.

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND RESIDUAL RECEIPTS

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

Federal Housing Commissioner

Project Name:	Fiscal Period Ended:	Project Number:
Garfield Hills Preservation Associates, Limited Partnership	December 31, 2016	Project No. DC39-H001-002

Part A - Compute Surplus Cash:

Cash

1	Cash (Accounts 1100, 1120, 1191, 1192)	\$	64,831	
2	Tenant subsidy vouchers due for the period covered by the financial statement		-	
3	Other		-	
(a)	Total Cash (Add lines 1, 2, and 3)			\$ 64,831

Current Obligations:

4	Accrued mortgage interest payable		-	
5	Delinquent mortgage principal payments		-	
6	Delinquent deposits to replacement reserve		-	
7	Accounts payable (due within 30 days)		65,672	
8	Loans and notes payable (due within 30 days)		-	
9	Deficient tax insurance or MIP escrow deposits		-	
10	Accrued expenses (not escrowed)		23,598	
11	Prepaid revenue (Account 2210)		4,215	
12	Tenant security deposit liability (Account 2191)		19,054	
13	Other - Deferred grant revenue-GRP grant		5,497	
(b)	Less Total Current Obligations (Add lines 4 through 13)			118,036
(c)	Surplus Cash (Deficiency) (Line (a) minus Line (b))			(53,205)

14	Amount available for distribution during next fiscal period		-	
15	Incentive Performance Fee Payable		-	
16	Percentage Surplus Cash Split		0%	
17	Surplus Cash Available for Mark-to-Market Note Payment		-	
18	Surplus Cash Available for Distribution	\$	-	

Date

Loan Technician

Reviewed By:

Date

Loan Servicer

See independent auditors' report.

***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
Garfield Hills Preservation Associates, 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 Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership, which comprise the balance sheet as of December 31, 2016, and the related statements of operations, changes in partners' (deficit) capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Project'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 the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project'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 Project'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 the Project'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 Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mark Nelson LLC

Kansas City, Missouri
February 28, 2017

***Independent Auditors' Report on Compliance
for the Major HUD Program and on Internal Control Over Compliance Required
by the Consolidated Audit Guide for Audits of HUD Programs***

To the Partners
Garfield Hills Preservation Associates, Limited Partnership

Report on Compliance for the Major HUD Program

We have audited Project No. DC39-H001-002, Garfield Hills Preservation Associates, 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 Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) program for the year ended December 31, 2016. Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership's major HUD program is its Section 8 subsidy and the related compliance requirements are application, recertification and eligibility of tenants, tenant security deposits, cash disbursements, equity skimming, units leased to ELI families and management functions.

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 for Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership's major HUD program 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 Project No. DC39-H001-002, Garfield Hills Preservation Associates, 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 the major HUD program. However, our audit does not provide a legal determination of Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership's compliance.

To the Partners
Garfield Hills Preservation Associates, Limited Partnership
Page two

Opinion on the Major HUD Programs

In our opinion, Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major HUD program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of Project No. DC39-H001-002, Garfield Hills Preservation Associates, 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 Project No. DC39-H001-002, Garfield Hills Preservation Associates, Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on the major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Project No. DC39-H001-002, Garfield Hills Preservation Associates, 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.

Mark Nelson LLC

Kansas City, Missouri
February 28, 2017

**GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002**

SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2016

None

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002

**SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS,
QUESTIONED COSTS AND RECOMMENDATIONS**

FOR THE YEAR ENDED DECEMBER 31, 2016

1. Audit report dated February 12, 2016 for the year ended December 31, 2015

The audit for the year ended December 31, 2015 disclosed no findings that were required to be reported under the *HUD Consolidated Audit Guide*.

2. Audit reports issued by the HUD Office of Inspector General or other federal agencies or contract administrators during the period covered by this audit.

There were no reports issued by the HUD Office of Inspector General or other federal agencies or contract administrators during the period covered by this audit.

3. Management Reviews issued during the period covered by this audit.

There were no physical inspections or management reviews conducted during 2016.

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
Project No. DC39-H001-002

CERTIFICATE OF GENERAL PARTNER
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Federal Identification Number: (20-3727801)

By: Allison Adduci
Allison Adduci, Vice President, Finance and
Accounting
POAH, Inc., Managing Member of
POAH Garfield Hills, LLC, General Partner

Date: 2/28/2017

GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
Project No. DC39-H001-002

CERTIFICATE OF MANAGEMENT AGENT
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Federal Identification Number: (30-0063929)

By: 
Amos Allen, VP, Finance and Accounting
POAH Communities, LLC

Date: 2/28/17

**GARFIELD HILLS PRESERVATION ASSOCIATES, LIMITED PARTNERSHIP
PROJECT NO. DC39-H001-002**

LEAD AUDITOR INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2016

The lead auditor for HUD audits at MarksNelson, LLC is Christine Johnston. She may be contacted at the address and phone number shown below. The firm's Federal Identification Number is 48-1238645.

Address: 1310 East 104th Street
Suite 300
Kansas City, Missouri 64131

Telephone: (816) 743-7700
Fax: (816) 743-7701