PASSPORT HOMES, L.P.
FINANCIAL STATEMENTS
For the year ended December 31, 2015
with
Report of Independent Auditors

NOVOGRADAC & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

NOVOGRADAC
& COMPANY LLP®
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Partners of
Passport Homes, L.P.:

Report on the Financial Statements

We have audited the accompanying financial statements of Passport Homes, L.P., a Tennessee limited partnership, which comprise the balance sheet as of December 31, 2015, and the related statements of operations, changes in partners' deficit and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Passport Homes, L.P. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

February 16, 2016

PASSPORT HOMES, L.P.
BALANCE SHEET
December 31, 2015

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 1,650
Accounts receivable, net of allowance for doubtful accounts	1,318
Prepaid expenses	2,460
Total current assets	5,428
RESTRICTED ASSETS	
Operating reserve	41,847
Escrow reserve	136,115
Replacement reserve	2,487
Tenant security deposits	13,517
Total restricted assets	193,966
CAPITAL ASSETS	
Land	90,436
Buildings	4,191,111
Less: accumulated depreciation	(2,091,280)
Total capital assets	2,190,267
TOTAL ASSETS	$ 2,389,661

PASSPORT HOMES, L.P.
BALANCE SHEET (CONTINUED)
December 31, 2015

LIABILITIES AND PARTNERS' DEFICIT

CURRENT LIABILITIES		
Accounts payable	$	12,966
Prepaid rent		185
Accrued expenses		25,691
Deferred revenue		660
Current portion of mortgage payable		42,333
Amounts due to related parties:		
Operating deficit loan		358,006
Total current liabilities		439,841
NONCURRENT LIABILITIES		
Deferred revenue		3,960
Security deposits payable		13,517
Mortgage payable, net of current portion		532,340
Amounts due to related parties:		
Accrued interest - notes payable		679,176
Notes payable		2,193,525
Total noncurrent liabilities		3,422,518
TOTAL LIABILITIES		3,862,359
PARTNERS' DEFICIT		(1,472,698)
TOTAL LIABILITIES AND PARTNERS' DEFICIT	$	2,389,661

See accompanying notes

PASSPORT HOMES, L.P.
STATEMENT OF OPERATIONS
For the year ended December 31, 2015

REVENUE	
Rental revenue, net of vacancy loss of $5,819	$ 31,875
Subsidy revenue	183,309
Other revenue	3,592
Total revenue	218,776
OPERATING EXPENSES	
General and administrative	6,902
Professional fees	9,000
Utilities	1,449
Property management fee	11,189
Repairs and maintenance	152,021
Taxes and insurance	74,847
Payroll	12,016
Bad debt expense	1,299
Total operating expenses	268,723
Net operating loss	(49,947)
OTHER INCOME AND (EXPENSES)	
Interest income	84
Interest expense	(58,565)
Depreciation	(135,984)
Investor services fee	(10,611)
Net other income and (expenses)	(205,076)
NET LOSS	$ (255,023)

See accompanying notes

PASSPORT HOMES, L.P.

STATEMENT OF CHANGES IN PARTNERS' DEFICIT

For the year ended December 31, 2015

	General Partner	Limited Partner	Total Partners' Deficit
BALANCE, JANUARY 1, 2015	$ (297,515)	$ (920,160)	$ (1,217,675)
Net loss	(255,023)	-	(255,023)
BALANCE, DECEMBER 31, 2015	$ (552,538)	$ (920,160)	$ (1,472,698)

See accompanying notes

PASSPORT HOMES, L.P.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Rental revenue	$ 33,501
Subsidy revenue	183,309
Other revenue	3,016
Total receipts	219,826
General and administrative	(6,902)
Professional fees	(5,033)
Utilities	(1,449)
Property management fee	(11,189)
Repairs and maintenance	(77,866)
Taxes and insurance	(76,711)
Payroll	(12,016)
Bad debt expense	(1,299)
Interest expense	(27,497)
Investor services fee	(10,611)
Total disbursements	(230,573)
Net cash used in operating activities	(10,747)
CASH FLOWS FROM INVESTING ACTIVITIES	
Withdrawals from restricted cash, net	50,720
Net cash provided by investing activities	50,720
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of mortgage payable	(39,543)
Net cash used in financing activities	(39,543)
NET INCREASE IN CASH AND CASH EQUIVALENTS	430
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,220
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,650

See accompanying notes

PASSPORT HOMES, L.P.

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2015

RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES

NET LOSS	$	(255,023)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation		135,984
Changes in operating assets and liabilities:		
Decrease in accounts receivable, net		2,490
Increase in prepaid expenses		(1,080)
Increase in accounts payable		3,967
Decrease in prepaid rent		(188)
Decrease in accrued expenses		(1,864)
Decrease in deferred revenue		(660)
Increase in operating deficit loan		74,155
Increase in tenant security deposits, net		404
Increase in accrued interest - notes payable		31,068
NET CASH USED IN OPERATING ACTIVITIES	$	(10,747)

PASSPORT HOMES, L.P.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

1. General

Passport Homes, L.P. (the "Partnership") was formed under the laws of the State of Tennessee on March 25, 1998 to acquire, own, develop, lease and operate University Avenue Homes (the "Property") located in Knoxville, Tennessee. The Property consists of a 33-unit multifamily apartment complex developed and operated under the federal low-income housing tax credit program as provided for in Section 42 of the Internal Revenue Code ("Section 42").

The Partnership is owned 99.99% by the limited partner, Banc of America Housing Fund IIIA Limited Partnership (the "Limited Partner"), and 0.01% by Passport Development Corporation (the "General Partner").

Profits and losses are generally allocated based on each partner's ownership percentage, pursuant to the Partnership Agreement. For the year ended December 31, 2015, allocations of profits, losses, and retained earnings have been adjusted by a special allocation in the amount of $254,997 under the authority granted in the Partnership Agreement.

Pursuant to the First Amended and Restated Agreement of Limited Partnership, dated December 22, 2000 (the "Partnership Agreement"), profits and losses are generally allocated to the partners based on their respective ownership percentages. Under the terms of the Partnership Agreement, the Limited Partner is required to provide capital contributions totaling $1,314,258. The total capital contributions required pursuant to the Partnership Agreement are subject to adjustment based on the amount of low-income housing tax credits allocated to the Partnership. As of December 31, 2015, the Limited Partner had provided its total required capital contributions.

2. Summary of significant accounting policies and nature of operations

Basis of accounting
The Partnership prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for refunds of tenant security deposits, funding of operating deficits, repairs or improvements to the buildings which extend their useful lives, and annual subsidy contributions should the U.S. Department of Housing and Urban Development ("HUD") terminate the subsidy program.

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

Concentration of credit risk

The Partnership maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts. The Partnership believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of December 31, 2015, the balance of the allowance for doubtful accounts was $462.

Capital assets and depreciation

Capital assets are recorded at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 27.5 and 40 years under the straight-line method. For the year ended December 31, 2015, depreciation expense was $135,984.

Impairment of long-lived assets

The Partnership reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2015.

Income taxes

Income taxes on partnership income are 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.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Partnership to report information regarding its exposure to various tax positions taken by the Partnership. Management has determined whether any tax positions have met the recognition threshold and has measured the Partnership's exposure to those tax positions. Management believes that the Partnership has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. 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. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

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

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees from late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Economic concentrations

The Partnership operates one property in Knoxville, Tennessee. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

3. Restricted assets

Operating reserve

The Partnership Agreement requires the Partnership to establish an operating reserve equal to $85,000. The Partnership is required to maintain a minimum balance of $85,000. The reserve is to be maintained throughout the term of the Partnership Agreement. As of December 31, 2015, the operating reserve totaled $41,847.

Escrow reserve

The Partnership Agreement requires the Partnership to establish an escrow reserve equal to $125,000 to cover annual contributions to the Property should HUD terminate the operating subsidy. The escrow reserve is available to fund annual subsidy contributions to the Partnership should HUD terminate the subsidy program. As of December 31, 2015, the escrow reserve totaled $136,115.

Replacement reserve

The Partnership Agreement requires funding of a replacement reserve based on an annual amount equal to $225 per unit. Following the year of completion, the contribution amount is required to increase at an annual rate of 4%. As of December 31, 2015, the replacement reserve totaled $2,487.

Tenant security deposits

The management agreement requires that the Knoxville's Community Development Corporation ("KCDC"), an affiliate of the General Partner, collect, deposit, and disburse, if required, security deposits in accordance with the terms of each tenant's lease. As of December 31, 2015, tenant security deposits totaled $13,517.

The tenant security deposit account is maintained in an interest bearing market rate savings account. The carrying value of restricted assets approximates fair value because of the short-term maturity of those investments.

4. Deferred revenue

KCDC, an affiliate of the General Partner, entered into a services agreement, dated September 1, 2013, (the “Services Agreement”) with Comcast of the South. The Services Agreement is to remain in effect for a period of 10 years. Pursuant to the terms of the Services Agreement, KCDC will allow Comcast of the South exclusive rights to provide services to the Property, including multi-channel video, high speed data, and information and voice services. As consideration for exclusive rights, Comcast of the South has agreed to pay the Partnership $6,600, which shall be earned ratably over the course of the agreement. For the year ended December 31, 2015, $935 was earned and is included on the accompanying statement of operations in other revenue. As of December 31, 2015, deferred revenue of $4,620 is included on the accompanying balance sheet.

5. Mortgage payable

Mortgage financing is being provided by First Tennessee Bank. The original loan amount was $1,000,000. Principal and interest payments of $5,587 are due monthly. As of December 31, 2015, the mortgage payable balance was $574,673.

Commitment amount:	$1,000,000
Maturity date:	December 1, 2025
Interest rate:	4.55%
Secured by:	Property

Future minimum principal payments on the mortgage payable over each of the next five years and thereafter are as follows:

Year ending December 31,		
2016	$	42,333
2017		44,300
2018		46,358
2019		48,512
2020		50,766
Thereafter		342,404
Total	$	574,673

6. Related party transactions

Operating deficit loan

The General Partner is obligated to provide loans to the Partnership for operating deficits at any time during the period after stabilization has occurred. During 2015, the General Partner paid $74,155 of operating expenses on behalf of the Partnership. As of December 31, 2015, the balance was $358,006 and is reflected on the accompanying balance sheet. This liability bears no interest and is payable from available cash flow.

6. Related party transactions (continued)

Notes payable

The Partnership obtained a $359,386 second mortgage loan pursuant to the McKinney Note (the "Second Mortgage Agreement"), dated December 22, 2000, with KCDC. The note is payable from net available cash flow as defined in the Second Mortgage Agreement. The terms are set forth below.

Loan commitment:	$359,386
Interest rate:	5.98%
Maturity:	December 22, 2026
Secured by:	Property

As of December 31, 2015, the principal balance outstanding on the mortgage was $359,386 and accrued interest was $266,243.

The Partnership obtained a $1,242,000 third mortgage loan pursuant to the Hope VI Note (the "Third Mortgage Agreement"), dated December 22, 2000, with KCDC. The note is payable from net available cash flow as defined in the Third Mortgage Agreement. The terms are set forth below.

Loan commitment:	$1,242,000
Interest rate:	2%
Maturity:	December 22, 2026
Secured by:	Property

As of December 31, 2015, the principal balance outstanding on the mortgage was $1,242,000 and accrued interest was $277,689.

The Partnership obtained a $592,139 fourth mortgage loan pursuant to the KCDC Note (the "Fourth Mortgage Agreement"), dated June 30, 2001, with KCDC. The note is payable from net available cash flow as defined in the Fourth Mortgage Agreement. The terms are set forth below.

Loan commitment:	$592,139
Interest rate:	2%
Maturity:	June 30, 2027
Secured by:	Property

As of December 31, 2015, the principal balance outstanding on the mortgage was $592,139 and accrued interest was $135,244.

6. Related party transactions (continued)

Operating subsidy
Pursuant to the regulatory and operating agreement entered into with KCDC, an affiliate of the General Partner, 11 units of the Property are eligible to receive public housing operating funds assistance. For the year ended December 31, 2015, subsidy revenue totaled $183,309 and is included on the accompanying statement of operations.

Property management fee
KCDC, an affiliate of the General Partner, manages the Property pursuant to the management agreement, dated December 22, 2000 (the "Management Agreement"). The Management Agreement provides for a management fee of 6% of monthly rental collections. For the year ended December 31, 2015, a property management fee of $11,189 was incurred and is reflected on the accompanying statement of operations.

Investor services fee
Pursuant to the investor services agreement, Enterprise Community Investment, Inc., an affiliate of the Limited Partner, receives an annual investor fee in an amount equal to $5,000, increased annually by 3%. The fee is payable from available cash flow pursuant to the Partnership Agreement. If cash flow is not sufficient to pay the fee provided above, only one-half of the fee shall be paid. For the year ended December 31, 2015, $10,611 was expensed and is reflected on the accompanying statement of operations.

7. Ground lease

The Partnership has entered into a ground lease agreement with KCDC. The lease calls for annual payments of $10 for a period of 55 years.

8. Low-income housing tax credits

The Partnership received an allocation of low-income housing tax credits (the "Tax Credits") from the Tennessee Housing Development Agency, which began in 2001. The Partnership has completed the 10-year credit period and has claimed all $1,554,970 of the Tax Credits. Although all tax credits have been claimed, the Partnership has to remain in compliance over a fifteen year period. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified eligible basis sufficient to support the allocation and renting the Property pursuant to Internal Revenue Code Section 42 ("Section 42") which regulates the use of the Property as to occupant eligibility and unit gross rent, among other requirements. Failure to maintain compliance with occupant eligibility and/or unit gross rent or to correct noncompliance within a specific time period could result in recapture of previously taken Tax Credits plus interest.

9. Subsequent events
Subsequent events have been evaluated through February 16, 2016, which is the date the financial statements were available to be issued. On January 31, 2016, the Limited Partner assigned and transferred its ownership interest in the Partnership to KCDC, an affiliate of the General Partner.