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

NOVOGRADAC
& COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Passport Residences, 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Passport Residences, 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

March 14, 2016

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

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 1,000
Accounts receivable, net of allowance for doubtful accounts	2,923
Prepaid expenses	3,430
Total current assets	7,353
RESTRICTED ASSETS	
Operating reserve	2,440
ACC transition reserve	39,070
Replacement reserve	21,088
Tenant security deposits	12,698
Total restricted assets	75,296
CAPITAL ASSETS	
Land	34,032
Buildings	4,295,132
Land improvements	63,506
Personal property	52,700
Less: accumulated depreciation	(1,504,159)
Total capital assets	2,941,211
INTANGIBLE ASSETS	
Financing fees	48,152
Tax credit monitoring fees	20,000
Less: accumulated amortization	(37,654)
Total intangible assets	30,498
TOTAL ASSETS	$ 3,054,358

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

LIABILITIES AND PARTNERS' DEFICIT

CURRENT LIABILITIES		
Accounts payable	$	9,047
Prepaid rent		744
Accrued expenses		46,810
Deferred revenue		1,000
Amounts due to related parties:		
Operating deficit loan		32,186
Total current liabilities		89,787
NONCURRENT LIABILITIES		
Deferred revenue		6,000
Security deposits payable		12,698
Amounts due to related parties:		
Accrued interest - notes payable		232,950
Notes payable		2,975,179
Total noncurrent liabilities		3,226,827
TOTAL LIABILITIES		3,316,614
PARTNERS' DEFICIT		(262,256)
TOTAL LIABILITIES AND PARTNERS' DEFICIT	$	3,054,358

see accompanying notes

PASSPORT RESIDENCES, L.P.

STATEMENT OF OPERATIONS

For the year ended December 31, 2015

REVENUE	
Rental revenue, net of vacancy loss of $1,540	$ 67,435
Subsidy revenue	152,447
Other revenue	10,831
Total revenue	230,713
OPERATING EXPENSES	
General and administrative	1,408
Professional fees	9,000
Utilities	779
Property management fee	14,921
Repairs and maintenance	105,176
Taxes and insurance	126,940
Payroll	7,570
Bad debt expense	7,745
Total operating expenses	273,539
Net operating loss	(42,826)
OTHER INCOME AND (EXPENSES)	
Interest income	36
Interest expense	(14,112)
Depreciation and amortization	(113,492)
Investor services fee	(4,277)
Net other income and (expenses)	(131,845)
NET LOSS	$ (174,671)

PASSPORT RESIDENCES, 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	$ (87,585)	$ -	$ (87,585)
Net loss	(174,671)	-	(174,671)
BALANCE, DECEMBER 31, 2015	$ (262,256)	$ -	$ (262,256)

see accompanying notes

PASSPORT RESIDENCES, L.P.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Rental revenue	$	65,142
Subsidy revenue		152,447
Other revenue		17,831
Interest income		36
Total receipts		235,456
General and administrative		(9,408)
Professional fees		(9,000)
Utilities		(779)
Property management fee		(14,921)
Repairs and maintenance		(105,140)
Taxes and insurance		(127,951)
Payroll		(7,570)
Bad debt expense		(7,745)
Investor services fee		(4,277)
Total disbursements		(286,791)
Net cash used in operating activities		(51,335)
CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawals from restricted cash, net		53,205
Net cash provided by investing activities		53,205
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of operating deficit loan, net		(1,870)
Net cash used in financing activities		(1,870)
NET INCREASE IN CASH AND CASH EQUIVALENTS		-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	1,000

PASSPORT RESIDENCES, 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	$	(174,671)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Depreciation and amortization		113,492
Changes in operating assets and liabilities:		
Increase in accounts receivable, net		(2,298)
Increase in prepaid expenses		(1,467)
Increase in accounts payable		36
Decrease in prepaid rent		(8)
Increase in accrued expenses		456
Decrease in deferred revenue		(1,000)
Increase in tenant security deposits, net		13
Increase in accrued interest - notes payable		14,112
NET CASH USED IN OPERATING ACTIVITIES	$	(51,335)

see accompanying notes

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

1. General

   Passport Residences, L.P. (the "Partnership") was formed under the laws of the State of Tennessee on March 12, 1999 to acquire, own, develop, lease and operate Passport Homes Phase 1B (the "Property") located in Knoxville, Tennessee. The Property consists of a 50-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, The Housing Outreach Fund IX 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 $174,654 under the authority granted in the Partnership Agreement.

   Pursuant to the First Amendment to the First Amended and Restated Agreement of Limited Partnership, dated January 1, 2005 (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 General Partner is required to provide capital contributions totaling $86,071 and the Limited Partner is required to provide capital contributions totaling $1,676,825. 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 and General Partner had provided their 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 payments 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 $8,386.

Capital assets and depreciation
Capital assets are recorded at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 40 years under the straight-line method. Land improvements are depreciated over 20 years under the straight-line method. Personal property is depreciated over 10 years under the straight-line method. For the year ended December 31, 2015, depreciation expense was $110,554.

Intangible assets and amortization
Financing fees are amortized under the straight-line method over the term of the mortgage loan. Tax credit monitoring fees are amortized under the straight-line method over 180 months. For the year ended December 31, 2015, amortization expense was $2,938.

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.

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

Income taxes (continued)
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.

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 for late payments, cleaning, damages, laundry facilities and other changes 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 $36,500. The Partnership is required to maintain a minimum balance of $36,500. The reserve is to be maintained throughout the term of the Partnership Agreement. As of December 31, 2015, the operating reserve totaled $2,440.

ACC transition reserve
The Partnership Agreement requires the Partnership to establish an ACC transition reserve equal to $36,500 to cover annual contributions to the Property should HUD terminate the operating subsidy. The ACC transition reserve is available to fund annual subsidy contributions to the Partnership should HUD terminate the subsidy program. As of December 31, 2015, the ACC transition reserve totaled $39,070.

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 3%. As of December 31, 2015, the replacement reserve totaled $21,088.

3. Restricted assets (continued)

Tenant security deposits
The management agreement requires that 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 $12,698.

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

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 $10,000, which shall be earned ratably over the course of the agreement. For the year ended December 31, 2015, $1,347 was earned and is included on the accompanying statement of operations in other revenue. As of December 31, 2015, deferred revenue of $7,000 is included on the accompanying balance sheet.

5. Related party transactions

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 $3,000, increasing 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, any unpaid fees shall be payable as project expense, as defined, and shall not be contingent on available cash flow. For the year ended December 31, 2015, $4,277 was expensed and is reflected on the accompanying statement of operations.

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 Partnership reimbursed the General Partner a total of $1,870 for operating expenses paid on behalf of the Partnership. As of December 31, 2015, the loan balance was $32,186 and is reflected on the accompanying balance sheet. This liability bears no interest and is payable from available cash flow.

5. Related party transactions (continued)

Notes payable

The Partnership obtained a $270,510 first mortgage loan pursuant to the Capital Funding Note (the "First Mortgage Agreement"), dated September 30, 2002, with KCDC, an affiliate of the General Partner. The note is payable from net available cash flow as defined in the First Mortgage Agreement. The terms are set forth below.

Loan commitment:	$270,510
Interest rate:	5.23%
Maturity:	September 30, 2032
Secured by:	Property

As of December 31, 2015, the principal balance outstanding on the mortgage was $270,510 and accrued interest was $165,755.

The Partnership obtained a $2,214,951 second mortgage loan pursuant to the HOPE VI Note (the "Second Mortgage Agreement"), dated April 15, 2004, 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:	$2,214,951
Interest rate:	0.25%
Maturity:	April 15, 2029
Secured by:	Property

As of December 31, 2015, the principal balance outstanding on the mortgage was $2,214,951 and accrued interest was $54,439.

The Partnership obtained a $489,718 third mortgage loan pursuant to the AHP Note (the "Third Mortgage Agreement"), dated September 30, 2002, 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:	$489,718
Interest rate:	0.25%
Maturity:	September 30, 2032
Secured by:	Property

As of December 31, 2015, the principal balance outstanding on the mortgage was $489,718 and accrued interest was $12,756.

Operating subsidy

Pursuant to the regulatory and operating agreement entered into with KCDC, 50 units of the property are eligible to receive public housing operating funds assistance. For the year ended December 31, 2015, subsidy revenue totaled $152,447 and is included on the accompanying statement of operations.

5. Related party transactions (continued)

Property management fee
KCDC, an affiliate of the General Partner, manages the Property pursuant to the management agreement, dated September 30, 2002 (the "Management Agreement"). The Management Agreement provides for a monthly management fee of $1,000, increasing 2% annually. For the year ended December 31, 2015, a property management fee of $14,921 was expensed and is reflected on the accompanying statement of operations.

6. 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 99 years.

7. 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 2002. The Partnership has completed the 10-year credit period and has claimed all $2,121,260 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.

8. Subsequent events
Subsequent events have been evaluated through March 14, 2016, which is the date the financial statements were available to be issued. On February 3, 2016, the Limited Partner assigned and transferred its ownership interest in the Partnership to KCDC, an affiliate of the General Partner.