

Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

M E M O R A N D U M

TO: Jane K. Bigby (JBigby@SeattleHousing.Org)
Seattle Housing Authority

FROM: Sai Cheung

DATE: February 27, 2009

SUBJ: Alder Crest L.P. - distribution of audited financial statements

Enclosed please find the following:

3 bound copies and 1 email copy of the audited financial statements for 2008.
Independence letter
Communication to those Charged with Governance

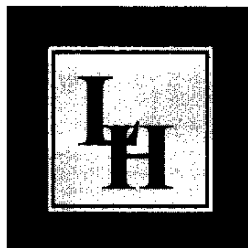
Please call if we can be of any further assistance. Your business is appreciated!

Thank you!

ALDER CREST L.P.
(A WASHINGTON LIMITED PARTNERSHIP)

FINANCIAL STATEMENTS

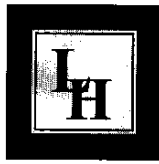
YEARS ENDED DECEMBER 31, 2008 AND 2007



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Partners
Alder Crest L.P.
Seattle, Washington

We have audited the accompanying balance sheets of Alder Crest L.P. (a Washington Limited Partnership), as of December 31, 2008 and 2007, and the related statements of operations and changes in partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alder Crest L.P., as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information on pages 16 to 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - (CONTINUED)

In accordance with Government Auditing Standards, we have also issued our report, dated February 27, 2009, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our related audit.

Roveridge Hunt & Co, PLLC

February 27, 2009

ALDER CREST L.P.
(A Washington Limited Partnership)

BALANCE SHEETS

	December 31,	
	2008	2007
<u>ASSETS</u>		
Rental property, at cost:		
Buildings, improvements and equipment	\$ 6,168,732	\$ 6,168,732
Accumulated depreciation	(459,305)	(208,775)
Land	892,842	892,842
	6,602,269	6,852,799
Restricted deposits and funded reserves:		
Operating reserve	110,781	-
Replacement reserve	36,560	-
Tenant trust - security deposits	11,864	10,728
Supportive services reserve	37,864	49,268
	197,069	59,996
Other assets:		
Cash	51	5,739
Prepaid expenses	1,740	11,933
Accounts receivable	6,242	26,975
Due from General Partner	102,632	38,609
Loan fees, net of accumulated amortization of \$2,321 and \$1,055, respectively	60,992	62,258
Tax credit fees, net of accumulated amortization of \$5,833 and \$2,651, respectively	41,889	45,071
	213,546	190,585
	\$ 7,012,884	\$ 7,103,380

Continued on Page 4.

ALDER CREST L.P.
(A Washington Limited Partnership)

BALANCE SHEETS - (CONTINUED)

	December 31,	
	2008	2007
<u>LIABILITIES AND PARTNERS' EQUITY</u>		
Liabilities:		
Mortgage notes payable	\$ 2,414,990	\$ 2,425,618
Oversight developer fee payable	124,552	194,514
Accounts payable	10,469	13,400
Advance payable - general partner	-	132,645
Accrued interest	56,322	36,615
Prepaid rent	-	545
Accrued asset management fee	6,698	3,000
Accrued tax credit compliance fee	22,733	-
Tenant security deposits payable	11,300	10,453
Construction accounts payable	-	28,827
	2,647,064	2,845,617
Partners' equity	4,365,820	4,257,763
	\$ 7,012,884	\$ 7,103,380

The accompanying notes are an integral part of these financial statements

ALDER CREST L.P.
(A Washington Limited Partnership)

STATEMENTS OF OPERATIONS

	December 31,	
	2008	2007
Revenue:		
Net rental income	\$ 236,581	\$ 177,319
Interest	2,080	1,341
Other	<u>6,569</u>	<u>4,923</u>
	245,230	183,583
Expenses:		
Administrative	94,268	94,242
Repairs and maintenance	42,181	15,217
Utilities	33,606	12,230
Property insurance	14,241	13,078
Payroll taxes and benefits	12,008	7,130
Interest	21,300	69,138
Depreciation	250,530	208,775
Amortization	<u>4,448</u>	<u>3,706</u>
	<u>472,582</u>	<u>423,516</u>
Partnership expenses	<u>26,431</u>	<u>22,517</u>
Net income (loss)	<u>\$ (253,783)</u>	<u>\$ (262,450)</u>

The accompanying notes are an integral part of these financial statements

ALDER CREST L.P.
(A Washington Limited Partnership)

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

	<u>General Partner</u>	<u>Limited Partner</u>	<u>Total</u>
Balance - January 1, 2007	\$ 1,607	\$ 1,742,222	\$ 1,743,829
Capital contributions	-	2,793,384	2,793,384
Syndication costs	-	(17,000)	(17,000)
Net income (loss)	<u>(26)</u>	<u>(262,424)</u>	<u>(262,450)</u>
Balance - December 31, 2007	\$ 1,581	4,256,182	\$ 4,257,763
Capital contributions	-	361,840	361,840
Net income (loss)	<u>(25)</u>	<u>(253,758)</u>	<u>(253,783)</u>
Balance - December 31, 2008	<u>\$ 1,556</u>	<u>\$ 4,364,264</u>	<u>\$ 4,365,820</u>

The accompanying notes are an integral part of these financial statements

ALDER CREST L.P.
(A Washington Limited Partnership)

STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash

	Years Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ (253,783)	\$ (262,450)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	250,530	208,775
Amortization	4,448	3,706
Changes in certain assets and liabilities -		
Accounts receivable	20,733	(16,356)
Prepaid expenses	10,193	(11,933)
Accounts payable	(2,931)	13,400
Accrued interest payable	19,707	(55,751)
Due from General Partner	(64,023)	(38,609)
Prepaid rent	(545)	-
Partnership management fees payable	26,431	3,000
Tenant security deposits	(289)	(275)
Net cash provided (used) by operating activities	10,471	(156,493)
Cash flows from investing activities:		
Payments for additions to rental property	-	(334,388)
Deposits to replacement reserve	(36,560)	-
Deposits to operating reserve	(110,781)	-
Deposits to other reserve	(596)	(61,268)
Withdrawals from other reserve	12,000	12,000
Net cash used by investing activities	(135,937)	(383,656)
Cash flows from financing activities:		
Principal payments on notes payable	(10,628)	-
Proceeds from mortgage loans	-	199,429
Payments on oversight developer fee	(69,962)	-
Financing costs paid	-	(1,735,000)
Payments on construction accounts payable	(28,827)	(694,333)
Capital contributions	361,840	2,793,384
Payments on loan fees	-	(63,313)
Payments on tax credit fees	-	(47,722)
Proceeds from loans - General Partner	-	108,265
Payments on loans - General Partner	(132,645)	-
Syndication costs	-	(17,000)
Net cash provided by financing activities	119,778	543,710

Continued on Page 8.

ALDER CREST L.P.
(A Washington Limited Partnership)

STATEMENTS OF CASH FLOWS - (CONTINUED)
Increase (Decrease) in Cash

	Years Ended December 31,	
	2008	2007
Net increase (decrease) in cash	\$ (5,688)	\$ 3,561
Cash, beginning of year	5,739	2,178
Cash, end of year	\$ 51	\$ 5,739
Supplemental disclosure of cash flow information:		
Interest paid during the year	\$ 1,593	\$ 124,889
Supplemental disclosure of non-cash investing and financing activities:		
Additions to fixed assets from reclassification of:		
Construction in progress	\$ -	\$ 4,597,672
Additions to construction-in-progress financed by:		
Developer fee payable	\$ -	\$ 194,514
Construction cost payable	\$ -	\$ 28,826

The accompanying notes are an integral part of these financial statements

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

Nature of Business

Alder Crest L.P. (a Washington Limited Partnership) (the Partnership) was formed in 2005, as a Limited Partnership. The Partnership was organized to purchase, rehabilitate and operate a 36-unit apartment project known as Alder Crest Apartments (the Project) located in Seattle, Washington. The rehabilitation of the Project was completed in March 2007. The partnership agreement provides for the termination of the Partnership in 2103.

The Partnership has received a reservation of federal low-income housing tax credits (LIHTC) under Section 42 of the Internal Revenue Code administered by the Washington State Housing Finance Commission (WSHFC). Under this program, housing provided by the Partnership is subject to monitoring of tenant eligibility by WSHFC. The Partnership has agreed to maintain 100 percent of the apartment units as both rent restricted and occupied by low-income tenants for a minimum period of 50 years beginning 2007.

Effective January 1, 2007, the Partnership executed a Housing Assistance Payment contract with the the Housing Authority of the City of Seattle, the General Partner. Under the Contract, housing assistance payment shall be made to not more than eight units located at the property. The length of the term of the Contract is ten years for initial term and six five-year renewal increments not to exceed forty years, subject to mutual agreement. The Contract requires the Partnership to provide housing to low-income tenants, as defined in the Contract.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The accrual method of accounting is used for financial statement purposes.

Cost Capitalization

Costs that clearly relate to rehabilitation of the project are capitalized. Costs are allocated to project components by the specific identification method. Acquisition costs are allocated based on their relative fair values.

Depreciation

Depreciation is computed for financial statement purposes using the straight-line method over the estimated useful lives of the related assets.

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Amortization

Amortization is computed on a straight-line basis for financial statement purposes. Loan origination costs are amortized over the life of the loans. Tax credit monitoring fees paid to housing agencies in advance are amortized over the 15-year compliance period under the straight-line method.

Income Taxes

No income tax provision has been included in the financial statements since income or loss of the Partnership is required to be reported by the respective partners on their income tax returns.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Profit and Loss Allocations

Profits and losses are allocated as follows:

General partner	00.01%
Investor Limited partner	99.99%

NOTE 3 - RELATED PARTY TRANSACTIONS

Property Management Fee

The partnership agreement provides for the general partner, in its capacity as management agent, to charge a fee in the amount of \$32 per unit per month, increasing each year by the CPI. However, such increase will not be permitted if occupancy for the Project for the prior calendar year was less than 85 percent. During 2008 and 2007, the amount charged and paid to the general partner for management services totaled \$14,364 and \$11,520, respectively.

As part of the management role, the general partner collects rental receipts on behalf of the Partnership. As of December 31, 2008 and 2007, amounts due from the general partner totaled \$102,632 and \$38,609, respectively.

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - RELATED PARTY TRANSACTIONS - (CONTINUED)

Asset Management Fee

The partnership agreement provides for the limited partner charge a cumulative asset management fee in the amount of \$3,600, commencing in the first year during which credits are allocated to the limited partner, which is to be paid only to the extent there is available cash flow. The fee will increase by 3 percent per year. During years ended December 31, 2008 and 2007, the limited partner charged the Partnership \$3,708 and \$3,000, respectively, for asset management services, all of which remained payable as of December 31, 2008.

Tax Credit Compliance Fee

The tax credit compliance fee is payable by the partnership, commencing in the first year in which credits are allocated by the partnership to the investor limited partner, to the general partner, pursuant to the Tax Credit Compliance Fee Agreement in the annual, cumulative amount of \$12,200, increasing 3% per year, payable from available Cash Flow or Net Proceeds as defined in the partnership agreement, but accruing to the extent not paid, and prorated with respect to the calendar year in which occupancy of the Project begins, based on the number of months in such year during which the Project was occupied. During the year ended December 31, 2008, tax credit compliance fee totaled \$22,723 was charged to the partnership, of which \$10,167 was prorated for 2007. As of December 31, 2008, the full amount of the fee is outstanding.

Advances Payable - General Partner

During 2007, the general partner advanced \$132,645 to the project for the payment of development management fee, all of which was paid during 2008 from the proceeds of capital contributions.

Financing Lease with General Partner

The partnership ("the grantee") has executed a financing lease with the general partner ("grantor") whereby the grantee is treated as the owner of the Project and is entitled to all federal tax attributes of ownership. The financing lease expires December 31, 2080. The financing lease provides for a capital rent payable in the amount of \$1,935,000 payable to the grantor, of which \$200,000 was paid upon execution of the financing lease. The balance of \$1,735,000, plus accrued interest at an interest rate equal to the greater of four and 34/100th percent per annum, compounded annually, or the KeyBank National Association prime rate minus 1.75 percent. The balance of the capital rent is due not later than November 15, 2008. In addition, the financing lease provides for a base rent of \$1 per year, commencing January 2006, for the term of the financing lease. During 2007, the financing lease plus interest in the amount of \$1,859,884 were paid off with proceeds from the capital contributions.

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - RELATED PARTY TRANSACTIONS - (CONTINUED)

Sponsor Loan

The general partner, in its capacity as sponsor for the Project, has committed to loan the Partnership \$220,000, all had been disbursed as of December 31, 2008. From the loan proceeds, \$60,000 were used to fund the supportive services reserve. The sponsor loan bears interest at five percent per annum, has a fifty year term, and is secured by a fourth deed of trust. Payment of principal and interest shall be payable on or before the 30th day of April commencing April 30, 2008, and each year thereafter through March 31, 2057, provided, however, that the payments required shall be made solely from available cash flow. As of December 31, 2008 and 2007, accrued interest on the loan totaled \$27,847 and \$16,847, respectively.

Oversight Development Fee

The partnership has executed an oversight development agreement. Oversight development fees totaling thirty percent of total development costs minus \$3,000, calculated at \$194,514, are to be paid to the managing member upon achievement of certain benchmarks, as defined in the agreement. As of December 31, 2008 and 2007, development fee payable totaled \$124,552 and \$194,514, respectively.

NOTE 4 - REQUIRED RESERVES

Replacement Reserve

In accordance with provisions in the partnership agreement, the Partnership is required to maintain a replacement reserve. The replacement reserve shall be funded in the amount of \$300 per unit per year, commencing with the month the Project is first occupied, and increasing 3 percent annually. Withdrawals from the account will be subject to approval by the limited partner. During 2008, the replacement reserve had been funded. In addition, the City of Seattle amended loan agreement also requires the Partnership to maintain a replacement reserve, a minimum deposit of \$350 per unit per year is required.

Operating Reserve

On or before the final equity installment from the limited partner, the general partner shall fund an operating reserve in an amount not less than \$109,615. Withdrawals from the account will be subject to the approval by the limited partner. During 2008, the operating reserve had been funded.

Supportive Services Reserve

The general partner is required to fund a supportive services reserve in the amount of \$60,000 from the proceeds of the general partner loan. The reserve may be used, in amounts not to exceed \$12,000 per year, to pay costs of tenant support services.

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - MORTGAGE NOTES PAYABLE AND SUBSEQUENT EVENTS

City Loan

The Partnership has executed a loan payable to the City of Seattle in the amount of \$992,283, all of which was outstanding as of December 31, 2008. The loan bears interest at one percent per annum, has a term of fifty years, and is secured by a first deed of trust. Annual payments should be made on or before June 30, 2008, each in an amount equal to fifty percent of the net cash flow, if any, for the preceding calendar year, as defined in the partnership agreement. Per the amended loan agreement dated January 6, 2009, the note shall accrue interest at the rate of 1% simple interest per annum from the date of each advance of loan funds. The unpaid principal amount of the loan in the amount of \$992,283 and unpaid interest are due and payable March 31, 2057. As of December 31, 2008 and 2007, accrued interest on the loan totaled \$28,049 and \$17,767, respectively.

City HOME Loan

The Partnership has executed a loan payable to the City of Seattle in the amount of \$113,334. The loan bears interest at two percent per annum, has a term of forty five years, and is secured by a third deed of trust. Annual payments should be made on or before June 30, 2008, each in an amount equal to fifty percent of the net cash flow, if any, for the preceding calendar year, as defined in the partnership agreement. Per the amended loan agreement dated January 6, 2009, the note shall accrue interest at the rate of 1% simple interest per annum from the date of each advance of loan funds. The unpaid principal amount of the loan in the amount of \$111,124 and unpaid interest are due and payable March 31, 2057. As of December 31, 2008 and 2007, accrued interest on the loan totaled \$426 and \$1,773, respectively. As of December 31, 2008 and 2007, loan payable to the City of Seattle totaled \$111,124 and \$113,334, respectively.

State of Washington Loan

The Partnership has executed a loan payable to the State of Washington in the amount of \$1,100,000. \$550,000 of the loan shall be deferred at zero percent interest with full payment due on March 31, 2057. \$550,000 shall be amortized at zero percent interest and be paid in quarterly payments in the amount of \$2,806 beginning on June 30, 2008 until March 31, 2057. As of December 31, 2008 and 2007, loan payable to the State of Washington totaled \$1,091,582 and \$1,100,000, respectively.

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - MORTGAGE NOTES PAYABLE AND SUBSEQUENT EVENTS - (CONTINUED)

Principal Payments

The following schedule outlines principal amounts due on the notes:

<u>Year</u>	<u>Amount</u>
2009	\$ 11,224
2010	11,224
2011	11,224
2012	11,224
2013	11,224
2014 and later years	<u>2,358,870</u>
	<u>\$ 2,414,990</u>

NOTE 6 - CAPITAL CONTRIBUTIONS RECEIVABLE

Under the terms of the partnership agreement, the limited partner subscribed to capital contributions totaling \$4,912,947. As of December 31, 2008, the full amount of capital contributions had been received and used to fund development costs and reserves.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Development Management Fee

The partnership agreement provides for the payment of a development management fee to the development manager, an unrelated party, in an amount equal to \$455,879, all of which had been earned as of December 31, 2007. The full amount of development fee to the development manager had been paid as of December 31, 2008.

Operating Deficit Loans

The general partner has agreed to fund operating deficit loans without limitation until such time as the Project achieves a debt service coverage ratio of at least 1.15:1 for 90 consecutive days. The Project achieved a debt service coverage ratio in September 2007. Subsequent to that date, and for the remainder of the term of the partnership, the obligation of the general partner shall continue in an additional amount not to exceed \$109,615. All operating deficit loans bear compound interest at 10 percent annually. Operating deficit loans are repayable from cash flow or net proceeds as defined in the partnership agreement.

ALDER CREST L.P.
(A Washington Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - COMMITMENTS AND CONTINGENCIES - (CONTINUED)

Guaranty

The general partner has entered into a guaranty agreement. The general partner has guaranteed that the general partner will perform all obligations required of the general partner as fully described in the partnership agreement and guaranty agreement and to the extent the general partner fails to perform all duties required, the affiliate is obligated to complete same duties. Payments made in accordance with the guaranty agreement are to be non-interest bearing and shall be repayable in accordance with provisions set forth in the partnership agreement.

Construction Contract

The partnership has entered into an agreement with a general contractor for the rehabilitation of the Project. The total amount of the contract, plus change-orders, was \$3,804,639. As of December 31, 2008, the entire amount of the stipulated sum was earned and paid.

NOTE 8 - EXEMPTION FROM REAL ESTATES TAXES

The property received an exemption from real estate taxes based on the public housing authority status of the land owner, the general partner.

ADDITIONAL INFORMATION

ALDER CREST L.P.
(A Washington Limited Partnership)

SCHEDULES OF EXPENSES

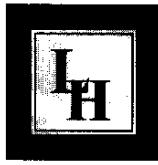
	<u>Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Administrative expenses:		
Advertising and marketing	\$ 2,007	\$ 28,932
Manager salaries	15,498	9,848
Administrative salaries	7,980	6,470
Office expense	13,407	270
Property management fees	14,364	11,520
Telephone	1,819	2,323
Audit fees	7,800	11,168
Legal fees	575	255
Relocations cost	9,089	5,107
Tenant support services	<u>21,729</u>	<u>18,349</u>
	<u>\$ 94,268</u>	<u>\$ 94,242</u>
Utilities:		
Electricity	\$ 5,746	\$ 2,952
Water	5,049	4,263
Sewer	12,493	5,015
Other non-recurring utilities	<u>10,318</u>	<u>-</u>
	<u>\$ 33,606</u>	<u>\$ 12,230</u>
Repairs and maintenance expenses:		
Repairs and maintenance payroll	\$ 16,873	\$ 9,104
Repairs contract	17,465	-
Garbage and trash	5,947	4,813
Miscellaneous	<u>1,896</u>	<u>1,300</u>
	<u>\$ 42,181</u>	<u>\$ 15,217</u>
Taxes and Insurance expenses:		
Property insurance	<u>\$ 14,241</u>	<u>13,078</u>
Payroll taxes and insurance:		
Health insurance and other benefits	<u>\$ 12,008</u>	<u>\$ 7,130</u>

Continued on Page 18.

ALDER CREST L.P.
(A Washington Limited Partnership)

SCHEDULES OF EXPENSES - (CONTINUED)

	<u>Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Interest expense:		
Interest on sponsor loan	\$ 11,000	\$ 10,500
Interest on city loan	9,923	9,923
Interest on city home loan	377	3,976
Interest on financing lease	<u>-</u>	<u>44,739</u>
	<u>\$ 21,300</u>	<u>\$ 69,138</u>



Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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

Partners
Alder Crest L.P.
Seattle, Washington

We have audited the financial statements of Alder Crest L.P., (the Partnership), as of and for the year ended December 31, 2008, and have issued our report thereon dated February 27, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Partnership's internal control over financial reporting as a basis for designing our auditing procedures 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 Partnership's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Partnership's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Partnership's financial statements that is more than inconsequential will not be prevented or detected by Partnership's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Partnership's internal control.

INDEPENDENT AUDITOR'S 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 - (CONTINUED)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of 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.

This report is intended solely for the information and use of the partners, management, the City of Seattle and the State of Washington and is not intended to be and should not be used by anyone other than these specified parties.

Loveridge Hunt & Co, PLLC

February 27, 2009