

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

DESDEMONA LIMITED PARTNERSHIP

DECEMBER 31, 2008 AND 2007

Desdemona Limited Partnership

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INDEPENDENT AUDITORS' REPORT

To the Partners
Desdemona Limited Partnership

We have audited the accompanying balance sheets of Desdemona Limited Partnership as of December 31, 2008 and 2007, and the related statements of operations, partners' equity (deficit) 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 audits.

We conducted our audits 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 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 Desdemona Limited Partnership 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.

Reznick Group, P.C.

Atlanta, Georgia
March 18, 2009

Desdemona Limited Partnership

BALANCE SHEETS

December 31, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Investment in rental property, net	\$ 37,447,322	\$ 38,722,396
Cash	157,885	168,468
Restricted cash		
Tenants' security deposits	79,887	74,116
Replacement reserve	234,812	172,876
Other reserves	<u>1,017,972</u>	<u>998,634</u>
Total restricted cash	<u>1,332,671</u>	<u>1,245,626</u>
Tenants' accounts receivable	39,366	28,079
Prepaid expenses	25,090	38,699
Deferred loan costs, net	365,115	371,660
Tax credit monitoring fees, net	128,282	139,856
Other assets	<u>362,908</u>	<u>-</u>
Total assets	<u>\$ 39,858,639</u>	<u>\$ 40,714,784</u>

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Liabilities		
Accounts payable - operations	\$ 409,795	\$ 151,653
Other accrued liabilities	41,371	18,365
Accrued interest - first mortgage	19,885	35,098
Accrued interest - other loans	1,980,000	1,607,179
Tenants' security deposits liability	79,727	74,017
Payable to general partner and affiliates	752,726	783,133
Annual fee payable to affiliate of limited partner	7,500	-
Developer's fees payable	2,319,517	2,319,517
Mortgages and notes payable	<u>24,580,806</u>	<u>24,700,806</u>
Total liabilities	<u>30,191,327</u>	<u>29,689,768</u>
Contingencies	-	-
Partners' equity (deficit)	<u>9,667,312</u>	<u>11,025,016</u>
Total liabilities and partners' equity (deficit)	<u>\$ 39,858,639</u>	<u>\$ 40,714,784</u>

See notes to financial statements

Desdemona Limited Partnership

STATEMENTS OF OPERATIONS

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenue		
Rental income	\$ 2,192,520	\$ 1,544,506
Vacancies and concessions	(100,014)	(100,368)
Other operating income	<u>31,902</u>	<u>79,822</u>
Total revenue	<u>2,124,408</u>	<u>1,523,960</u>
Operating expenses		
Salaries and employee benefits	325,921	284,682
Repairs and maintenance	229,248	185,053
Utilities	414,754	36,409
Property management fee	132,780	107,016
Property insurance	84,325	93,429
Miscellaneous operating expenses	<u>149,873</u>	<u>147,240</u>
Total operating expenses	<u>1,336,901</u>	<u>853,829</u>
Net operating income (loss)	<u>787,507</u>	<u>670,131</u>
Other income (expense)		
Interest income	56,010	74,818
Interest expense - first mortgage	(462,415)	(466,614)
Interest expense - other loans	(372,558)	(372,295)
Other financial income (expense)	(31,347)	(4,855)
Annual fee to affiliate of limited partner	(7,500)	(7,500)
Other related party fees and expenses	(34,208)	(43,256)
Depreciation	(1,275,074)	(1,280,484)
Amortization	<u>(18,119)</u>	<u>(24,879)</u>
Total other income (expense)	<u>(2,145,211)</u>	<u>(2,125,065)</u>
Net loss	<u>\$ (1,357,704)</u>	<u>\$ (1,454,934)</u>

See notes to financial statements

Desdemona Limited Partnership

STATEMENTS OF PARTNERS' EQUITY (DEFICIT)

Years ended December 31, 2008 and 2007

	<u>General Partner</u>	<u>Limited Partner</u>	<u>Total Partners' Equity (Deficit)</u>
Balance, January 1, 2007	\$ (350)	\$ 12,480,300	\$ 12,479,950
Net loss	<u>(145)</u>	<u>(1,454,789)</u>	<u>(1,454,934)</u>
Balance, December 31, 2007	(495)	11,025,511	11,025,016
Net loss	<u>(136)</u>	<u>(1,357,568)</u>	<u>(1,357,704)</u>
Balance, December 31, 2008	<u>\$ (631)</u>	<u>\$ 9,667,943</u>	<u>\$ 9,667,312</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

See notes to financial statements

Desdemona Limited Partnership

STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net loss	\$ (1,357,704)	\$ (1,454,934)
Adjustments to reconcile net loss to net cash provided by		
Depreciation	1,275,074	1,280,484
Amortization	18,119	24,879
Changes in:		
Tenants' accounts receivable	(11,287)	(5,400)
Prepaid expenses	13,609	551
Other assets	(362,908)	-
Accounts payable - operations	258,142	138,970
Other accrued liabilities	23,006	(12,925)
Accrued interest - first mortgage	(15,213)	(13,667)
Accrued interest - other loans	372,821	372,295
Tenants' security deposits liability, net	(61)	(48)
Annual fee payable to affiliate of limited partner	7,500	(15,000)
Net cash provided by operating activities	<u>221,098</u>	<u>315,205</u>
Cash flows from investing activities		
Expenditures on rental property	-	(7,496)
Change in reserve for replacements	(61,936)	(60,563)
Change in other reserves	<u>(19,338)</u>	<u>(140,538)</u>
Net cash used in investing activities	<u>(81,274)</u>	<u>(208,597)</u>
Cash flows from financing activities		
Principal payments on mortgage note payable	(120,000)	(120,000)
Payments to general partner	(30,407)	(8,266)
Developer fee payable	<u>-</u>	<u>(1,240,483)</u>
Net cash used in financing activities	<u>(150,407)</u>	<u>(1,368,749)</u>
Net decrease in cash	(10,583)	(1,262,141)
Cash, beginning	<u>168,468</u>	<u>1,430,609</u>
Cash, end	<u>\$ 157,885</u>	<u>\$ 168,468</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 477,628</u>	<u>\$ 497,018</u>

See notes to financial statements

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Desdemona, LP (the Partnership) was formed as a limited partnership on April 15, 2002, under the laws of the state of Washington, for the purpose of acquiring, constructing, developing and operating a low-income residential housing project. The property consists of 219 rental units located in Seattle, Washington, and operates under the name Holly Park Phase III (the Project).

Effective August 7, 2003, the partnership agreement was amended to admit the investor limited partner, Wachovia Affordable Housing Community Development Corporation, and permit the withdrawal of the original limited partner. On May 5, 2004, the partnership agreement was amended again to allow the investor limited partner to withdraw assigning their interests to the current limited partner. This amendment provides for ownership and allocations of profits, losses and tax credits as follows:

General partner	.01%
Limited partner	99.99%
	<u>100.00%</u>

The general partner is The Housing Authority of the City of Seattle (SHA) and the current investor limited partner is TCIG Guaranteed Tax Credit Fund V, LLC

The Project consists of 219 units that qualify for low-income housing tax credits pursuant to Internal Revenue Code Section 42 (Section 42), which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. Each building of the Project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. In addition, the Partnership has executed a land use restriction agreement which requires the utilization of the Project pursuant to Section 42 for a minimum of 50 years, even after disposition of the Project by the Partnership.

The partnership agreement remains in effect until April 14, 2102.

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable and Bad Debts

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

Investment in Real Estate

Real estate is recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of the buildings, land improvements and equipment to operations over their estimated useful lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Building	40 years
Land Improvements	15 years
Furniture, fixtures, and equipment	5 years

Rental property, net is comprised of the following at December 31:

	<u>2008</u>	<u>2007</u>
Land improvements	1,947,866	1,947,866
Buildings and improvements	40,110,976	40,110,976
Furniture	<u>740,195</u>	<u>740,195</u>
Subtotal	42,799,037	42,799,037
Accumulated depreciation	<u>(5,351,715)</u>	<u>(4,076,641)</u>
Net	<u>\$ 37,447,322</u>	<u>\$ 38,722,396</u>

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

Impairment of Long-Lived Assets

The Partnership has implemented Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires the Partnership under certain circumstances to review long-lived assets and certain intangibles to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the assets. If the carrying value exceeds the cash flows, then recorded amounts of assets will be reduced to their fair value. No impairment losses have been recognized during the years ended December 31, 2008 and 2007.

Amortization

Mortgage costs are amortized over the terms of the related mortgage loans using the effective yield method. Amortization expense for the years ended December 31, 2008 and 2007, is \$6,544 and \$24,881 respectively. Estimated amortization expense for each of the following five years through 2013 is \$15,023, \$15,674, \$16,303, \$16,902, and \$17,466, respectively.

Costs related to obtained low-income housing tax credits are being amortized over the mandatory 15-year compliance period. Estimated amortization expense for each of the five ensuing years through 2013 is \$11,575.

Rental Income

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and tenants of the property are expected operating leases.

Advertising Costs

The Partnership's policy is to expense advertising costs when incurred.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. The effective date of FIN 48 was for fiscal years

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

beginning after December 15, 2006. The effective date was delayed in 2007 and was delayed again in 2008 for nonpublic companies. The new effective date for FIN 48 for nonpublic companies is for fiscal years beginning after December 15, 2008. The Partnership has elected to defer application of FIN 48, as permitted by FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," until 2009. The Partnership does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required of situations, if any, where the Partnership's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which pass-through entities such as the Partnership will need to apply the provisions of FIN 48.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – RESTRICTED CASH

Replacement Reserve Account

Under the loan agreement, the Partnership is required to fund a Public Housing Replacement Reserve (PHRR Reserve) for capital replacements, as defined. The account shall be funded by an initial deposit of \$14,000 prior to the completion date, as defined. Beginning one year from the date of the initial deposit, the Partnership shall be required to make annual deposits equal to \$250 per regulated unit, as defined, increasing 3 percent annually until the loan is paid in full. As of December 31, 2008 and 2007, \$234,812 and \$172,876 have been funded respectively.

Operating Reserves

Under the loan agreement, the Partnership is required to fund operating reserves prior to the completion date, as defined, as follows: (1) Public Housing Operating Reserve (PHOR Reserve) in the amount of \$89,101 and (2) Public Housing Expense Reserve (PHER Reserve) in the amount of \$127,869 for operating costs of the property not covered by property revenues. The Partnership is required to maintain a balance in the PHOR and PHER of no

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

less than \$278,640 and \$127,869, respectively. As of December 31, 2008 and 2007, \$426,621 and \$421,696 have been funded and is included in other reserves on the balance sheet respectively.

Funds Held In Escrow

As described in Note 5, the proceeds from the issuance of the Variable Rate Bonds were deposited into an escrow account maintained by U.S. Bank National Association. The reimbursement agent is KeyBank National Association. Under the reimbursement agreement, the proceeds of the Variable Rate Bonds of \$22,500,000 are to be disbursed in accordance with the Trust Indenture. The funds held by U.S. Bank National Association are invested in accordance with the Trust Indenture, primarily in short-term U.S. Treasury obligations. The trust account is stated at cost, which approximates market value due to the short-term highly liquid nature of the investments. The proceeds from the Variable Rate Bonds have been deposited in construction funds to be used to fund approved development costs. The balance of the fund held by U.S. Bank National Association at December 31, 2008 and 2007 was \$14,728 and \$315 respectively, and is included in other reserves on the balance sheet.

Debt Service Fund

The trustee holds a debt service fund for the purpose of paying principal and interest on the bonds. The debt service fund is stated at cost, which approximates market value to the short-term highly liquid nature of the investments. The balance of the fund held by U.S. Bank National Association at December 31, 2008 and 2007 was \$576,623 and \$576,623 respectively, and is included in other reserves on the balance sheet.

NOTE 4 - RELATED PARTY TRANSACTIONS

Management Agreement

The Partnership entered into a management agreement on December 1, 2003 with Impact Property Management, an affiliate of the general partner. The management agreement provides for fees of \$25 per unit per month increasing 3 percent per annum. As of December 31, 2008 and 2007, \$132,780 and \$107,016 of management fees have been earned respectively.

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

Development Services Fee

On March 3, 2003, the Partnership entered into a development services agreement with the general partner for services in connection with the development of the Project. The development services agreement provides for a fee equal to \$3,560,000. The fee will be capitalized into the cost of the building. As of December 31, 2008 and 2007, \$2,319,517 and \$2,319,517 of development services fees have been incurred and remain payable, respectively.

Asset Management Fee

Under the partnership agreement, an annual asset management fee of \$7,500 times the adjustment fraction, as defined, is payable to the investor limited partner beginning on January 5, 2005, as defined. Any unpaid fees will accrue to the extent cash flow, as defined, is not available to pay such fee. As of December 31, 2008 and 2007, \$7,500 and \$7,500 of asset management fees have been earned and \$7,500 and \$0 remain payable, respectively.

Operating Deficit Loans

Under the Partnership Agreement, the general partner is required to fund any operating deficit, as defined, of the Partnership through an operating deficit loan beginning on the admission date until the end of the compliance period, as defined. The operating deficit loans shall bear interest at 10 percent per annum, and are payable from net cash flow or net proceeds, as defined. As of December 31, 2008 and 2007, advances of \$111,532 and \$111,532 have been made and outstanding accrued interest is \$77,200 and \$43,225 respectively. Interest expense for the years ended December 31, 2008 and 2007 was \$34,208 and \$43,256, respectively.

Advances from Affiliates

From time to time the general partner advances the Partnership funds to pay for various construction related expenses. These advances do not bear interest and are due on demand. As of December 31, 2008 and 2007, advances from the general partner totaled \$563,994 and \$628,346 respectively.

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

NOTE 5 - MORTGAGE NOTES PAYABLE

First Mortgage - The Housing Authority of The City Of Seattle

The Partnership entered into a loan agreement on December 4, 2002 with the general partner in the original amount of \$22,500,000. Under the terms of the Trust Indenture dated December 4, 2002, the loan was funded by Variable Rate Demand Revenue Bonds 2002, (New Holly Project, Phase III) (the Variable Rate Bonds). Pursuant to the First Supplemental Trust Indenture, dated August 7, 2003, \$7,980,000 of the Variable Rate Bonds were converted into Fixed Rate Bonds. This is the only conversion allowed under the Trust Indenture. Payments of interest and principal are due in accordance with the loan agreements. At December 31, 2008 and 2007, the interest rate on the \$7,980,000 Fixed Rate Bonds, ranged from 6.0 percent to 6.25 percent based on the maturity schedule in the First Supplemental Trust Indenture. The fixed rate bonds mature on December 1, 2035. The outstanding loan balance at December 31, 2008 and 2007 was \$7,625,000 and \$7,745,000, respectively and the accrued interest was \$19,885 and \$35,098, respectively.

The bonds are secured by a deed of trust on the Partnership's property.

SHA Loan #1

The Partnership entered into a loan agreement on August 7, 2003 with the general partner in the original amount of \$10,149,991. The note was funded with proceeds provided to the general partner through HOPE VI grants and a capital subsidy award from HUD. The loan accrues interest at 3 percent per annum on a non-compounding basis. Beginning on March 1, 2006, interest only payments are due on the outstanding principal balance from available net cash flow, as defined. The unpaid principal and accrued interest are due on March 1, 2058. The loan is secured by a deed of trust on the Partnership's property. At December 31, 2008 and 2007, the outstanding principal was \$10,149,991 and \$10,149,991 respectively, and the accrued interest was \$1,644,463 and \$1,339,963, respectively.

SHA Loan #2

The Partnership entered into an additional loan agreement on August 7, 2003 with the general partner in the original amount of \$2,739,144. The note was funded with proceeds provided to the general partner through a FHLB award and from proceeds from prior development loans. The loan accrues interest at 1 percent per annum, on a non-compounding basis. Beginning on March 1, 2006 interest only payments are due on the outstanding

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

principal balance from available net cash flow, as defined. The unpaid principal and accrued interest are due on March 1, 2058. The loan is secured by a deed of trust on the Partnership's property. At December 31, 2008 and 2007, the outstanding principal and accrued interest was \$2,739,144 and \$2,739,144 and \$147,927, and \$120,536 respectively.

HOME Loan

The Partnership entered into a loan agreement on August 7, 2003 with the City of Seattle in the original amount of \$2,066,671. The loan accrues interest at 1 percent per annum. Beginning on June 30, 2006, payments of principal and interest are due on the outstanding principal balance from available net cash flow, as defined. Any unpaid principal and accrued interest are due at the loans maturity on August 7, 2053. The loan is secured by a deed of trust on the Partnership's property. At December 31, 2008 and 2007, the outstanding principal was \$2,066,671 and \$2,066,671 respectively, and accrued interest was \$84,060 and \$63,130, respectively.

Washington State Housing Loan

The Partnership entered into a loan agreement on August 8, 2003, in the amount of \$2,000,000 with the Washington State Housing Assistance Program. Payments of principal and interest are deferred for ten years, with interest accruing at 1 percent per annum during the deferral period. At January 1, 2015 quarterly interest only payments of \$5,526 shall begin and continue for ten years. Quarterly payments of \$30,515 on the new principal balance of \$2,210,067 shall begin on January 1, 2025 and continue for twenty years. The final payment of principal and interest shall be due on October 1, 2045. The loan is secured by a leasehold interest in the Partnership's property. As of December 31, 2008 and 2007, the outstanding principal was \$2,000,000 and \$2,000,000 respectively, and accrued interest was \$103,550 and \$83,550, respectively.

Desdemona Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

Aggregate annual maturities of the mortgages payable over each of the next five years as of December 31, are as follows:

	Fixed Rate Bonds	SHA Loan #1	SHA Loan #2	Home Loan	Washington State Housing	Total
2009	\$ 125,000	\$ -	\$ -	\$ -	\$ -	\$ 125,000
2010	130,000	-	-	-	-	130,000
2011	140,000	-	-	-	-	140,000
2012	145,000	-	-	-	-	145,000
2013	150,000	-	-	-	-	150,000
Thereafter	<u>6,935,000</u>	<u>10,149,991</u>	<u>2,739,144</u>	<u>2,066,671</u>	<u>2,000,000</u>	<u>23,890,806</u>
Total	<u>\$ 7,625,000</u>	<u>\$ 10,149,991</u>	<u>\$ 2,739,144</u>	<u>\$ 2,066,671</u>	<u>\$ 2,000,000</u>	<u>24,580,806</u>
Less current maturities						<u>(125,000)</u>
Net long-term portion						<u>\$ 24,455,806</u>

NOTE 6 - PARTNERS' CAPITAL CONTRIBUTIONS

In accordance with the First Amended and Restated Agreement of Limited Partnership, the limited partner is required to contribute \$16,904,773. Of this amount, \$16,983,891 has been received due to an upward credit adjustor of \$79,118.

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Partnership maintains its cash in deposit accounts, which, at times, may exceed federally insured limits. As of December 31, 2008 and 2007, the Partnership has not experienced any losses in such accounts.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Tax Credit Compliance

The Project's low-income housing tax credits are contingent on its ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital by the investor limited partner.