



FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

HIGH POINT NORTH LIMITED PARTNERSHIP

DECEMBER 31, 2008

High Point North Limited Partnership

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INDEPENDENT AUDITORS' REPORT

To the Partners
High Point North Limited Partnership

We have audited the accompanying balance sheet of High Point North Limited Partnership as of December 31, 2008, and the related statements of operations, partners' equity (deficit), and cash flows for the year 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 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 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 audit provides 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 High Point North Limited Partnership as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Reznick Group, P.C.

Atlanta, Georgia
March 16, 2009

High Point North Limited Partnership

BALANCE SHEET

December 31, 2008

ASSETS

Investment in rental property, net	\$ 57,146,644
Cash	1,246,374
Restricted cash	
Tenants' security deposits	112,661
Replacement reserve	206,789
Other reserves	<u>1,970,083</u>
Total restricted cash	<u>2,289,533</u>
Tenants' accounts receivable	69,057
Prepaid expenses	62,642
Deferred loan costs, net	864,397
Tax credit monitoring fees, net	253,516
Other assets	<u>138,342</u>
Total assets	<u><u>\$ 62,070,505</u></u>

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Liabilities	
Accounts payable	\$ 236,261
Other accrued liabilities	330,585
Accrued interest - other loans	1,167,553
Tenants' security deposits	112,636
Developer fee payable	3,550,569
Mortgages and notes payable	<u>37,353,144</u>
Total liabilities	<u>42,750,748</u>
Contingencies	-
Partners' equity (deficit)	<u>19,319,757</u>
Total liabilities and partners' equity (deficit)	<u><u>\$ 62,070,505</u></u>

See notes to financial statements

High Point North Limited Partnership

STATEMENT OF OPERATIONS

Year ended December 31, 2008

Revenue	
Rental income	\$ 2,971,047
Vacancies and concessions	(48,344)
Other operating income	<u>63,585</u>
Total revenue	<u>2,986,288</u>
Operating expenses	
Salaries and employee benefits	803,841
Repairs and maintenance	378,564
Utilities	85,752
Property management fee	204,576
Real estate taxes	31,981
Property insurance	195,821
Miscellaneous operating expenses	<u>506,760</u>
Total operating expenses	<u>2,207,295</u>
Net operating income	<u>778,993</u>
Other income (expense)	
Interest income	43,470
Interest expense - first mortgage	(498,996)
Interest expense - other loans	(266,206)
Other financial income (expense)	2,912
Annual fee to affiliate of limited partner	(5,738)
Depreciation	(2,076,119)
Amortization	<u>(60,694)</u>
Total other income (expense)	<u>(2,861,371)</u>
Net loss	<u><u>\$ (2,082,378)</u></u>

See notes to financial statements

High Point North Limited Partnership

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

Year ended December 31, 2008

	<u>General Partners</u>	<u>Limited Partners</u>	<u>Total Partners' Equity (Deficit)</u>
Balance, January 1, 2008	\$ (430)	\$ 19,850,344	\$ 19,849,914
Net loss	(208)	(2,082,170)	(2,082,378)
Contributions	-	1,552,221	1,552,221
Balance, December 31, 2008	<u>\$ (638)</u>	<u>\$ 19,320,395</u>	<u>\$ 19,319,757</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>99.99%</u>	<u>100.00%</u>

See notes to financial statements

High Point North Limited Partnership

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (2,082,378)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	2,076,119
Amortization	60,694
Changes in:	
Tenants' accounts receivable	(4,852)
Prepaid expenses	2,392
Other assets	(135,957)
Accounts payable - operations	41,537
Other accrued liabilities	146,172
Accrued interest - first mortgage	(45,778)
Accrued interest - other loans	266,206
Tenants' security deposits liability, net	278
	<u>324,433</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Change in reserve for replacements	(95,007)
Change in other reserves	(617,848)
	<u>(712,855)</u>
Net cash used in investing activities	
Cash flows from financing activities	
Principal payments on mortgage note payable	(161,180)
Contributions from partners	1,552,221
Developer fees paid	(117,763)
	<u>1,273,278</u>
Net cash provided by financing activities	
Net increase in cash	884,856
Cash, beginning	<u>361,518</u>
Cash, end	<u>\$ 1,246,374</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u>\$ 544,774</u>

See notes to financial statements

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

High Point North Limited Partnership (the Partnership) was formed as a limited partnership on October 10, 2003, 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 344 rental units located in Seattle, Washington, and operates under the name High Point Apartments (the Project).

Effective July 9, 2005, the partnership agreement was amended to admit the substitute limited partner and to permit the withdrawal of the original limited partner. This amendment provides for ownership and allocations of profits, losses and tax credits as follows:

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

The general partner is The Housing Authority of the City of Seattle (SHA) and the current limited partners are Enterprise Housing Partners III Series II Limited Partnership, Banc of America Housing Fund IVA Limited Partnership and Enterprise Housing Partners XII Limited Partnership.

The Project consists of 127 buildings which 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 October 9, 2103.

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.

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Investment in Real Estate

Rental property 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 will be charged to expense as incurred.

Buildings	40 years
Land improvements	15 years
Furniture and equipment	5 years

Rental property, net is comprised of the following at December 31, 2008:

Land improvements	\$ 5,031,919
Buildings	56,418,362
Furniture and equipment	<u>1,650,994</u>
Subtotal	63,101,275
Accumulated depreciation	<u>(5,954,631)</u>
Net	<u><u>\$ 57,146,644</u></u>

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 year ended December 31, 2008.

Amortization

Mortgage costs are recorded at cost of \$1,014,807 and tax credit fees of \$307,176, which are amortized over the terms of the related mortgage loans using the effective yield method and the fifteen-year tax credit compliance period using the straight-line method, respectively.

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Amortization expense for the year ended December 31, 2008 is \$60,694. Estimated amortization expense for each of the following five years through 2013 is expected to be \$51,230 annually.

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 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.

Uncertainty in Income Taxes

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 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

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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 – ESCROW DEPOSITS AND RESTRICTED CASH

Operating Reserves

Under the partnership agreement, the Partnership is required to fund an Operating Reserve equal to \$349,132 to be funded from the Limited Partner's Third Installment of its Capital Contribution. In addition, the General Partner shall fund the Operating Reserve from Net Cash Flow in order to maintain, to the extent possible, a balance at all times in the Operating Reserve equal to \$349,132. As of December 31, 2008, the balance of the operating reserve is \$648,341.

Replacement Reserve Account

Under the partnership agreement, the Partnership is required to fund a Public Housing Replacement Reserve (PHRR Reserve) for capital replacements, as defined. The Partnership shall be required to make annual deposits equal to \$250 per regulated unit, as defined, increasing 3.5 percent annually until the loan is paid in full. As of December 31, 2008, the balance of the replacement reserve is \$120,260.

Replacement Reserve for LIHTC Units

Under the partnership agreement, the Partnership is required to fund a Replacement Reserve for one hundred forty-four Credit Units that are not Public Housing Units (the LIHTC Units) to be funded in the amount of \$250 per LIHTC Unit per year, increasing at 3.5 percent annually until the loan is paid in full. As of December 31, 2008, the balance of the replacement reserve for LIHTC units is \$86,529.

Lease-up Reserve

Under the partnership agreement, the Partnership is required to fund a Lease-up Reserve of \$270,000 to be funded from the Limited Partner's Second Installment of its Capital Contribution. The Partnership shall utilize amounts in the Lease-up Reserve to pay operating expenses to the extent funds are not available from other sources beginning on the

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Completion Date until the Stabilization Date. As of December 31, 2008, no amounts have been funded, and the general partner does not expect the reserve to be funded due to provisions in the partnership agreement which allow for the proceeds to be deposited into the operating reserve under certain circumstances.

Affordability Reserve

Under the partnership agreement, the Partnership is required to fund an Affordability Reserve of \$582,132 to be established in accordance with the partnership agreement of the Regulatory and Operating Agreement and funded from the Limited Partner's Fourth Installment of its Capital Contribution to cover (a) annual contributions to the Project should HUD terminate or reduce funding the Operating Subsidy or (b) any delay in funding the Operating Subsidy. As of December 31, 2008, \$585,808 has been funded.

Debt Service Reserve

Under the partnership agreement, the Partnership is required to fund a Debt Service Reserve in the amount of \$705,953 from the Limited Partner's Third Installment of its Capital Contribution to cover annual debt service for the benefit of the bondholders. As of December 31, 2008, the balance of the debt service reserve is \$735,934.

NOTE 4 - RELATED PARTY TRANSACTIONS

Management Agreement

The Partnership entered into a management agreement on May 28, 2004 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. For the year ended December 31, 2008, management fees of \$204,576 were incurred and paid.

Development Services Fee

On March 25, 2004, 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 \$5,856,300. The fee was capitalized into the cost of the building. The entire fee has been incurred, and \$3,550,569 is payable.

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Investor Services Fee

Under the partnership agreement, an annual investor services fee of \$5,000, which increases 3.5 percent per year, is payable to The Enterprise Social Investment Corporation partner beginning in 2005, as defined. Any unpaid fees shall accumulate to the extent that cash flow, as defined, is not available to pay such fee. No fee shall be deducted as an expense by the Partnership until such amount is actually paid. For the year ended December 31, 2008, \$5,738 had been incurred and remains payable.

NOTE 5 - MORTGAGE NOTES PAYABLE

First Mortgage - The Housing Authority of The City of Seattle

The Partnership entered into a loan agreement on December 18, 2003 with the general partner in the original amount of \$32,000,000. Under the terms of the Trust Indenture dated December 18, 2003, the loan was funded by Variable Rate Demand Revenue Bonds, 2003 (High Point Project, Phase I) (the Variable Rate Bonds). Pursuant to the Amended and Restated Trust Indenture, dated May 28, 2004, \$10,600,000 of the Variable Rate Bonds was 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, the interest rate on the \$10,600,000 Fixed Rate Bonds was 5.295 percent. The fixed rate bonds mature on June 1, 2036. As of December 31, 2008, the outstanding principal was \$10,200,410. Interest incurred during the year was \$498,996 and \$0 remains payable at December 31, 2008. The bonds are secured by a first lien against the money and investments held by the trustee and by a leasehold deed of trust encumbering the Partnership's interest in the Project.

SHA Loan #1

The Partnership entered into a loan agreement on May 28, 2004 with the general partner in the original amount of \$8,500,000. The note was funded with proceeds provided to the general partner through Hope VI and MTW Block Grants. The loan accrues interest at 1 percent per annum. Beginning on July 1, 2004, 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 May 27, 2054. The loan is secured by a deed of trust on the Partnership's property. At December 31, 2008, the outstanding principal was \$8,500,000 with accrued interest of \$396,731.

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

SHA Loan #2

The Partnership entered into an additional loan agreement on May 28, 2004 with the general partner in the original amount of \$15,211,613. On September 6, 2007, the loan agreement was amended to increase the principal by \$1,441,120. The loan accrues interest at 1 percent per annum. Beginning on July 1, 2004 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 May 27, 2054. The loan is secured by a deed of trust on the Partnership's property. At December 31, 2008, \$16,652,734 has been drawn. Accrued interest on the note as of December 31, 2008 was \$709,990.

Washington State Housing Loan

The Partnership entered into a loan agreement on May 28, 2004, in the amount of \$2,000,000 with the Washington State Housing Assistance Program. Payments of principal and interest are deferred for twelve years, with interest accruing at 1 percent per annum during the deferral period. At April 30, 2016 quarterly interest only payments of \$5,525 shall begin and continue for five years. Quarterly payments of \$25,006 on the new principal balance of \$2,210,066 shall begin on April 30, 2021 and continue for twenty-five years. The final payment of principal and interest shall be due on January 31, 2046. The loan is secured by a deed of trust on the Partnership's property. As of December 31, 2008, the outstanding principal was \$2,000,000 with accrued interest of \$60,832.

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	Washington State Housing	← Use pulldown
2009	\$ 169,179	\$ -	\$ -	\$ -	\$ 169,179
2010	178,358	-	-	-	178,358
2011	188,034	-	-	-	188,034
2012	198,236	-	-	-	198,236
2013	208,992	-	-	-	208,992
Thereafter	9,257,611	8,500,000	16,652,734	2,000,000	36,410,345
Total	\$ 10,200,410	\$ 8,500,000	\$ 16,652,734	\$ 2,000,000	37,353,144
Less current maturities					(169,179)
Net long-term portion					\$ 37,183,965

High Point North Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 6 - PARTNERS' CAPITAL CONTRIBUTIONS

In accordance with the First Amended and Restated Agreement of Limited Partnership, the limited partners are required to contribute \$27,181,493. Of this amount, \$1,552,221 was received in 2008. The total amount of contributions to the Partnership were \$26,697,450, which contained a downward adjuster of \$484,043. As of 2008, all the contributions have been made to the Partnership.

NOTE 7 - 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.

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.

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, no such advances have been made.