

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

HIGH POINT SOUTH LP

DECEMBER 31, 2008

High Point South Limited Partnership

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INDEPENDENT AUDITORS' REPORT

To the Partners
High Point South Limited Partnership

We have audited the accompanying balance sheet of High Point South 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 South Limited Partnership as of December 31, 2008, and the results of 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 18, 2009

High Point South Limited Partnership

BALANCE SHEET

December 31, 2008

ASSETS

Investment in rental property, net	\$ 54,355,793
Cash	511,374
Tenants' accounts receivable	132,038
Prepaid expenses	67,260
Other assets	8,684
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Total assets	\$ 55,075,149
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LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Liabilities	
Accounts payable - operations	\$ 224,094
Fair market value of interest rate swap	4,374,606
Other accrued liabilities	11,903
Accrued interest - first mortgage	83,132
Accrued interest - other loans	191,442
Tenants' security deposits liability	67,174
Payable to general partner and affiliates	722,703
Annual fee payable to affiliate of limited partner	5,000
Developer's fees payable	4,550,000
Mortgages and notes payable	43,363,556
Other liabilities - construction	6,095,116
	<hr/>
Total liabilities	59,688,726
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Contingencies	-
Partners' equity (deficit)	(4,613,577)
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Total liabilities and partners' equity (deficit)	\$ 55,075,149
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See notes to financial statements

High Point South Limited Partnership

STATEMENT OF OPERATIONS

Year ended December 31, 2008

Revenue	
Rental income	\$ 449,245
Vacancies and concessions	(173,838)
Other operating income	<u>7,940</u>
Total revenue	<u>283,347</u>
Operating expenses	
Salaries and employee benefits	44,853
Repairs and maintenance	42,216
Utilities	16,542
Property management fee	21,029
Property insurance	52,301
Miscellaneous operating expenses	<u>83,430</u>
Total operating expenses	<u>260,371</u>
Net operating income (loss)	<u>22,976</u>
Other income (expense)	
Interest income	293,914
Interest expense - first mortgage	(483,797)
Interest expense - other loans	(38,288)
Annual fee to affiliate of limited partner	(5,000)
Depreciation	<u>(228,876)</u>
Total other income (expense)	<u>(462,047)</u>
Net loss	<u><u>\$ (439,071)</u></u>

See notes to financial statements

High Point South Limited Partnership

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

Year ended December 31, 2008

	General Partner	Limited Partner	Accumulated Other Comprehensiv e Income	Total Partners' Equity (Deficit)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, January 1, 2008	\$ 100	\$ 200,000	\$ (1,428,707)	\$ (1,228,607)
Net loss	(44)	(439,027)	-	(439,071)
Change in fair value of derivative	<u>-</u>	<u>-</u>	<u>(2,945,899)</u>	<u>(2,945,899)</u>
Balance, December 31, 2008	<u>\$ 56</u>	<u>\$ (239,027)</u>	<u>\$ (4,374,606)</u>	<u>\$ (4,613,577)</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>99.99%</u>	<u>0.00%</u>	<u>100.00%</u>

See notes to financial statements

High Point South Limited Partnership

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (439,071)
Adjustments to reconcile net loss to net cash used in operating activities	
Depreciation	228,876
Changes in:	
Tenants' accounts receivable	(132,038)
Prepaid expenses	69,198
Other assets	(8,684)
Other accrued liabilities	11,903
Accrued interest - first mortgage	(16,749)
Accrued interest - other loans	132,127
Tenants' security deposits liability, net	67,174
Annual fee payable to affiliate of limited partner	5,000
Net cash used in operating activities	<u>(82,264)</u>
Cash flows from investing activities	
Expenditures on rental property	(35,807,670)
Change in other reserves	33,111,183
Net cash used in investing activities	<u>(2,696,487)</u>
Cash flows from financing activities	
Proceeds from mortgage note payable	4,157,402
Payable to general partner and affiliates	(1,420,881)
Net cash provided by financing activities	<u>2,736,521</u>
Net decrease in cash	(42,230)
Cash, beginning	<u>553,604</u>
Cash, end	<u>\$ 511,374</u>
Supplemental disclosure of cash flow information	
Cash paid for interest, net of amounts capitalized of \$2,088,343	<u>\$ 406,707</u>
Supplemental schedule of non-cash investing and financing activities	
Rental property	\$ (7,946,934)
Construction cost payable	4,196,934
Developer fee payable	<u>3,750,000</u>
	<u>\$ -</u>

See notes to financial statements

High Point South Limited Partnership
NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

High Point South LP (the Partnership) was formed as a limited partnership on November 29, 2006, 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 will consist of 256 rental units located in Seattle, Washington.

Effective July 12, 2007, 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	99.99%
	<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 Alliance Fund II LP and The Banc of America Housing Fund VII Limited Partnership, LLLP.

The Project consists of 98 buildings which have qualified 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 December 31, 2106.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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 such accounts.

High Point South 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 are charged to expense as incurred.

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

Buildings and improvements	\$ 27,465,148
Construction in process	<u>27,119,521</u>
Subtotal	54,584,669
Accumulated depreciation	<u>(228,876)</u>
Net	<u>\$ 54,355,793</u>

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Partnership reviews its rental property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No asset impairment losses have been recognized during the year ended December 31, 2008.

Derivatives

Effective January 1, 2003, the Partnership adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The Partnership uses derivatives to manage risks related to interest rate movements. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge initially is included as a component of other comprehensive income and is subsequently reclassified into earnings when interest on the related debt is paid. As part of the transaction process, the fair value of the Partnership' preexisting cash flow hedge as of the beginning of the period which is estimated to be \$4,374,606, is reflected in accumulated other comprehensive income.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Amortization

Mortgage costs will be amortized over the terms of the related mortgage loans using the effective yield method upon commencement of operations. Tax credit monitoring fees will be amortized over the 15 year compliance period using the straight-line method.

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.

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.

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.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Advertising

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

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 - TRUSTEE RESERVES

Funds Held in Escrow

The proceeds from the issuance of the Variable Rate Bonds were deposited into an escrow account maintained by Bank of New York Mellon Company. The reimbursement agent is Key Bank. Under the reimbursement agreement, the proceeds of the Variable Rate Bonds of \$36,000,000 are to be disbursed in accordance with the Trust Indenture. The funds held by the Bank of New York Mellon Company are invested in accordance with the Trust Indenture. The trust account is stated at cost, which approximates the market value. The proceeds from the Variable Rate Bonds have been deposited into a construction fund to be used to fund approved development costs. The balance of the fund at December 31, 2008 was \$0.

NOTE 4 - PARTNERS CONTRIBUTIONS

In accordance with the First Amended and Restated Agreement of Limited Partnership, the limited partners are required to contribute \$29,353,100. Of this amount, \$200,000 was received in 2007 and \$0 was received in 2008. The remaining installments are due as follows:

1. \$14,452,032 shall be paid during construction, as described in the partnership agreement;
2. \$13,800,968 shall be paid upon the later of a series of events as described in the partnership agreement;
3. \$900,000 shall be paid upon the later of (a) the satisfaction of the conditions to all prior Capital Contributions and receipt by the limited partner of all outstanding reporting items; or (b) October 1, 2009.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 5 - MORTGAGES PAYABLE

First Mortgage - The Housing Authority of The City of Seattle

The Partnership entered into a loan agreement on March 6, 2007 with the general partner in the original amount of \$36,000,000. Under the terms of the Trust Indenture dated March 6, 2007, the loan was funded by Variable Rate Demand Revenue Bonds, 2007 (High Point Project, Phase II) (the Variable Rate Bonds). Provided that no event of default shall have occurred and be continuing, the interest rate on a portion of the bonds in the aggregate principal amount of \$9,250,000 may be converted to a fixed rate at the option of the Authority at the request of the partnership and the fulfillment of certain preconditions. 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 \$36,000,000 variable rate bonds was 3.51 percent. The variable rate bonds mature on March 1, 2039. 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. Interest expense for 2008 is \$483,797. As of December 31, 2008, the outstanding loan balance is \$36,000,000 and accrued interest is \$83,132.

SHA Loan #1

The Partnership entered into a loan agreement on July 12, 2007 with the general partner in the original estimated amount of \$4,606,506. The note was funded with proceeds provided to the general partner through Hope VI and other federal funds. The loan accrues interest at 1.0 percent per annum. Payments of principal of and interest on the loan shall be made annually from cash flow. Any unpaid principal and accrued interest are due on July 31, 2062. The loan is secured by the third deed of trust and the fourth deed of trust. The outstanding loan balance and accrued interest at December 31, 2008 are \$4,606,506 and \$66,745, respectively. Interest expense for 2008 is \$13,349.

SHA Loan #2

The Partnership entered into an additional loan agreement on July 12, 2007 with the general partner in the original amount of \$8,606,159. The note was funded with proceeds derived from unrestricted authority funds. The loan accrues interest at 1.00 percent per annum. Payments of principal of and interest on the loan shall be made annually from cash flow. The unpaid principal and accrued interest are due on July 31, 2062. The loan is secured by the third deed of trust and the fourth deed of trust. The outstanding loan balance and accrued interest at December 31, 2008 are \$757,050 and \$124,697, respectively. Interest expense for 2008 is \$24,939.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Washington State Housing Loan

The Partnership entered into a loan agreement on July 5, 2007 in the amount of \$2,000,000 with the State of Washington Department of Community, Trade and Economic Development. The loan in the amount of \$2,000,000 shall be deferred until September 30, 2019 with interest accruing at the rate of one percent compounded quarterly, during the deferral period beginning October 1, 2009. Interest only payments will begin on December 31, 2019 for ten years with quarterly payments in the amount of \$5,525. The new balance of principal and interest in the amount of \$2,210,066 shall then be amortized for 30 years with interest accruing at the rate of one percent, compounded quarterly. Quarterly payments in the amount of \$21,341 shall begin on December 31, 2029 for 30 years. The final payment of principal and interest shall be due on or before September 30, 2059. 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.

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

	Variable Rate Bonds	SHA Loan 1	SHA Loan 2	Washington State Housing	Total
2009	\$ -	\$ -	\$ -	\$ -	\$ -
2010	-	-	-	-	-
2011	-	-	-	-	-
2012	-	-	-	-	-
2013	-	-	-	-	-
Thereafter	36,000,000	4,606,506	757,050	2,000,000	43,363,556
Total	<u>\$ 36,000,000</u>	<u>\$ 4,606,506</u>	<u>\$ 757,050</u>	<u>\$ 2,000,000</u>	43,363,556
Less current maturities					<u>-</u>
Net long-term portion					<u>\$ 43,363,556</u>

NOTE 6 - CONSTRUCTION CONTRACT

The Partnership entered into a construction contract with Absher Construction Company for services in connection with the construction of the Project. The contract provided for a guaranteed contract price of \$50,139,273 including approved change orders. As of December 31, 2008, \$38,594,074 of the contract has been incurred and \$6,095,116 remains payable.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 7 – RELATED PARTY TRANSACTIONS

Management Agreement

The Partnership entered into a management agreement on July 12, 2007 with Impact Property Management, an affiliate of the general partner. The management agreement provides for fees of \$37 per unit per month increasing 3 percent per annum. As of December 31, 2008, \$21,029 in management fees have been incurred.

Development Services Fee

On December 6, 2006, 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 \$5,000,000. The fee will be capitalized into the cost of the building. As of December 31, 2008, \$4,550,000 has been incurred and \$4,550,000 is payable.

Investor Services Fee

Under the partnership agreement, an annual investor services fee of \$5,000, and increasing 3.00 percent per year is payable to Wincopin Circle LLLP beginning in 2008, as defined. Any unpaid fees shall accumulate to the extent 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. As of December 31, 2008, \$5,000 has been earned and remains payable.

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, advances from the general partner totaled \$722,703.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Tax Credit Compliance

The Project's low-income housing tax credits will be 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 limited partner.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Operating Reserves

Under the partnership agreement, the Partnership is required to fund an Operating Reserve equal to \$351,000 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 \$351,000. As of December 31, 2008, no amounts have been funded.

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 \$300 per regulated unit, as defined, increasing 3 percent annually until the loan is paid in full. As of December 31, 2008, the replacement reserve has not been funded.

Replacement Reserve for LIHTC Units

Under the partnership agreement, the Partnership is required to fund a Replacement Reserve for 106 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 percent annually until the loan is paid in full. As of December 31, 2008, the replacement reserve account has not been funded.

Lease-up Reserve

Under the partnership agreement, the Partnership is required to fund a Lease-up Reserve of \$200,000 to be funded from the Limited Partner's Third 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 Completion Date until the Stabilization Date. As of December 31, 2008, no amounts have been funded.

Affordability Reserve

Under the partnership agreement, the Partnership is required to fund an Affordability Reserve of \$156,000 to be established in accordance with the partnership agreement of the Regulatory and Operating Agreement and funded from the Limited Partner's Third 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, no amounts have been funded.

High Point South Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Debt Service Coverage

Under the partnership agreement, the Partnership is required to fund a Debt Service Reserve 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, no amounts have been funded.

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 does not bear interest and are payable from net cash flow or net proceeds, as defined. As of December 31, 2008, no such advances have been made.