



FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

**SEATTLE HIGH RISE LIMITED PARTNERSHIP**

DECEMBER 31, 2008

Seattle High Rise Limited Partnership

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
BALANCE SHEET	4
STATEMENT OF OPERATIONS	5
STATEMENT OF PARTNERS' EQUITY (DEFICIT)	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Seattle High Rise Limited Partnership

We have audited the accompanying balance sheet of Seattle High Rise 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 Seattle High Rise 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 18, 2009

Seattle High Rise Limited Partnership

BALANCE SHEET

December 31, 2008

ASSETS

Investment in rental property, net	\$ 37,425,087
Cash	198,352
Restricted cash	
Tenants' security deposits	97,907
Replacement reserve	441,276
Other reserves	<u>1,067,950</u>
Total restricted cash	<u>1,607,133</u>
Tenants' accounts receivable, net of allowance of \$36,616	40,417
Deferred loan costs, net	431,086
Tax credit monitoring fees, net	72,468
Due from affiliates	<u>1,050,705</u>
Total assets	<u><u>\$ 40,825,248</u></u>

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

Liabilities	
Accounts payable - operations	\$ 112,675
Other accrued liabilities	39,846
Accrued interest - first mortgage	397,788
Accrued interest - other loans	509,637
Tenants' security deposits liability	106,269
Payable to general partner and affiliates	7,571,863
Annual fee payable to affiliate of limited partner	7,500
Developer's fees payable	1,100,000
Mortgages and notes payable	28,051,551
Other liabilities - construction	<u>1,016,837</u>
Total liabilities	<u>38,913,966</u>
Contingencies	-
Partners' equity (deficit)	<u>1,911,282</u>
Total liabilities and partners' equity (deficit)	<u><u>\$ 40,825,248</u></u>

See notes to financial statements

Seattle High Rise Limited Partnership

STATEMENT OF OPERATIONS

Year ended December 31, 2008

Revenue	
Rental income	\$ 4,359,441
Vacancies and concessions	(208,071)
Other operating income	<u>143,567</u>
Total revenue	<u>4,294,937</u>
Operating expenses	
Salaries and employee benefits	681,819
Repairs and maintenance	1,273,624
Utilities	551,895
Property management fee	438,948
Property insurance	239,762
Miscellaneous operating expenses	<u>700,674</u>
Total operating expenses	<u>3,886,722</u>
Net operating income (loss)	<u>408,215</u>
Other income (expense)	
Interest income	295,022
Interest expense - first mortgage	(317,899)
Interest expense - other loans	(577,795)
Other financial income (expense)	(1,946)
Miscellaneous other income (expense)	(3,578)
Annual fee to affiliate of limited partner	(7,500)
Other related party fees and expenses	(591,047)
Depreciation	(1,098,601)
Amortization	<u>(20,001)</u>
Total other income (expense)	<u>(2,323,345)</u>
Net loss	<u>\$ (1,915,130)</u>

See notes to financial statements

Seattle High Rise Limited Partnership

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

Year ended December 31, 2008

	General Partner	Special Limited Partner	Investor Limited Partner	Total Partners' Equity (Deficit)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance, January 1, 2008	\$ 33	\$ -	\$ 28,000	\$ 28,033
Net loss	(192)	-	(1,914,938)	(1,915,130)
Contributions	<u>-</u>	<u>-</u>	<u>3,798,379</u>	<u>3,798,379</u>
Balance, December 31, 2008	<u>\$ (159)</u>	<u>\$ -</u>	<u>\$ 1,911,441</u>	<u>\$ 1,911,282</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>0.00%</u>	<u>99.99%</u>	<u>100.00%</u>

See notes to financial statements

Seattle High Rise Limited Partnership

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (1,915,130)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	1,098,601
Amortization	20,001
Changes in:	
Tenants' accounts receivable	34,386
Other assets	9,818
Accounts payable - operations	(27,245)
Other accrued liabilities	12,633
Accrued interest - first mortgage	397,788
Accrued interest - other loans	509,637
Tenants' security deposits liability, net	8,118
Annual fee payable to affiliate of limited partner	7,500
Payment on tax credit fees	(2,092)
Net cash provided by operating activities	<u>154,015</u>
Cash flows from investing activities	
Expenditures on rental property	(11,948,239)
Change in reserve for replacements	(441,276)
Change in other reserves	<u>10,042,243</u>
Net cash used in investing activities	<u>(2,347,272)</u>
Cash flows from financing activities	
Contributions from partners	3,798,379
Payable to general partner and affiliates	(2,800,045)
Due from affiliates	(1,932,947)
Payments on deferred loan costs	(7,770)
Net cash used in financing activities	<u>(942,383)</u>
Net decrease in cash	(3,135,640)
Cash, beginning	<u>3,333,992</u>
Cash, end	<u>\$ 198,352</u>
Supplemental disclosure of cash flow information	
Cash paid for interest, net of amount capitalized in the amount of \$1,025,551	<u>\$ 300,843</u>
Supplemental schedule of non-cash investing and financing activities	
Rental property	\$ 56,704
Construction and development costs payable	(841,636)
Developer fee payable	600,000
Deferred loan costs	<u>184,932</u>
	<u>\$ -</u>

See notes to financial statements

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Seattle High Rise Limited Partnership (the Partnership) was formed as a limited partnership on August 15, 2006, under the laws of the state of Washington, for the purpose of acquiring, holding, investing in, securing financing for, constructing, rehabilitating, developing, improving, maintaining, leasing and operating a low-income residential housing project. Upon completion of rehabilitation, the property consists of 690 public housing rental units located in Seattle, Washington, and operates under the name Seattle High Rise Rehab Phase II (the Project).

Effective December 21, 2006, the partnership agreement was amended to admit a new investor limited partner and a special limited partner and to permit the withdrawal of the initial limited partner. This Partnership provides for ownership and allocations of profits, losses and tax credits as follows:

General partner	.01%
Special limited partner	.00%
Investor limited partner	<u>99.99%</u>
	<u>100.00%</u>

The general partner is The Housing Authority of the City of Seattle (SHA), the investor limited partner is Boston Capital Corporate Tax Credit Fund XXVII, LP and the special limited partner is BCCC, Inc.

The Project consists of seven buildings which qualified for and were allocated 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 40 years, even after disposition of the Project by the Partnership.

The partnership agreement remains in effect until December 31, 2105.

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

Tenant receivables are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of tenant accounts receivable. It is reasonably possible that management's estimate of the allowance will change.

Investment in Rental Property, net

The investment in real estate is carried at cost. Expenditures for maintenance and repairs are charged to expenses as incurred while major renewals and betterments are capitalized. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Land Improvements	15 years
Furniture and Fixtures	7 years

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

Land improvements	399,013
Buildings and improvements	\$ 37,522,392
Furniture	<u>937,605</u>
Subtotal	38,859,010
Accumulated depreciation	<u>(1,433,923)</u>
Net	<u><u>\$ 37,425,087</u></u>

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Partnership reviews its rental

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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 impairment loss has been recognized as of December 31, 2008.

Deferred Financing Fees and Amortization

Deferred financing fees are amortized over the term of the loan using the effective-yield method. Amortization expense for the year ended December 31, 2008 was \$11,949. Estimated amortization expense for each of the five ensuing years through December 31, 2013 is \$11,869, \$12,116, \$12,359, \$12,597, and \$12,828, respectively.

Costs related to obtaining low-income housing tax credits are being amortized over the mandatory 15-year compliance period. Amortization expense for the year ended December 31, 2008 was \$8,052. Amortization expense for each of the five ensuing years through December 31, 2013 is \$8,052, 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

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

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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 - CAPITAL LEASE

On December 21, 2006, the Partnership entered into a capital lease with the Housing Authority of the City of Seattle for the building and the improvements of the Project. The lease agreement ends on December 31, 2105. Payments are required under the lease in the amount of \$11,062,522. According to the lease agreement, on the date the investor limited partner makes its first, second, third and fourth contribution per the partnership agreement, lease payments in the amount of \$690,614, \$3,090,249, \$732,267, and \$6,549,392, respectively, are required to be paid to the Housing Authority of the City of Seattle in satisfaction of the capital lease obligation. All payments not made on those dates bear interest at 4.86 percent. The Partnership shall be entitled to all of the tax attributes of ownership, including the right to claim depreciation or cost recovery deductions and the right to claim the low-income tax housing tax credit described in Section 42 of the Code. In addition, the Partnership shall have the right to amortize capital costs and claim any other federal tax benefits attributable to improvements and equipment. The Partnership is responsible for all real estate taxes and maintenance of any improvements during the term of the lease. As of December 31, 2008, the second lease payment of \$3,090,249 has been made. As of December 31, 2008, the Partnership incurred interest of \$591,047 and \$290,204 remains payable. \$407,287 of interest was capitalized into the cost of the building. The outstanding balance is \$7,281,659 at December 31, 2008.

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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

2009	\$ -
2010	732,267
2011	6,549,392
2012	-
2013	-
Thereafter	-
Total	<u>7,281,659</u>
Less interest	<u>-</u>
Net capital lease payable	<u><u>\$ 7,281,659</u></u>

Assets held under the lease agreement include the following:

Buildings and improvements	\$ 11,062,522
Accumulated depreciation	<u>(576,615)</u>
Total assets held under lease	<u><u>\$ 10,485,907</u></u>

NOTE 4 - ESCROW DEPOSITS AND RESTRICTED RESERVES

Replacement Reserves

In accordance with the terms of the Partnership Agreement, the Partnership is required to make yearly deposits of \$217,350 to the replacement reserve. As of December 31, 2008, the balance of the replacement reserves is \$441,276.

Other Reserves

The proceeds from the issuance of the capital and bridge bonds were each deposited into an escrow account to be used to fund approved development cost. Proceeds from the bonds are held in the name of the general partner for the benefit of the Partnership in the amount of \$1,067,950 at December 31, 2008.

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 5 - RELATED PARTY TRANSACTIONS

Management Fee

On December 21, 2006, the Partnership entered into a management agreement with the Seattle Housing Authority. Per the agreement, the owner pays the agent a monthly fee that covers the actual costs incurred to manage the properties based upon services rendered. For the year ended December 31, 2008, \$438,948 of management fees have been earned and paid.

Partnership Management Fee

The Partnership is required to pay the general partner a noncumulative partnership management fee in the amount of \$7,500 beginning in 2008. The fee is payable to the extent of surplus cash, as defined. No partnership management fees were paid during the year ended December 31, 2008.

Asset Management Fee

The Partnership is required to pay the special limited partner or an affiliate a cumulative annual asset management fee in the amount of \$7,500 beginning in 2008. The fee is payable to the extent of surplus cash, as defined. The fee increases each year by the Consumer Price Index. As of December 31, 2008, \$7,500 has been incurred and remains payable.

Development Services Fee

On December 21, 2006, the Partnership entered into a development 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 \$2,000,000 which is capitalized as part of the project. As of December 31, 2008, \$2,000,000 has been earned and \$1,100,000 remains payable.

Due from Affiliates

During 2008, the Partnership advanced funds to an affiliate of the general partner. These funds do not bear interest and are due on demand. As of December 31, 2008, the outstanding balance is \$1,050,705.

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Regulatory and operating agreement

On December 21, 2006, the Partnership entered into a regulatory and operating agreement with SHA. Per the agreement, SHA shall pay the Partnership an operating subsidy equal to (A) the estimated project unit expenses for such period, as defined, less (B) the estimated project unit income for the period, as defined. SHA shall pay the Partnership on the first day of each month of an SHA fiscal year, as defined. For the year ended December 31, 2008, \$2,147,726 of operating subsidy was earned and is included in rental income in the statement of operations.

Financial Services

The Partnership pays the Housing Authority of the City of Seattle a financial services fee to cover the expenses of the financial operation of the public housing communities. As of December 31, 2008, \$130,882 of financial services has been paid.

Ground Lease

On December 21, 2006, the Partnership entered into a ground lease with the Housing Authority of the City of Seattle. The lease agreement requires annual payments of \$1, payable on or before December 21, 2006, and thereafter on or before January 1 of each year, commencing January 1, 2007 and is being accounted for as an operating lease. The Partnership is liable for all payments of insurance and utilities that are in connection with the development, construction, and operating of the project during the term of the lease.

NOTE 6 - CONSTRUCTION CONTRACT

SHA entered into a construction contract on behalf of the Partnership in August 10, 2006 with W.G. Clark Construction Company for preconstruction services of the Project. The total amount of the contract at December 31, 2008 is \$20,734,213, including change orders. As of December 31, 2008, all of the construction contract was incurred and \$1,016,837 remains payable.

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 7 - MORTGAGES PAYABLE

Capital Bond - The Housing Authority of The City of Seattle

On December 21, 2006, a promissory note was created between The Housing Authority of The City of Seattle and the Partnership for a principal amount of \$12,000,000. Under the terms of the loan agreement dated December 21, 2006, the loan was funded by Capital Fund Program Revenue Bonds, 2006 (High Rise Rehabilitation Program-Phase II). During the rehabilitation stages of the Project, interest only payments shall be made quarterly beginning April 1, 2007 with interest accruing at a rate of 4.60 percent per annum. After the rehabilitation stage, principal and interest shall be paid from available cash flow at an interest rate of 3.50 percent per annum. The loan matures on December 21, 2046. The note is secured by a deed of trust encumbering the Partnership's interest in the Project and is non-recourse to the Partnership and its partners. As of December 31, 2008, \$317,899 of interest was incurred and \$397,788 remains payable. The outstanding principal balance was \$12,000,000 as of December 31, 2008.

Bridge Bond - The Housing Authority of The City of Seattle

The Partnership entered into a secured loan agreement on December 21, 2006 with the general partner, SHA, in the original amount of \$16,051,551. Under the terms of the loan agreement dated December 21, 2006, the loan was funded by Low-Income Housing Assistance Revenue Bonds, 2006 (High Rise Rehabilitation Program-Phase II) issued by SHA. During the rehabilitation stages of the Project, the loan bears interest on the original loan amount, from the date the first installment was funded, at a rate of 4.88 percent per annum, subject to increase during that period by 2.00 percent per annum if the rate of the interest on the bond is so increased, and thereafter at the rate of 3.50 percent per annum. During rehabilitation, payments of principal and interest on the loan shall be made quarterly beginning April 1, 2007. Thereafter, principal and interest payments will be made from cash flow on April 1 of each year. The loan matures on December 21, 2046. The loan is secured by the land, buildings and improvements. As of December 31, 2008, \$577,795 of interest was incurred and \$509,637 remains payable. The outstanding principal balance was \$16,051,551 as of December 31, 2008.

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Future annual maturities of the Capital and Bridge Bond are as follows:

	<u>Capital Bond</u>	<u>Bridge Bond</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	-	-	-
2011	-	-	-
2012	-	-	-
2013	-	-	-
Thereafter	<u>12,000,000</u>	<u>16,051,551</u>	<u>28,051,551</u>
Total	<u>\$ 12,000,000</u>	<u>\$ 16,051,551</u>	28,051,551
Less current maturities			<u>-</u>
Net long-term portion			<u>\$ 28,051,551</u>

NOTE 8 - PARTNERS CONTRIBUTIONS

In accordance with the First Amended and Restated Agreement of Limited Partnership, the investor limited partner is required to contribute \$13,812,289. Of this amount, \$4,488,992 has been received. The remaining installments are due as follows:

1. \$837,802 shall be paid on the later of (a) the completion date, (b) cost certification date, (c) receipt by the investment limited partner of evidence of satisfaction of the insurance requirements and the due diligence recommendations, (d) receipt by the special limited partner of an updated title policy that shall not contain a survey exception (e) receipt by the investment limited partner of the contractor pay-off letter and an estoppels letter from each Lender, or (f) delivery of an "As-Built" survey by a professional engineer licensed in the State reflecting all improvements to the Apartment Complex, but only to the extent that the footprint of any Building changed after the delivery of the ALTA surveys;
2. \$8,501,465 shall be paid on the later of (a) receipts by the investment limited partner of state designation, (b) rental achievement, (c) initial 100 percent occupancy date, (d) permanent mortgage commencement (e) receipts by the investment limited partner of the initial compliance audit which shows no material noncompliance.

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Partnership maintains its cash balances in one bank. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each bank. The Partnership has not

Seattle High Rise Limited Partnership

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

experienced any losses in such accounts. As of December 31, 2008, there have been no losses related to these accounts.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Tax Credit Compliance and Contingency

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 limited partner.

Operating Deficit Advances

Under the Partnership Agreement, the general partner is required to make operating deficit advances to the Partnership during the period from rental achievement until the third anniversary of rental achievement in the amount of \$2,457,461, which is reduced to \$1,638,307 after eighteen months of rental achievement, as defined. The operating deficit advances are non-interest bearing and are payable from net cash flow of the Partnership, as defined. As of December 31, 2008, no such advances have been made.