



FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

HIGH RISE REHABILITATION PHASE I, L.P.

DECEMBER 31, 2008

High Rise Rehabilitation Phase I, L.P.

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INDEPENDENT AUDITORS' REPORT

To the Partners of
High Rise Rehabilitation Phase I, L.P.

We have audited the accompanying balance sheet of High Rise Rehabilitation Phase I, L.P. 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 Rise Rehabilitation Phase I, L.P. 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.



Atlanta, Georgia
March 18, 2009

High Rise Rehabilitation Phase I, L.P.

BALANCE SHEET

Year ended December 31, 2008

ASSETS

Investment in rental property, net	\$ 30,815,630
Cash	8,465
Restricted cash	
Tenants' security deposits	98,862
Replacement reserve	694,005
Other reserves	<u>1,475,554</u>
Total restricted cash	<u>2,268,421</u>
Tenants' accounts receivable	27,377
Prepaid expenses	3,324
Deferred loan costs, net	503,530
Tax credit monitoring fees, net	<u>113,586</u>
Total assets	<u><u>\$ 33,740,333</u></u>

LIABILITIES AND PARTERS' EQUITY (DEFICIT)

Liabilities	
Accounts payable - operations	\$ 259,307
Other accrued liabilities	132,769
Accrued interest - first mortgage	404,250
Accrued interest - other loans	440,000
Tenants' security deposits liability	102,742
Mortgages and notes payable	24,000,000
Other liabilities - construction	<u>-</u>
Total liabilities	<u>25,339,068</u>
Contingencies	-
Partners' equity (deficit)	<u>8,401,265</u>
Total liabilities and partners' equity (deficit)	<u><u>\$ 33,740,333</u></u>

See notes to financial statements

High Rise Rehabilitation Phase I, L.P.

STATEMENT OF OPERATIONS

Year ended December 31, 2008

Revenue	
Rental income	\$ 4,698,491
Vacancies and concessions	(363,009)
Other operating income	<u>103,232</u>
Total revenue	<u>4,438,714</u>
Operating expenses	
Salaries and employee benefits	717,059
Repairs and maintenance	1,184,880
Utilities	559,866
Property management fee	450,482
Property insurance	162,035
Miscellaneous operating expenses	<u>648,884</u>
Total operating expenses	<u>3,723,206</u>
Net operating income (loss)	<u>715,508</u>
Other income (expense)	
Interest income	37,049
Interest expense - first mortgage	(305,250)
Interest expense - other loans	(330,000)
Other financial income (expense)	(32,674)
Annual fee to affiliate of limited partner	(7,821)
Depreciation	(832,321)
Amortization	<u>(21,848)</u>
Total other income (expense)	<u>(1,492,865)</u>
Net loss	<u><u>\$ (777,357)</u></u>

See notes to financial statements

High Rise Rehabilitation Phase I, L.P.

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

Year ended December 31, 2008

	<u>General Partner</u>	<u>Special Limited Partner</u>	<u>Investment Limited Partner</u>	<u>Total Partners' Equity (Deficit)</u>
Balance, January 1, 2008	\$ (149)	\$ -	\$ 1,287,985	\$ 1,287,836
Net loss	(78)	-	(777,279)	(777,357)
Contributions	-	-	7,890,786	7,890,786
Balance, December 31, 2008	<u>\$ (227)</u>	<u>\$ -</u>	<u>\$ 8,401,492</u>	<u>\$ 8,401,265</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

High Rise Rehabilitation Phase I, L.P.

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (777,357)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	832,321
Amortization	21,848
Changes in:	
Tenants' accounts receivable	5,176
Prepaid expenses	(3,324)
Other assets	19,179
Accounts payable - operations	182,546
Other accrued liabilities	(748,920)
Accrued interest - first mortgage	305,250
Accrued interest - other loans	330,000
Tenants' security deposits liability, net	(2,752)
Annual fee payable to affiliate of limited partner	(7,500)
	<u>156,467</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Change in reserve for replacements	(694,005)
Change in other reserves	(410,707)
Construction contract payable	-
	<u>(1,104,712)</u>
Net cash used in investing activities	
Cash flows from financing activities	
Proceeds from mortgage note payable	1,200,000
Contributions from partners	7,890,786
Developer fees paid	(1,425,000)
Capital lease payable	(7,718,456)
	<u>(52,670)</u>
Net cash used in financing activities	
Net decrease in cash	(1,000,915)
Cash, beginning	<u>1,009,380</u>
Cash, end	<u><u>\$ 8,465</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u><u>\$ -</u></u>

See notes to financial statements

High Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

High Rise Rehabilitation Phase I, L.P. (the Partnership) was formed as a limited partnership on August 5, 2005, 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. The property consists of 704 rental units (35 public housing units and 669 low-income housing units) located in Seattle, Washington, and operates under the name Seattle High Rise Rehabilitation Phase I (the Project).

Effective December 22, 2005, the partnership agreement was amended to admit a new limited partner and a special limited partner and to permit the withdrawal of the initial limited partner. This amendment provides for ownership and allocations of profits, losses and tax credits as follows:

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

The general partner is The Housing Authority of the City of Seattle (SHA), the investment limited partners are Boston Capital Corporate Tax Credit Fund XXV, LP and Boston Capital Corporate Tax Credit Fund XXVI, 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.

High Rise Rehabilitation Phase I, L.P.

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 reasonable possible that management's estimate of the allowance will change.

Investment in Rental Property, net

Property and equipment is recorded 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:

Buildings and improvements	\$ 32,573,468
Equipment	<u>125,878</u>
Subtotal	32,699,346
Accumulated depreciation	<u>(1,883,716)</u>
Net	<u><u>\$ 30,815,630</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 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 during the year ended December 31, 2008.

High Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Amortization

Deferred loan costs are amortized over the term of the mortgage loan using the straight-line method. Other intangible assets are amortized over their respective useful lives under the straight-line method. Estimated amortization expense for each of the ensuing years through December 31, 2013 is \$21,848.

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 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 Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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 1, 2005, 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, 2104. Payments are required under the lease in the amount of \$11,434,750. According to the lease agreement, on the date the investment limited partner makes its first, second, third and fourth contribution per the partnership agreement, lease payments in the amount of \$571,738, \$3,144,556, \$680,368, and \$7,038,088, respectively, are required to be paid to the Housing Authority of the City of Seattle. 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, all required payments have been made.

Assets held under the lease agreement include the following:

Buildings and improvements	\$	11,434,750
Accumulated depreciation		<u>(881,888)</u>
Total assets held under lease	\$	<u><u>10,552,862</u></u>

High Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 4 - RESTRICTED RESERVES

Replacement Reserves

The Partnership is required to make yearly deposits to a reserve for replacements account for use in funding maintenance and replacement costs. Yearly payments of \$302,016 are required. As of December 31, 2008, the balance of the replacement reserves is \$694,005.

Operating Reserve

The General Partner is required to establish and maintain an operating reserve funded from the fourth installment of the capital contribution, in the amount of \$1,468,834. As of December 31, 2008, the balance of the operating reserve is \$1,475,554.

NOTE 5 - RELATED PARTY TRANSACTIONS

Management Fee

On December 22, 2005, the Partnership entered into a management agreement with the Seattle Housing Authority. Per the agreement, the owner will pay the agent a monthly fee that will cover the actual costs incurred to manage the properties based upon services rendered. For the year ended December 31, 2008, \$450,482 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 2007. The fee is payable to the extent of surplus cash, as defined. No partnership management fees were paid during 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 2007. 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, \$7,821 was incurred and \$- remains payable.

High Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Development Services Fee

On November 14, 2005, 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 \$1,900,000. As of December 31, 2008, \$1,900,000 has been earned and \$0 remains payable.

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, \$130,096 of financial services has been paid and is included in miscellaneous operating expenses on the accompanying statement of operations.

Ground Lease

On December 1, 2005, 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 1, 2005, and thereafter on or before January 1 of each year, commencing January 1, 2006 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 2005 with WG Clark Construction Company for preconstruction services of the Project. The cost of preconstruction services totaled \$58,226. On December 20, 2005, the parties agreed to \$15,355,709 of total change orders for rehabilitation of the Project. The total amount of the contract at December 31, 2008 is \$15,704,260. WG Clark Construction Company was authorized to begin with construction on February 16, 2006. As of December 31, 2008, \$15,704,260 of the construction contract was incurred and \$2,573 remains outstanding.

NOTE 7 - MORTGAGES PAYABLE

Capital Bond - The Housing Authority of The City of Seattle

On December 22, 2005, 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 22, 2005, the loan was funded by Capital Fund

High Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Program Revenue Bonds, 2005 (High Rise Rehabilitation Program-Phase I) insured by FSA. During the rehabilitation stages of the Project, interest only payments shall be made quarterly beginning April 1, 2006 with interest accruing at a rate of 4.82 percent per annum. After the rehabilitation stage, principal and interest shall be paid from available cash flow at an interest rate of 2.75 percent per annum. The loan will mature on January 1, 2046. The note is secured by a deed of trust encumbering the Partnership's interest in the Project and will be nonrecourse to the Partnership and its partners. As of December 31, 2008, the outstanding principal balance was \$12,000,000.

Bridge Bond - The Housing Authority of The City of Seattle

The Partnership entered into a secured loan agreement on December 22, 2005 with the general partner, SHA, in the original amount of \$12,000,000. Under the terms of the loan agreement dated December 22, 2005, the loan was funded by Low-Income Housing Assistance Revenue Bonds, 2005 (High Rise Rehabilitation Program-Phase I) issued by SHA. The loan will be funded in two installments; the first installment will be in the amount of \$10,800,000 and the second in the amount of \$1,200,000. During the rehabilitation stages of the Project, the loan will bear interest on the original loan amount, from the date the first installment was funded, at a rate of 4.68 percent per annum, and thereafter at the rate of 2.75 percent per annum. During rehabilitation, interest only payments will be made quarterly beginning April 1, 2006. Thereafter, principal and interest payments will be made from cash flow on April 1 of each year. The loan will mature on January 1, 2046. The loan is secured by the buildings and improvements. As of December 31, 2008, the outstanding principal balance was \$12,000,000.

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>12,000,000</u>	<u>24,000,000</u>
Total	<u>\$ 12,000,000</u>	<u>\$ 12,000,000</u>	24,000,000
Less current maturities			<u>-</u>
Net long-term portion			<u>\$ 24,000,000</u>

High Rise Rehabilitation Phase I, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 8 - PARTNERS CONTRIBUTIONS

In accordance with the First Amended and Restated Agreement of Limited Partnership, the special limited partner is required to contribute \$11,676,400. As of December 31, 2008, all contributions have been received.

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

Regulatory and Operating Agreement

On December 22, 2005, the Partnership entered into a regulatory and operating agreement 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, \$2,000,284 of operating subsidy was earned and is included in rental income in the statement of operations. As of December 31, 2008, there is no subsidy due.