NOVOGRADAC & COMPANY LLP®

High Rise Phase I Limited Partnership

Financial Statements
with Report of Independent Auditors
December 31, 2019 and 2018

Report of Independent Auditors

To the Partners of

High Rise Phase I Limited Partnership:

Report on the Financial Statements

We have audited the accompanying financial statements of High Rise Phase I Limited Partnership, a Washington limited partnership (the "Partnership"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in partners' deficit and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Rise Phase I Limited Partnership as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note 2 to the financial statements, High Rise Phase I Limited Partnership adopted changes in accounting principles related to revenue recognition, presentation and disclosure of the statements of cash flows, financial instruments, and real estate sales. Our opinion is not modified with respect to those matters.

Novogradac & Company LLP

Bellevue, Washington
March 24, 2020

HIGH RISE REHABILITATION PHASE I LIMITED PARTNERSHIP

BALANCE SHEETS

December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ -	$ -
Restricted cash	4,316,093	3,284,453
Accounts receivable, net of allowance	71,985	456,026
Prepaid expenses	-	245,040
Due from General Partner	47,369	93,942
Construction in progress	176,461	4,546
Fixed assets, net of accumulated depreciation	22,458,281	23,055,176
Deferred charges, net of accumulated amortization	18,688	27,315
Total assets	$ 27,088,877	$ 27,166,498
LIABILITIES AND PARTNERS' DEFICIT		
Liabilities		
Accounts payable and accrued expenses	$ 527,360	$ 695,938
Tenant security deposits payable	170,657	166,892
Prepaid rent	21,181	28,184
Due to related parties		
Accrued asset management fee	9,191	9,191
Accrued interest	6,124,250	5,464,250
Due to General Partner	-	299,716
Notes payable to General Partner, net of debt issuance costs	23,641,903	23,628,682
Total liabilities	30,494,542	30,292,853
Partners' deficit	(3,405,665)	(3,126,355)
Total liabilities and partners' deficit	$ 27,088,877	$ 27,166,498

HIGH RISE REHABILITATION PHASE I LIMITED PARTNERSHIP

STATEMENTS OF OPERATIONS

For the years ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Rental income	$ 5,720,678	$ 4,482,884
Other	279,572	271,399
Total revenue	6,000,250	4,754,283
OPERATING EXPENSES		
General and administrative	358,901	354,174
Payroll	792,572	764,013
Utilities	913,451	827,489
Insurance	256,648	231,021
Property management fee	475,200	437,102
Repairs and maintenance	1,758,878	1,702,773
Professional fees	38,884	30,356
Total operating expenses	4,594,534	4,346,928
Net operating income	1,405,716	407,355
OTHER INCOME AND (EXPENSES)		
Interest income	9,305	5,863
Interest expense - debt issuance cost	(13,221)	(13,221)
Interest expense	(660,000)	(660,000)
Depreciation and amortization	(860,086)	(888,256)
Asset management fee	(9,334)	(9,191)
Other partnership expenses	(151,690)	(151,224)
Total other income and (expenses)	(1,685,026)	(1,716,029)
Net loss	$ (279,310)	$ (1,308,674)

See accompanying notes

HIGH RISE REHABILITATION PHASE I LIMITED PARTNERSHIP
STATEMENTS OF CHANGES IN PARTNERS' DEFICIT
For the years ended December 31, 2019 and 2018

	Housing Authority of the City of Seattle	Boston Capital Corporate Tax Fund XXV, LP	Boston Capital Corporate Tax Fund XXVI, LP	Total Partners' Capital
	0.01%	50.00%	49.99%	100.00%
BALANCE, JANUARY 1, 2018	$ (1,249)	$ (908,308)	$ (908,124)	$ (1,817,681)
Net loss	(1,308,674)	-	-	(1,308,674)
BALANCE, DECEMBER 31, 2018	(1,309,923)	(908,308)	(908,124)	(3,126,355)
Net loss	(279,310)	-	-	(279,310)
BALANCE, DECEMBER 31, 2019	$ (1,589,233)	$ (908,308)	$ (908,124)	$ (3,405,665)

See accompanying notes

HIGH RISE REHABILITATION PHASE I LIMITED PARTNERSHIP
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (279,310)	$ (1,308,674)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Interest expense - debt issuance costs	13,221	13,221
Bad debt (recovery)	(12,786)	47,928
Depreciation and amortization	860,086	888,256
(Increase) decrease in assets		
Accounts receivable	396,827	(416,699)
Prepaid expenses	245,040	(28,118)
Due from General Partner	46,573	(93,942)
Decrease (increase) in liabilities		
Accounts payable and accrued expenses	(168,578)	502,452
Tenant security deposits payable	3,765	2,805
Prepaid rent	(7,003)	12,474
Accrued asset management fee	-	186
Accrued interest	660,000	660,000
Net cash provided by operating activities	1,757,835	279,889
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of construction in progress	(171,915)	(4,546)
Purchase of fixed assets	(254,564)	(60,681)
Net cash used in investing activities	(426,479)	(65,227)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on proceeds from due to General Partner	(299,716)	(250,665)
Net cash used in financing activities	(299,716)	(250,665)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	1,031,640	(36,003)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	3,284,453	3,320,456
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	$ 4,316,093	$ 3,284,453
Cash and cash equivalents	$ -	$ -
Restricted cash	4,316,093	3,284,453
Total cash, cash equivalents, and restricted cash	$ 4,316,093	$ 3,284,453
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ -	$ -

1. Organization

High Rise Phase I Limited Partnership, a Washington Limited Partnership (the "Partnership"), is a limited partnership originally formed for the purpose to acquire a leasehold interest in, rehabilitate, develop, and operate a 704-unit apartment project (the "Project"), located in Seattle, Washington, in accordance with any applicable regulations and provisions of the First Amended and Restated Agreement of Limited Partnership dated December 22, 2005 (the "Partnership Agreement"). Pursuant to the Partnership Agreement, the Housing Authority of the City of Seattle is the general partner (the "General Partner"), Boston Capital Corporate Tax Credit Fund XXV, a Limited Partnership, and Boston Capital Corporate Tax Credit Fund XXVI, a Limited Partnership, are the investment limited partners (collectively the "Investment Limited Partners"), and BCCC, Inc. is the special limited partner (the "Special Limited Partner"). The Project is rented to low-income tenants and is operated in a manner necessary to qualify for the federal low-income housing tax credits and tax-exempt housing bonds as provided under the Internal Revenue Code Sections 42 and 142.

Profits, losses, and tax credits are allocated in accordance with the Partnership Agreement. Income or loss from operations and tax credits are generally allocated 99.99% to the Investment Limited Partners, 0.01% to the General Partner, 0% to the Special Limited Partner, and are subject to IRC Section 704(b) and other special allocations. Pursuant to the terms of the Partnership Agreement, the Investment Limited Partners are required to make capital contributions totaling $11,676,400 subject to potential adjustments based on the amount of low-income housing tax credits ultimately allocated to the Project in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of December 31, 2019 and 2018, all required contributions have been received.

2. Summary of significant accounting policies and nature of operations

Basis of accounting
The Partnership prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Estimates
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents
Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents (see Note 3).

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 cash and cash equivalents.

2. Summary of significant accounting policies and nature of operations (continued)

Accounts receivable
Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are generally written off through a charge to the valuation allowance and a credit to trade accounts receivable. As of December 31, 2019 and 2018, the allowance for doubtful accounts was $10,301 and $10,687, respectively. For the years ended December 31, 2019 and 2018, bad debt expense was $0 and $47,928, respectively. Bad debt recovery was $12,786 and $0, respectively, and are included in general and administrative on the accompanying statements of operations.

Construction in progress
During 2019, parking lot replacements were made at the Project that were in progress as of yearend. The replacements are expected to be completed in 2020. As of December 31, 2019 and 2018, construction in progress was $176,461 and $4,546, respectively.

Fixed assets and depreciation
Fixed assets are recorded at cost. Buildings are depreciated over their estimated useful lives of 40 years under the straight-line method. Improvements are depreciated over their estimated useful lives of 15 years. Furniture and equipment are depreciated over their estimated useful life of 7 years under the straight-line method. For the years ended December 31, 2019 and 2018, depreciation expense was $851,459 and $879,629, respectively.

Deferred charges and amortization
Tax credit fees are amortized over the compliance period of 15 years under the straight-line method. For the years ended December 31, 2019 and 2018, amortization expense was $8,627 for each year.

Impairment of long-lived assets
The Partnership reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flows analysis, or other valuation technique. There were no impairment losses recognized for the years ended December 31, 2019 and 2018.

Income taxes
Income taxes on Partnership income are levied on the partners at the partner level. Accordingly, all profits and losses of the Partnership are recognized by each partner on its respective tax return.

2. Summary of significant accounting policies and nature of operations (continued)

Income taxes (continued)
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Partnership to report information regarding its exposure to various tax positions taken by the Partnership. Management has determined whether any tax positions have met the recognition threshold and has measured the Partnership's exposure to those tax positions. Management believes that the Partnership has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Partnership are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Revenue recognition
Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other income includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned.

Economic concentrations
The Partnership operates seven properties in Seattle, Washington. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing.

Leases
The Partnership entered into a lease agreement with the General Partner for the land and buildings comprising the Project. Pursuant to the guidance for accounting for leases, the Partnership accounts for the lease of the buildings as a capital lease and the lease of the land as an operating lease (see Note 5).

Subsequent events
The spread of a novel strain of coronavirus (COVID-19) in the first quarter of 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on tenants, employees and vendors, all of which are uncertain and cannot be determined at this time.

Subsequent events have been evaluated through March 24, 2020, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Changes in accounting principles
On January 1, 2019, the Partnership adopted a new accounting standard that affects the accounting for revenue. The Partnership's revenue is mainly derived from leases, which is not impacted by this standard. Adopting this standard did not have a significant impact on the financial statements. The new revenue standard also introduced new guidance for accounting for other income, including the accounting for sales of real estate. Adopting this standard did not have a significant impact on the financial statements.

2. Summary of significant accounting policies and nature of operations (continued)

Changes in accounting principles (continued)
On January 1, 2019, the Partnership adopted new accounting standards that affect the statement of cash flows. These new standards address how certain cash receipts and payments are presented and classified in the statement of cash flows, including that debt prepayments and other debt extinguishment related payments are required to be classified as financing activities, when previously these payments were classified as an operating activity. The new standards also require the statement of cash flows to explain the change in cash, cash equivalents and restricted cash. Previously, changes in restricted cash were presented in the statement of cash flows as operating, investing or financing activities depending upon the intended purpose of the restricted funds.

The effect of the revisions to the statements of cash flows for the year ended December 31, 2018 is as follows:

	As Previously Reported	Adjustments	As Revised
Net cash flows from investing activities	$ (29,224)	$ (36,003)	$ (65,227)

The new standard requires lessees to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Management is in the process of determining the impact of adopting this standard.

3. Restricted cash

As of December 31, 2019 and 2018, the Partnership's restricted cash consisted of the following:

	2019	2018
Operating reserve	$ 1,510,548	$ 1,506,777
Replacement reserve	2,637,895	1,608,466
Tenant security deposits	167,650	164,190
Family self-sufficiency reserve	-	5,020
Total	$ 4,316,093	$ 3,284,453

The carrying value of restricted cash approximates fair value because of the short-term maturity of those instruments.

Operating reserve
Pursuant to the Partnership Agreement, the Partnership was required to establish a reserve in the amount of $1,468,834 at the time of the Fourth Installments, as defined in the Partnership Agreement. The operating reserve is maintained in an interest-bearing market savings account.

Replacement reserve
Pursuant to the Regulatory Agreement, the General Partner will pay an annual amount to the Project equaling $315 per unit, increasing annually by 3.5% for the funding of replacement reserves. The replacement reserves are to be used to fund capital improvements and repairs.

3. Restricted cash (continued)

The detailed activities of replacement reserve account for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Balance, January 1	$ 1,608,466	$ 1,638,593
Deposits	1,441,577	335,104
Withdrawals	(417,267)	(368,168)
Interest income	5,119	2,937
Balance, December 31	$ 2,637,895	$ 1,608,466

The replacement reserve is maintained in interest-bearing market rate savings accounts.

Tenant security deposits
Tenant security deposits are generally held until termination of the leases, at which time some or all deposits may be returned to the lessee.

Family self-sufficiency reserve
The Partnership allows its tenants to participate in a voluntary HUD savings assistance program. As the tenant's income increases, rent would normally increase, but this increase is collected by the Partnership and placed in a reserve account to be held for the tenants' use. The Partnership also maintains an offsetting liability account to track the portion owed to the tenants.

4. Fixed assets
The Partnership's fixed assets, net consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Buildings	$ 33,212,047	$ 32,995,539
Improvements	73,463	73,463
Furniture and equipment	268,438	230,382
Total fixed assets	33,553,948	33,299,384
Less: accumulated depreciation	(11,095,667)	(10,244,208)
Fixed assets, net	$ 22,458,281	$ 23,055,176

5. Related party transactions

Notes payable to General Partner
On December 22, 2005, the Partnership entered into a promissory note with the General Partner in the amount of $12,000,000 (the "Bridge Bond"). The Bridge Bond bears simple interest at 2.75% per annum. Under the terms of the loan agreement dated December 22, 2005, the Bridge Bond was funded by Capital Fund Program Reserve Bonds, 2005 (High Rise Rehabilitation – Phase I). Principal and interest will be paid from available cash flow. The Bridge Bond matures on January 1, 2046 and is secured by the deed of trust on the Project. The final payment of the principal and interest is due and payable on the maturity date. As of December 31, 2019 and 2018, the outstanding principal balance on the Bridge Bond was $12,000,000 for both years, and accrued interest was $3,044,250 and $2,714,250, respectively. For the years ended December 31, 2019 and 2018, interest expense was $330,000 for each year.

5. Related party transactions (continued)

Notes payable to General Partner (continued)
On December 22, 2005, the Partnership entered into a promissory note with the General Partner in the amount of $12,000,000 (the "Capital Bond"). The Capital Bond bears simple interest at 2.75% per annum. Under the terms of the loan agreement dated December 22, 2005, the Capital Bond was funded by Capital Fund Program Reserve Bonds, 2005 (High Rise Rehabilitation – Phase I). Principal and interest will be paid from available cash flow. The Capital Bond matures on January 1, 2046 and is secured by the deed of trust on the Project.

The final payment of the principal and interest is due and payable on the maturity date. As of December 31, 2019 and 2018, the outstanding principal balance on the Capital Bond was $12,000,000 for both years, and accrued interest was $3,080,000 and $2,750,000 respectively. For the years ended December 31, 2019 and 2018, interest expense was $330,000 for each year.

Debt issuance costs of $528,856 are being amortized to interest expense over the term of the loan. For 2019 and 2018, the effective interest rate for both notes was 2.81% for both years. During 2019 and 2018, amortization expense for debt issuance costs was $13,221 for each year.

Capital Bond, net consists of the following as of December 31, 2019 and 2018:

	2019	2018
Bridge Bond and Capital Bond	$ 24,000,000	$ 24,000,000
Less: unamortized debt issuance costs	(358,097)	(371,318)
Bridge Bond and Capital Loan, net	$ 23,641,903	$ 23,628,682

Annual minimum principal payments on the Bridge Bond and Capital Bond are as follows:

Year ending December 31,	
2019	$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	24,000,000
Total	$ 24,000,000

Financial services
The Partnership pays the General Partner a financial services fee to cover the expenses of the financial operation of the Project. The fee is based on costs incurred by the General Partner's finance and administrative departments and allocated based on number of units. For the years ended December 31, 2019 and 2018, the financial services fee of $121,585 and $121,119, respectively were incurred and paid, and is included in other Partnership expenses on the accompanying statements of operations.

5. Related party transactions (continued)

Lease agreement

On December 1, 2005, the Partnership entered into a lease agreement with the General Partner to lease the land, buildings, and other improvements constructed or to be constructed (the "Lease Agreement"). The lease is for the period from December 1, 2005 through December 31, 2104. Pursuant to the guidance for accounting for leases, the lease of the land is treated as an operating lease and the lease of the building and improvements is treated as a capital lease.

The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset. The assets are depreciated over their estimated useful lives.

Pursuant to the Lease Agreement, the base rent is $1 per year. The Partnership was also required to make additional installment payments totaling $11,434,750 plus the cost associated with rehabbing the Project, which were paid in prior years.

Asset management fee

Pursuant to the Partnership Agreement, commencing in 2007, the Special Limited Partner is entitled to an annual cumulative asset management fee in the amount of $7,500, increasing by a factor equal to the percentage increase in the consumer price index for such year (the "Asset Management Fee"). Payments are to be made from available cash flow, as defined in the Partnership Agreement. As of December 31, 2019 and 2018, Asset Management Fee payable was $9,191 for each year. For the years ended December 31, 2019 and 2018, Asset Management Fee expense was $9,334 and $9,191, respectively.

Property management fee

On December 1, 2005, the Partnership entered into a management and maintenance agreement with the General Partner to manage the daily operations of the Project (the "Management Agreement"). Pursuant to the Management Agreement, the Partnership is required to pay the General Partner a monthly amount that will cover the actual costs incurred to manage the Project, as defined in the Management Agreement (the "Property Management Fee"). For the years ended December 31, 2019 and 2018, Property Management Fee expense of $475,200 and $437,102, respectively, were incurred and paid.

Partnership management fee

Pursuant to the Partnership Agreement, commencing in 2007, the General Partner is entitled to an annual non-cumulative Partnership management fee in the amount of $7,500 (the "Partnership Management Fee"). The Partnership Management Fee is non-cumulative and payments are to be made from available cash flow, as defined in the Partnership Agreement. For the years ended December 31, 2019 and 2018, no Partnership Management Fee was incurred for either year.

Subordinated loan

During the years ended December 31, 2019 and 2018, the Partnership has a subordinated loan from the General Partner in the amount of $- and $299,716 , respectively. The subordinated loan does not bear interest and is unsecured. Principal will be paid from available cash flow, as defined in the Partnership Agreement. The balance of the subordinated loan is included in the due to General Partner on the accompanying balance sheets.

5. Related party transactions (continued)

Regulatory agreement
On December 22, 2005, the Partnership entered into a regulatory and operating agreement with the General Partner (the "Regulatory Agreement"). Pursuant to the Regulatory Agreement, the General Partner will pay the Partnership an operating subsidy equal to the estimated project unit expenses for such period, less the estimated project unit income for the period, as defined in the Regulatory Agreement. Under the terms of the Regulatory Agreement the General Partner is also required to pay an annual amount to the Project equaling $315 per unit, increasing annually by 3.5% for the funding of the replacement reserves (see Note 3). For the years ended December 31, 2019 and 2018, operating subsidy received was $2,151,475 and $2,098,229, respectively and is included in rental income on the accompanying statements of operations. For the years ended December 31, 2019 and 2018, replacement reserve subsidy received was $1,347,623 and $335,104, respectively and is included in rental income on the accompanying statements of operations. As of December 31, 2019 and 2018, subsidy due from the General Partner was $0 and $93,942, respectively. The balance is included in the due from General Partner on the accompanying balance sheets.

6. Low-income housing tax credits

The Partnership expects to generate an aggregate of $10,132,760 of federal low-income housing tax credits ("Tax Credits"). Generally, such Tax Credits become available for use by its partners pro-rata over a ten-year period which began in 2007. The year in which the credit period begins is determined on a building-by-building basis within the Partnership. In order to qualify for these credits, the Project must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates, which do not exceed specified percentages of area median gross income for the first 15 years of operation. The Partnership has also agreed to maintain and operate the Project as low-income housing for an additional 30 years beyond the initial 15 year compliance as per Washington State Housing Finance Commission. Because the Tax Credits are subject to compliance with certain requirements, there can be no assurance that the aggregate amount of Tax Credits will be realized, and failure to meet all such requirements or to correct noncompliance within a specified time period may result in generating a lesser amount of Tax Credits than expected in future years, and/or recapture of Tax Credits previously allocated. A reduction of future credits or recapture would require credit deficit payments to the Investment Limited Partners under the terms of the Partnership Agreement.

6. Low-income housing tax credits (continued)

The Partnership's annual Tax Credits for each year of the compliance period is as follows:

Year ending December 31,	
2007	$ 964,868
2008	1,013,276
2009	1,013,276
2010	1,013,276
2011	1,013,276
2012	1,013,276
2013	1,013,276
2014	1,013,276
2015	1,013,276
2016	1,013,276
2017	48,408
Total	$ 10,132,760