



FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

CORNERSTONE VILLAGE APARTMENTS, L.P.

DECEMBER 31, 2008

Cornerstone Village Apartments, L.P.

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INDEPENDENT AUDITORS' REPORT

To the Partners
Cornerstone Village Apartments, L.P.

We have audited the accompanying balance sheet of Cornerstone Village Apartments, 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 Cornerstone Village Apartments, 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.

Reznick Group, P.C.

Atlanta, Georgia
March 3, 2009

Cornerstone Village Apartments, L.P.

BALANCE SHEET

December 31, 2008

ASSETS

CURRENT ASSETS

Cash	\$	10,574
Tenant accounts receivable		14,647
Accounts receivable - other		111
Prepaid expenses		<u>776,033</u>
Total current assets		<u>801,365</u>

RESTRICTED DEPOSITS AND FUNDED RESERVES

Replacement reserve		47,459
Real estate tax and insurance escrow		37,464
Operating deficit reserve		232,009
Other reserves		<u>70,295</u>
Total restricted deposits and funded reserves		<u>387,227</u>

RENTAL PROPERTY

Building and improvements		10,193,011
Land improvements		1,056,926
Furniture and equipment		<u>492,483</u>
		11,742,420
Accumulated depreciation		<u>(1,240,002)</u>
Total rental property		<u>10,502,418</u>

OTHER ASSETS

Mortgage costs, net		401,084
Tax credit monitoring fees, net		16,098
Other intangibles		43,521
Other assets, net		<u>234,400</u>
Total other assets		<u>695,103</u>

Total assets	\$	<u><u>12,386,113</u></u>
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(continued)

Cornerstone Village Apartments, L.P.

BALANCE SHEET - CONTINUED

December 31, 2008

LIABILITIES AND PARTNERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 1,869
Accrued expenses	21,076
Property management fee payable	4,612
Accrued interest payable - first mortgage	8,542
Accrued interest payable - other mortgages	352,689
Current maturities of long-term debt - first mortgage	<u>100,000</u>

Total current liabilities 488,788

DEPOSITS AND PREPAID LIABILITY

Tenant security deposits	7,765
Prepaid rent	<u>9,445</u>

Total deposits and prepaid liability 17,210

LONG-TERM LIABILITIES

Mortgages payable - first mortgage	8,160,000
Mortgages payable - other mortgages	1,716,440
Deferred developer fee payable	514,599
Due to related parties	<u>42,000</u>

Total long-term liabilities 10,433,039

COMMITMENTS

-

Partners' equity 1,447,076

Total liabilities and partners' equity \$ 12,386,113

See notes to financial statements

Cornerstone Village Apartments, L.P.

STATEMENT OF OPERATIONS

For the year ended December 31, 2008

Revenue	
Rental income	\$ 1,261,396
Vacancies and concessions	(175,019)
Other operating income	<u>27,806</u>
Total revenue	<u>1,114,183</u>
Operating expenses	
Salaries and employee benefits	146,031
Repairs and maintenance	97,819
Utilities	101,739
Property management fee	56,011
Property insurance	57,681
Miscellaneous operating expenses	<u>147,619</u>
Total operating expenses	<u>606,900</u>
Net operating income (loss)	<u>507,283</u>
Other income (expense)	
Interest income	1,706
Interest expense - first mortgage	(181,982)
Interest expense - other loans	(86,944)
Other financial income (expense)	(133,672)
Annual fee to affiliate of limited partner	(8,942)
Other related party fees and expenses	(69,599)
Depreciation	(395,642)
Amortization	<u>(17,949)</u>
Total other income (expense)	<u>(893,024)</u>
Net loss	<u>\$ (385,741)</u>

See notes to financial statements

Cornerstone Village Apartments, L.P.

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

For the year ended December 31, 2008

	Managing General Partner	Special Limited Partner	Investor Limited Partner	Class B Limited Partner	Total Partners' Equity (Deficit)
Balance, January 1, 2008	\$ (139)	\$ (138)	\$ 1,616,208	\$ (138)	\$ 1,615,793
Net loss	(38)	(39)	(385,625)	(39)	(385,741)
Contributions	-	-	217,024	-	217,024
Balance, December 31, 2008	<u>\$ (177)</u>	<u>\$ (177)</u>	<u>\$ 1,447,607</u>	<u>\$ (177)</u>	<u>\$ 1,447,076</u>
Partners' percentage of partnership losses	<u>0.01%</u>	<u>0.01%</u>	<u>99.97%</u>	<u>0.01%</u>	<u>100.00%</u>

See notes to financial statements

Cornerstone Village Apartments, L.P.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2008

Cash flows from operating activities	
Net loss	\$ (385,741)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	395,642
Amortization	17,949
Changes in:	
Tenant accounts receivable	37,262
Accounts receivable - other	(111)
Prepaid expenses	(10,019)
Accounts payable	(18,773)
Accrued expenses	6,500
Property management fee payable	223
Accrued interest payable - first mortgage	(4,307)
Accrued interest payable - other mortgages	91,251
Tenant security deposits	1,385
Prepaid rent	(7,972)
Due to related parties	33,176
	<u>156,465</u>
Net cash provided by operating activities	
Cash flows from investing activities	
Change in real estate tax and insurance escrows	(4,990)
Change in reserve for replacements	(31,364)
Change in operating deficit reserves	(232,009)
Change in other reserves	(9,386)
	<u>(277,749)</u>
Net cash used in investing activities	
Cash flows from financing activities	
Principal payments on mortgage payable	(100,000)
Contributions from partners	217,024
Deferred developer fee payable	(73,401)
	<u>43,623</u>
Net cash provided by financing activities	
Net decrease in cash	(77,661)
Cash, beginning	<u>88,235</u>
Cash, end	<u>\$ 10,574</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u>\$ 181,982</u>

See notes to financial statements

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - ORGANIZATION AND POLICIES

Cornerstone Village Apartments, L.P. (the Partnership) was organized under the laws of the State of Texas as a limited partnership on July 15, 2004 (inception). On August 12, 2004, the Partnership agreement was amended and restated. The Partnership's purpose is to invest in real estate and the construction, operation and sale or leasing of the Partnership property. The Partnership's property consists of a 156-unit low-income apartment complex in Houston, Texas. The project is known as Village at Cornerstone Apartments.

The terms of the Partnership agreement provide, among other things, that profits, losses and tax credits are shared 99.99 percent by the limited partners and .01 percent by the managing general partner.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable and Bad Debts

Tenant receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Capitalization and Depreciation

Rental property is recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (40 years for buildings, 15 years for land improvements, and 7 or 5 years for furnishings) using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statement of operations.

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

Cornerstone Village Apartments, L.P.

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 value of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended December 31, 2008.

Amortization

Mortgage costs are being amortized over the term of the respective mortgages under the effective-yield method, tax credit monitoring fees are being amortized over the compliance period of the tax credits, and other assets are being amortized over the term of the interest rate cap loan. Estimated amortization expense for each of the ensuing years through December 31, 2013 is \$17,949.

Rental Revenue

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

Income Taxes

No provision for income taxes has been included in the accompanying statement of operations since the income or loss from the Partnership passes through to, and is reported by, the partners on their respective income tax returns.

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.

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Use of 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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Accounting

The financial statements of the Partnership are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Reclassifications

Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 3 – RESTRICTED DEPOSITS AND FUNDED RESERVES

Restricted cash included bond reserves with the following balances as of December 31, 2008.

Balance, January 1	\$ 60,909
Deposits	9,000
Interest earnings	<u>386</u>
Balance, December 31	<u><u>\$ 70,295</u></u>

The bond reserves, established with the proceeds of the bonds and limited partner contributions, are being maintained by Wells Fargo Bank Texas, N.A. (the Trustee) in accordance with the bond trust indenture and related mortgage agreements. Releases from the reserve accounts during the period were permitted by the mortgage agreements.

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Replacement Reserve

The Partnership has agreed to establish a reserve account for capital replacement. Monthly deposits of \$200 per apartment unit per year for years one through five of the compliance period, \$250 per apartment unit per year for years six through ten and \$300 per apartment unit per year for years 11 through 15, will be funded out of net rental income, commencing on Final Closing (as defined in the Partnership agreement), into a replacement reserve account. As of December 31, 2008, the balance of the replacement reserve is \$47,459.

Balance, January 1	\$	16,095
Deposits		31,300
Interest earnings		<u>64</u>
Balance, December 31	\$	<u><u>47,459</u></u>

Tax and Insurance Escrow

In accordance with the loan agreement, the property is required to make monthly deposits to the tax and insurance escrow. Funds accumulated in this account are utilized to pay for the property tax bills, annual liability and property insurance bills. As of December 31, 2008, the balance of this account was \$37,464.

Lease-Up Reserve

The Partnership is required to establish a lease-up reserve account to fund any operating deficits prior to stabilization. The sum of \$117,000 from the proceeds of the second capital installment shall be initially deposited into the reserve. Upon stabilization, the reserve will be released to the Partnership and treated as net cash flow. As of December 31, 2008, the balance of this reserve has been released to operating cash.

Operating Reserve

The Partnership is required to establish an operating reserve account to fund any operating deficits. The sum of \$250,000 from the proceeds of the fourth capital installment and from the proceeds of the fifth capital installment shall be initially deposited into the reserve. The operating reserve shall be released to the Partnership and treated as net cash flow as defined in the Partnership agreement. As of December 31, 2008, the balance of this account was \$232,009.

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

NOTE 4 - RELATED PARTY TRANSACTIONS

Development Fee

The Partnership incurred a development fee of \$1,511,034 or such maximum amount as may be permitted by applicable laws, payable to JV Developers, LLC, an affiliate of the Class B limited partner, for services rendered to the Partnership for overseeing the construction of the project. Per the developer note, the outstanding portion of the developer fee shall bear interest at 6% compounded annually. As of December 31, 2008, the full fee had been earned and \$459,987 remains payable. Interest expense of \$27,599 has been incurred during 2008 and is included in other related party fees and expenses. As of December 31, 2008, \$54,612 of interest on the developer fee remains payable and is included in deferred developer fee payable on the balance sheet.

Management Fee

The project is currently managed by Coach Realty Services, Inc., an affiliate of the Class B limited partner. The Partnership agreement provides, among other things, for a management fee of 5 percent of the gross operating revenues collected by the manager for the month preceding payment. As of December 31, 2008, \$56,011 in fees has been earned and \$4,612 remains payable.

Incentive Management Fee

The Partnership has agreed to pay the general partner an annual non-cumulative incentive management fee equal to 25 percent of the gross revenue of the project annually, payable out of cash flows, as defined in the Partnership agreement. No fees were accrued or charged to operations for the year ended December 31, 2008.

Asset Management Fee

For its services in monitoring the operations of the Partnership, the special limited partner will receive an annual fee in an amount equal to 0.25 percent of the investor limited partner's capital contribution, initially \$8,406, beginning on August 12, 2004. The fee will be increased each year by the increase in the national Consumer Price Index and is payable only out of cash flow, as defined. In any year surplus cash is unavailable to pay the fee, the general partner is required to make an operating deficit loan; however, in the event the general partner does not make said loan, the unpaid fee will accrue interest at 12% per annum. For the year ended December 31, 2008, \$8,942 of asset management fee has been charged to operations. As of December 31, 2008, \$- remains payable.

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Partnership Management Fee

The Partnership has agreed to pay the general partner, HCHA Cornerstone, LLC, an annual non-cumulative fee. The fee will be in an amount equal to the annual asset management fee. As of December 31, 2008, no fees have been earned.

Advance from Affiliate and Due to Affiliate

The management agent provides all site employees for the Partnership and is reimbursed for the salaries and related payroll costs. In addition, the management agent funds certain administrative costs and is reimbursed by the Partnership. As of December 31, 2008, the amount due from Coach Realty Services, Inc. was \$-.

Guarantee Fee Payable

On August 16, 2004, the Partnership entered into a Takeout Agreement with the special limited partner. According to the terms outlined in the Takeout Agreement, the Partnership is to pay the special limited partner an annual fee of \$42,000 in consideration for their guarantee of the HOME loan with the Harris County Housing Authority. For the year ended December 31, 2008, \$42,000 was incurred and remains payable.

NOTE 5 - MORTGAGE PAYABLE AND NOTE PAYABLE

First Mortgage Payable

The Harris County Housing Finance Corporation (HCHFC) has financed the acquisition and construction of the project from the issuance of Variable Rate Demand Multifamily Housing Revenue Bonds Series 2004 (the Bonds), in the amount of \$8,360,000, pursuant to a trust indenture dated August 1, 2004, between HCHFC and the Trustee. The Bonds are secured by a Deed of Trust and Security Agreement (with Power of Sale). During construction, interest only is payable on the Bonds. The Bonds mature on August 15, 2037, and bear interest at a variable rate (3.52% at December 31, 2008) not to exceed 12% per annum. On June 15, 2007, the loan converted to permanent status, as defined. Beginning on the conversion date, principal and interest payments are made monthly to satisfy the requirements stated in the reimbursement agreement for the bond principal maturities. As of December 31, 2008, the outstanding balance is \$8,260,000.

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

The mortgage is collateralized with a first mortgage on the property and an assignment of rents. The mortgage is further secured with a direct pay irrevocable transfer of credit enhancement instrument with Fannie Mae, in the amount of \$8,461,809. Unless extended, the credit enhancement instrument will expire on August 21, 2037. Payments under the credit enhancement, if any, are required to be paid pursuant to the terms of the reimbursement agreement.

Interest Rate Cap

In 2004, the Partnership entered into an interest rate cap agreement with Bear Sterns Financial having a notional balance of \$8,360,000 maturing on October 15, 2022. The Partnership paid an interest rate cap fee of \$359,800 under the terms of the agreement, which effectively limits the Partnership's interest rate exposure on the mortgage payable to a fixed rate of 6 percent per annum. For the year ended December 31, 2008, the Cap was not utilized. Furthermore, because the Cap was not effective at the time of issuance, the Cap is considered an embedded financial instrument and is not accounted for at fair value.

Note Payable – GMAC

On August 1, 2004, the Partnership entered into a promissory note agreement with GMAC Commercial Holding Capital Corp for the purpose of financing interest rate cap discussed above. The loan is currently held by Citi Community Capital. The amount of the original note was not to exceed \$400,000. The loan is secured by a subordinate deed of trust. Monthly payments of interest only at the greater of 5% per annum or the current month's LIBOR (4.05% at December 31, 2008) are due through maturity on November 15, 2037. As of December 31, 2008, the outstanding principal balance is \$326,440 and accrued interest payable of \$97,505.

Note Payable - Harris County Housing Authority

On August 1, 2004, the Partnership entered into a promissory note agreement with Harris County Housing Authority (HCHA) in the original amount of \$1,400,000, the loan is secured by a subordinate deed of trust. Monthly payments of interest only at the greater of 5% per annum or the current month's LIBOR (4.05% at December 31, 2008) are due through maturity on November 15, 2037. As of December 31, 2008, the outstanding principal balance is \$1,390,000 and accrued interest of \$255,184.

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

Future expected principal payments on the mortgage and notes payable are required as follows:

	Harris County Housing Finance	Harris County Housing Authority	GMAC	Total
2009	\$ 100,000	\$ -	\$ -	\$ 100,000
2010	100,000	-	-	100,000
2011	100,000	-	-	100,000
2012	100,000	-	-	100,000
2013	100,000	-	-	100,000
Thereafter	<u>7,760,000</u>	<u>1,390,000</u>	<u>326,440</u>	<u>9,476,440</u>
Total	<u>\$ 8,260,000</u>	<u>\$ 1,390,000</u>	<u>\$ 326,440</u>	<u>9,976,440</u>
Less current maturities				<u>(100,000)</u>
Net long-term portion				<u>\$ 9,876,440</u>

NOTE 6 - CAPITAL CONTRIBUTIONS RECEIVABLE

The Partnership has one general partner, HCHA Cornerstone, LLC which has a .01% interest, an investor limited partner, AMTAX Holdings 558, LLC, which has a 99.97% interest, and a special limited partner, Protech Holdings 123, LLC, which has a .01% interest and a Class B limited partner, T.H. Cornerstone, L.L.C., which has a .01% interest.

Total investor limited partner capital contributions in accordance with the Partnership agreement, as amended, are \$3,243,410, net of a downward credit adjuster of \$119,240, of which all contributions have been received at December 31, 2008.

NOTE 7 - CASH FLOW DISTRIBUTION

Prior to the first (1st) anniversary of the completion date, net rental income (loss) shall be includable in designated proceeds and shall be available to the developer and general partner as defined in the Partnership agreement.

Cash flow for each fiscal year after the first (1st) anniversary of the completion date shall be distributed or applied, as applicable, within ninety (90) days after the end of each fiscal year, in the following order of priority:

1. applied to the repayment of any credit recovery loans, including all accrued interest thereon;
2. to fund any deficiency in the operating reserve;

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

3. to the payment of any accrued and unpaid asset management fee, including all accrued interest thereon;
4. to the payment of any outstanding default IP loans and then to the payment of any remaining IP loans;
5. until the deferred development fee has been paid in full, to the payment of the deferred development fee;
6. if there are any outstanding operating deficit loans, until such operating deficit loans have been paid in full, to the payment of the outstanding operating deficit loans and then, prorata, to the payment of outstanding GP loans and outstanding Class B loans;
7. applied to the payment of the partnership management fee;
8. 10% of the remaining net cash flow to the investor limited partner as a distribution;
9. to the payment of the incentive management fee; and
10. thereafter, to the partners, as distribution in the following percentages: 99.9% to the general partner, 0.01% to the Class B limited partner and 0.09% to the investor limited partner.

NOTE 8 - PARTNERSHIP GUARANTEES

The Partnership agreement provides for various agreements between the general partner, HCHA Cornerstone, LLC, and Thomas H. Scott, an individual resident of the state of Texas, the Developer, and Coach Realty Services, Inc., a Texas Corporation (collectively, the guarantors) and limited partners as follows:

Operating Guarantee

The general partner has agreed to fund any operating expenses (as defined in the partnership agreement) commencing on the completion date and ending on the third anniversary of the stabilization date (as defined in the Partnership agreement). Amounts funded between the completion date and the stabilization date shall be unlimited, and recorded as special capital contributions. Amounts funded after the third anniversary of the stabilization date shall be recorded as operating deficit loans, and limited to \$390,000 (which may be reduced as

Cornerstone Village Apartments, L.P.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

defined in the partnership agreement). Operating expense loans are non-interest bearing and payable out of cash flow as defined in the partnership agreement. As of December 31, 2008, no amounts were funded.

NOTE 9 - CONCENTRATION OF CREDIT RISK

The Partnership maintains cash and cash equivalents with financial institutions. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 in each financial institution. The Partnership has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances as of December 31, 2008.

NOTE 10 - COMMITMENTS

Ground Lease

On August 1, 2004, the Partnership entered into a 65-year ground lease with the Harris County Housing Authority (HCHA). The rent for the first 12 years of the lease term is \$65,000 annually. After the first 12 years, annual rent is \$65,000, of which \$64,000 of annual rent per lease year shall be automatically waived by landlord and nonpayable on an annual basis, provided no event of default has occurred. Upon execution of the lease, the Partnership prepaid rent in the amount of \$775,000. Upon expiration of the lease, all improvements to the property revert to the Partnership.

For the year ended December 31, 2008, the Partnership recognized \$12,816 of rental expense on a straight-line basis and a \$718,396 prepaid for the difference between the cash and straight-line rent.

Minimum future rental payments for each of the next five years and in the aggregate are:

2009	\$	12,816
2010		12,816
2011		12,816
2012		12,816
2013		12,816
Thereafter		<u>654,316</u>
	\$	<u><u>718,396</u></u>