

Savannah Heights Limited Partnership – December 31, 2010

Savannah Heights Limited Partnership

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December 31, 2010

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Report Of Independent Certified Public Accountants

To The Partners
Savannah Heights Limited Partnership
3 Bethesda Metro Center
Suite 110
Bethesda, Maryland 20814

We have audited the accompanying balance sheet of Savannah Heights Limited Partnership as of December 31, 2010, and the related statements of operations, changes in partners' capital (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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 Savannah Heights Limited Partnership as of December 31, 2010, and the results of its operations, changes in partners' capital (deficit) and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards and the Consolidated Audit Guide for Audits of HUD Programs, issued by the U.S. Department of Housing and Urban Development, we have also issued reports dated March 15, 2011 on our consideration of Savannah Heights Limited Partnership's internal control and on its compliance with specific requirements applicable to major

Savannah Heights Limited Partnership
Report of Independent Certified Public Accountants
Page Two

HUD programs and fair housing and non-discrimination. The purpose of the reports on internal control and fair housing and non-discrimination are to describe the scope of the testing and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance with fair housing and non-discrimination. The purpose of the report on major HUD programs is to describe the scope of our testing and the results of that testing and to provide an opinion on compliance with major HUD programs. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information (shown on pages 14 to 23) is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Partnership. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. We certify that we have met the licensing requirements of the District of Columbia.

Hertzbach & Company, P.A.
Certified Public Accountants

Baltimore, Maryland
March 15, 2011

Name of Audit Firm: Hertzbach & Company, P.A.
Address: Red Brook Corporate Center
800 Red Brook Boulevard, Suite 300
Owings Mills, Maryland 21117
Federal I.D.#: 52-1158459

Jeffrey M. Kleeman, CPA
(Lead Auditor)
(410) 363-3200

**FINANCIAL
STATEMENTS**

Savannah Heights Limited Partnership

Balance Sheet

December 31, 2010

Assets

CURRENT ASSETS

Cash - Operations	\$	119,343
Rents Receivable		43,523
Prepaid Expenses		<u>22,042</u>

Total Current Assets \$ 184,908

DEPOSITS HELD IN TRUST - FUNDED

Tenant Security Deposits (Contra)	<u>45,099</u>
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Total Deposits Held In Trust 45,099

RESTRICTED DEPOSITS AND FUNDED RESERVES

Mortgage Escrow Deposits	85,027
Replacement Reserve	137,436
GNMA Lag Fund	<u>50,000</u>

Total Restricted Deposits And Funded Reserves 272,463

PROPERTY AND EQUIPMENT

Land And Land Improvements	1,997,374
Buildings	10,762,632
Furniture And Fixtures	<u>709,579</u>

	13,469,585
Less: Accumulated Depreciation	<u>1,683,186</u>

Total Property And Equipment 11,786,399

OTHER ASSETS

Financing Fees, Net Of Accumulated Amortization Of \$116,243	<u>553,007</u>
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Total Other Assets 553,007

TOTAL ASSETS \$ 12,841,876

The Accompanying Notes Are An Integral Part Of These Financial Statements

Savannah Heights Limited Partnership

Balance Sheet

December 31, 2010

Liabilities And Partners' Capital

CURRENT LIABILITIES

Accounts Payable - Operations	\$	42,058	
Accrued Management Fee		5,574	
Accrued Interest Payable - First Mortgage		36,688	
Accrued Interest Payable - Second Mortgage		160,612	
Accrued Interest Payable - Third Mortgage		98,690	
Accrued Property Taxes		17,427	
Mortgage Payable - First Mortgage (Current Maturities)		69,022	
Accrued Asset Management Fee		1,974	
Prepaid Revenue		7,376	
Due To Affiliate		17,261	
Loan Payable - Limited Partner		30,173	
Total Current Liabilities	\$		486,855

DEPOSIT LIABILITIES

Tenant Security Deposits Held In Trust (Contra)		44,973	
Total Deposit Liabilities			44,973

LONG-TERM LIABILITIES

Mortgage Payable - First Mortgage		7,534,806	
Mortgage Payable - Second Mortgage		984,853	
Mortgage Payable - Third Mortgage		300,000	
Developer Fee Payable		540,993	
Total Long-Term Liabilities			9,360,652

TOTAL LIABILITIES			9,892,480
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PARTNERS' CAPITAL

Partners' Capital			2,949,396
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TOTAL LIABILITIES AND PARTNERS' CAPITAL	\$	12,841,876
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The Accompanying Notes Are An Integral Part Of These Financial Statements

Savannah Heights Limited Partnership

Statement Of Operations

For The Year Ended December 31, 2010

RENTAL REVENUE	
Rent Revenue - Gross Potential	\$ 1,256,541
	<hr/>
Total Rent Revenue	1,256,541
	<hr/>
VACANCIES	
Apartments	52,345
Rental Concessions	15,195
	<hr/>
Total Vacancies	67,540
	<hr/>
Net Rental Revenue	1,189,001
	<hr/>
FINANCIAL REVENUE	
Financial Revenue - Project Operations	62
Financial Revenue - Replacement Reserves	185
	<hr/>
Total Financial Revenue	247
	<hr/>
OTHER REVENUE	
Tenant Charges	6,313
Miscellaneous Revenue	2,108
	<hr/>
Total Other Revenue	8,421
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Total Revenue	1,197,669
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The Accompanying Notes Are An Integral Part Of These Financial Statements

Savannah Heights Limited Partnership
Statement Of Operations
(Continued)

For The Year Ended December 31, 2010

ADMINISTRATIVE EXPENSES

Advertising And Marketing	\$ 12,298
Other Renting Expenses	4,006
Office Salaries	62,381
Office Expenses	10,064
Management Fee	49,868
Legal Expense	13,319
Audit Expense	10,000
Bad Debts	17,117
Miscellaneous Administrative Expenses	22,245
	<hr/>
Total Administrative Expenses	201,298

UTILITY EXPENSES

Electricity	15,655
Water	28,214
	<hr/>
Total Utility Expenses	43,869

OPERATING AND MAINTENANCE EXPENSES

Payroll	34,827
Supplies	47,307
Contracts	62,399
Garbage And Trash Removal	7,633
Security Payroll / Contract	22,918
Heating / Cooling Repairs And Maintenance	2,771
Snow Removal	12,535
Miscellaneous Operating And Maintenance	339
	<hr/>
Total Operating And Maintenance Expenses	190,729

The Accompanying Notes Are An Integral Part Of These Financial Statements

Savannah Heights Limited Partnership
Statement Of Operations
(Continued)

For The Year Ended December 31, 2010

TAXES AND INSURANCE

Real Estate Taxes	\$ 71,286
Payroll Taxes (Project's Share)	8,566
Property And Liability Insurance (Hazard)	34,912
Health Insurance And Other Employee Benefits	6,149
Miscellaneous Taxes, Licenses, Permits, And Insurance	<u>8,069</u>

Total Taxes And Insurance	<u>128,982</u>
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FINANCIAL EXPENSES

Interest On First Mortgage	442,009
Interest On Second Mortgage	24,621
Interest On Third Mortgage	15,900
Mortgage Insurance Premium/Service Charge	38,170
Miscellaneous Financial Expenses	<u>1,583</u>

Total Financial Expenses	<u>522,283</u>
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Total Expenses Before Depreciation And Amortization	<u>1,087,161</u>
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Profit Before Depreciation And Amortization	<u>110,508</u>
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Depreciation	357,343
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Amortization	<u>17,938</u>
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Operating Loss	<u>(264,773)</u>
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ENTITY EXPENSES

Other Expense - Entity Fees	<u>3,872</u>
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Total Entity Expenses	<u>3,872</u>
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Net Loss	<u><u>\$ (268,645)</u></u>
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Savannah Heights Limited Partnership
Statement Of Changes In Partners' Capital (Deficit)

For The Year Ended December 31, 2010

	GP	GP	GP	LP	LP	
	FCG SAVANNAH, L.L.C. 0.002%	AHD SAVANNAH LLC 0.006%	JLC SAVANNAH LLC 0.002%	SAVANNAH STREET INVESTORS L. P. 99.98%	MOUNT VERNON PLACE / SAVANNAH HEIGHTS, LLC 0.01%	TOTAL 100%
PARTNERS' CAPITAL (DEFICIT) BEGINNING OF YEAR	\$ (18)	\$ (57)	\$ (18)	\$ 3,218,227	\$ (93)	\$ 3,218,041
LESS: NET LOSS FOR THE YEAR	(5)	(17)	(5)	(268,591)	(27)	(268,645)
PARTNERS' CAPITAL (DEFICIT) END OF YEAR	<u>\$ (23)</u>	<u>\$ (74)</u>	<u>\$ (23)</u>	<u>\$ 2,949,636</u>	<u>\$ (120)</u>	<u>\$ 2,949,396</u>

The Accompanying Notes Are An Integral Part Of These Financial Statements

Savannah Heights Limited Partnership
Statement Of Cash Flows
Increase (Decrease) In Cash

For The Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received For:

Rental Income	\$ 1,224,922
Interest Income	247
Other Income	<u>8,421</u>

Total Cash Receipts	<u>1,233,590</u>
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Cash Paid For Services And To Employees For:

Administrative Expenses	(98,114)
Management Fees	(47,288)
Utilities	(56,166)
Salaries And Wages	(97,208)
Operating and Maintenance	(137,725)
Real Estate Taxes	(70,845)
Property Insurance	(35,723)
Miscellaneous Taxes And Insurance	(28,951)
Tenant Security Deposits	1,546
Interest On First Mortgage	(442,324)
Mortgage Insurance Premium	(38,170)
Miscellaneous Financial Expense	(1,583)
Asset Management Fees	<u>(3,722)</u>

Total Cash Disbursements	<u>(1,056,273)</u>
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Net Cash Provided By Operating Activities	<u>177,317</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Increase In Mortgage Escrow Deposits	(592)
Increase In Replacement Reserve Fund	(3,586)
Acquisition Of Property And Equipment	<u>(26,570)</u>

Net Cash Used In Investing Activities	<u>(30,748)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Mortgage Principal Payments - First Mortgage	(65,148)
Advances From Affiliate	17,261
Developer Fee Payments	<u>(43,896)</u>

Net Cash Used In Financing Activities	<u>(91,783)</u>
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Net Increase In Cash	54,786
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Unrestricted Cash - Beginning Of Year	<u>64,557</u>
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Unrestricted Cash - End Of Year	<u>\$ 119,343</u>
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The Accompanying Notes Are An Integral Part Of These Financial Statements

Savannah Heights Limited Partnership
Statement Of Cash Flows
Increase (Decrease) In Cash
(Continued)

For The Year Ended December 31, 2010

RECONCILIATION OF NET LOSS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Net Loss	\$ (268,645)
Adjustments To Reconcile Net Loss To Net Cash	
Provided By Operating Activities	
Depreciation	357,343
Amortization	17,938
(Increase) Decrease In Operating Assets	
Tenant Accounts Receivable	35,122
Prepaid Expenses	(6,978)
Tenant Security Deposits	(8,108)
Increase (Decrease) In Operating Liabilities	
Accounts Payable	(3,185)
Accrued Expenses	43,377
Security Deposit Liability	9,654
Prepaid Revenue	799

Net Cash Provided By Operating Activities	\$ <u>177,317</u>
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Savannah Heights Limited Partnership

Notes To Financial Statements

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS – Savannah Heights Limited Partnership (the Partnership) was organized in the District of Columbia on October 11, 2002 for the purpose of constructing and operating a low-income rental housing project in the District of Columbia. The project is known as Savannah Heights Apartments (the Project) and consists of 100 units. Construction of the Project began in September of 2004, and Substantial Completion occurred in May of 2006. The Development is operating under Section 221 (d)(4) of the National Housing Act of the Federal Housing Administration (FHA) and regulations defined by the Department of Housing and Urban Development (HUD).

The Project consists of four buildings which have been 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. The Project must meet the provisions of these regulations during each of 15 consecutive years (the Compliance Period) in order to remain qualified to receive the credits. In addition, the Partnership has executed an Extended Low-Income Housing Covenant for low-income housing tax credits with the District of Columbia Housing Finance Agency (DCHFA) which requires the utilization of the Project pursuant to Section 42 for a minimum of 15 years after the Compliance Period.

METHOD OF ACCOUNTING – The books and records are maintained on the accrual basis and accounting principles generally accepted in the United States of America. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

PROPERTY AND EQUIPMENT – Property and equipment are stated at cost. The cost of repairs and maintenance is charged to operations as incurred. Major renewals, betterments and additions are capitalized. When assets are sold or otherwise disposed of, the cost of the asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss is credited or charged to income. Depreciation is computed using the straight-line method over 40 years for buildings, 12 years for furniture and fixtures and 20 years for land improvements.

IMPAIRMENT OF LONG-LIVED ASSETS - The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount 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. There were no asset impairments during the year ended December 31, 2010.

AMORTIZATION – Financing fees are being amortized to operations over the respective lives of the mortgages using the straight-line method. The estimated amortization expense for each of the next five years is \$17,938.

DISTRIBUTIONS – In order to insure that the Development remains well maintained and managed, the Federal Housing Administration imposes certain operation and distribution restrictions upon the Development's owners. Under the terms of the agreement, only Surplus Cash is available for distribution.

INCOME TAXES – The Partnership files a partnership tax return and the net income or loss is reported by the partners on their respective income tax returns.

Effective January 1, 2009, the Partnership adopted FASB Accounting Standards Codification (ASC) 740, Income Taxes (formerly referred to as FASB Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes), which clarified the accounting for uncertainty in income taxes. The Partnership recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

Savannah Heights Limited Partnership
Notes To Financial Statements
(Continued)

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED) - Based on its evaluation, the Partnership has concluded that there are no significant uncertain tax positions requiring recognition in the financial statements. No interest or penalties have been recorded as a result of tax uncertainties. The tax years ended December 31, 2007 through December 31, 2010 remain open to examination by tax jurisdictions to which the Partnership is subject.

CASH AND CASH EQUIVALENTS - The Partnership considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

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.

ADVERTISING - The Partnership expenses the cost of advertising the first time the advertising takes place. Advertising costs amounted to \$12,298 for the year ended December 31, 2010.

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

2. CASH - TENANTS' SECURITY DEPOSITS

The amount of \$45,099 on the accompanying balance sheet represents funds deposited in a savings account with a balance which should be at least equal to the tenants' security deposits. District of Columbia Rent Escrow Law requires the Partnership to maintain a separate account for deposits paid by the tenants, and to credit the deposits with interest every year at the greater of 2% or the three month T-Bill rate. No interest is required to be paid for the first twelve months that a security deposit is held. Tenant security deposits are held in a federally insured bank.

3. CONCENTRATION OF RISK

The Project maintains cash accounts at various financial institutions. All of the Partnership's non-interest bearing cash balances were fully insured at December 31, 2010 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. As of December 31, 2010, interest-bearing amount on deposit did not exceed insured limits.

4. RENTS RECEIVABLE

Management is of the opinion that all of the Partnership's rents receivable are fully collectible and that no allowance for doubtful accounts is required.

5. LONG-TERM DEBT

FIRST MORTGAGE - The Partnership is obligated under the terms of a mortgage to Deutsche Bank Berkshire Mortgage in the original amount of \$7,895,000. The mortgage bears interest at 5.79%. Monthly payments were interest only from October, 2004 through December, 2005. Beginning in January, 2006, principal and interest payments on the mortgage were due monthly in the amount of \$42,289 and the mortgage matures in December, 2045. The principal and accrued interest balances as of December 31, 2010 are \$7,603,828 and \$36,688, respectively. The mortgage is secured by the underlying real estate, rents and other assets of the Partnership.

Savannah Heights Limited Partnership
Notes To Financial Statements
(Continued)

December 31, 2010

5. LONG-TERM DEBT (CONTINUED)

The five year maturity schedule of the First Mortgage is as follows:

2011	\$ 69,022
2012	73,126
2013	77,474
2014	82,081
2015	86,962
2016 And After	<u>7,215,163</u>
Total	<u>\$ 7,603,828</u>

SECOND MORTGAGE – The Partnership is obligated under the terms of a mortgage to DHCD in the original amount of \$984,853. The mortgage bears interest at 2.5%. Principal and interest payments are deferred for the first twenty-four (24) months from the initial closing of the loan on June 24, 2004, with interest accruing during this deferment period. Semi-annual principal and interest payments of \$20,794 are due beginning in the twenty-fifth (25) month from the initial closing (July, 2006) from Surplus Cash as defined by HUD. The mortgage matures in June, 2044. The mortgage is also due in full if the underlying property fails to maintain its qualification for Low-Income Housing Tax Credits. The principal and accrued interest balances as of December 31, 2010 are \$984,853 and \$160,612, respectively. The mortgage is secured by the underlying real estate, rents and other assets of the Partnership and is subordinate to the First Mortgage.

ERCDC SURPLUS CASH PROMISSORY NOTE – The Partnership is obligated under the terms of a surplus cash promissory note to East of the River Community Development Corporation (ERCDC) in the original amount of \$300,000. The note bears interest at 5.03%. Annual interest payments of \$15,090 are due beginning April 1, 2007 subject to Surplus Cash as defined by HUD. The note matures on December 1, 2045 and at that time the balance of any remaining unpaid principal, plus accrued interest, will be due and payable. The principal and accrued interest balances as of December 31, 2010 are \$300,000 and \$98,690, respectively. The mortgage is secured by the underlying real estate, rents and other assets of the Partnership and is subordinate to the First and Second mortgages.

The priority of payments on long-term debt are: (1) the First Mortgage, (2) the Second Mortgage and (3) the ERCDC Note.

6. PARTNERS' CAPITAL CONTRIBUTIONS

The Partnership has three general partners, FCG Savannah, L.L.C. (FCG), AHD Savannah, LLC (AHDS), and JLC Savannah, LLC (JLC), which have .002%, .006% and .002% interests, respectively, and each of which is responsible for a capital contribution of \$10. The Partnership has two limited partners, Savannah Street Investors Limited Partnership, the Class A Limited Partner, and Mount Vernon Place/Savannah Heights, LLC, the Class B Limited Partner, which have 99.98% and .01% interests, respectively. As of December 31, 2010, Savannah Street Investors Limited Partnership has made capital contributions of \$4,157,288.

7. RELATED PARTY TRANSACTIONS

OPERATING DEFICIT LOANS – Pursuant to the terms of an Operating Deficit Guarantee Agreement, FCG, AHDS, their respective development companies and AHD, Inc., a company related to AHDS, have to provide funds to the Partnership, in the form of unsecured loans, to fund operating deficits up to \$300,000 that exist at any time through the end of the fiscal year in which the second anniversary of the Stabilization Date occurs and \$100,000 anytime thereafter until December 31, 2015. Operating Deficit Loans, if any, are borne 25% by FCG and 75% by AHDS, their respective development companies and AHD, Inc.. Operating Deficit Loans bear no interest. As of December 31, 2010, no loans were required.

Savannah Heights Limited Partnership
Notes To Financial Statements
(Continued)

December 31, 2010

7. RELATED PARTY TRANSACTIONS (CONTINUED)

LOAN PAYABLE – LIMITED PARTNER – During the year ending December 31, 2008, Savannah Street Investors Limited Partnership overpaid the Partnership in the amount of \$30,173 related to the release of the operating deficit reserve. This loan is due on demand and is noninterest bearing. There were no repayments during 2010.

DUE TO AFFILIATE - The Partnership shares an employee with an affiliate. During the year ended December 31, 2010, the affiliate inadvertently paid the Partnership funds that should have been paid by the Partnership to the affiliate. The Partnership owes the affiliate \$17,261 as of December 31, 2010.

DEVELOPMENT SERVICES FEE - The Partnership is obligated under the terms of a Development Services Agreement to pay Franklin Capital Development Co., L.L.C., an affiliate of FCG, AHDT Inc., an affiliate of AHDS, JLC Development, L.L.C., an affiliate of JLC and The Wilkes Company \$1,669,065 for the development of the Project. The development services are to be rendered from June 1, 2004 through Final Closing (Final HUD Mortgage Endorsement). The fee will be paid 20.0% to Franklin Capital Development Co., L.L.C., 60.0% to AHDT, Inc., 10.0% to JLC Development, L.L.C., and 10.0% to The Wilkes Company. The fee is payable out of Capital Contributions, funds released from the Initial Operating Reserve and Cash Flow. Developer fee payments of \$43,896 were made in 2010. As of December 31, 2010, \$540,993 is owed on the developer fee.

PARTNERSHIP MANAGEMENT FEE - The Partnership is obligated under the terms of a Partnership Management Agreement effective June 1, 2004 with AHDS, FCG, and JLC for management services provided to the Partnership. The fee will be paid 60% to AHDS, 20% to FCG and 20% to JLC and will be in an amount equal to 80% of Net Cash Flow. The fee is earned semi-annually and subject to Mortgage Loan "surplus cash" limitations, is payable within 90 days after the Fiscal Year from Available Cash Flow remaining after certain priority payments, Operating Costs, Capital Costs, etc. No Partnership Management Fee is due for the year ending December 31, 2010.

ASSET MANAGEMENT FEE - The Partnership is obligated under the terms of an Asset Management Agreement effective beginning June 1, 2004 with an affiliate of FCG for management and administrative services provided to the Partnership. The fee is \$3,000 per year (increased each year by increases in the Consumer Price Index beginning January 1, 2005), is earned in substantially equal monthly installments and is payable subject to Mortgage Loan "surplus cash" limitations. It is paid in arrears from Cash Flow and Capital Proceeds within 15 days after the end of each month after the payment of Operating Costs, Capital Costs, etc. Any unpaid Asset Management Fee accrues and, subject to the foregoing limitations, will be paid from Cash Flow and Capital Proceeds. Asset Management Fees in the amount of \$3,722 were paid in 2010 and \$1,974 is owed on Asset Management Fees as of December 31, 2010.

PROPERTY MANAGEMENT FEE – The Partnership is a party to a Property Management Agreement with AHD/Equity Management Joint Venture (JV). AHD Management, Inc., an affiliate of AHDS, is a member of the JV. The fees are computed at four percent of rental collections, payable monthly from Project funds. Property management fees incurred for 2010 were \$49,868, of which \$5,574 remains payable as of December 31, 2010.

All terms are as defined in the Partnership Agreement.

8. COMMITMENTS AND CONTINGENCIES

LOW-INCOME HOUSING TAX CREDITS – The Partnership'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, among other requirements, 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.

Savannah Heights Limited Partnership
Notes To Financial Statements
(Continued)

December 31, 2010

9. SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the balance sheet date for potential recognition or disclosure through the accountants' audit report date, the date the financial statements were available to be issued. There were no events that required recognition or disclosure in the financial statements.

**SUPPLEMENTARY
INFORMATION**

Savannah Heights Limited Partnership

Balance Sheet Data

December 31, 2010

Assets

CURRENT ASSETS

1120	Cash - Operations	\$ 119,343
1130	Rents Receivable	43,523
1200	Prepaid Expenses	<u>22,042</u>

Total Current Assets \$ 184,908

DEPOSITS HELD IN TRUST - FUNDED

1191	Tenant Security Deposits (Contra)	<u>45,099</u>
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Total Deposits Held In Trust 45,099

RESTRICTED DEPOSITS AND FUNDED RESERVES

1310	Mortgage Escrow Deposits	85,027
1320	Replacement Reserve	137,436
1330	GNMA Lag Fund	<u>50,000</u>

Total Restricted Deposits And Funded Reserves 272,463

PROPERTY AND EQUIPMENT

1410	Land And Land Improvements	1,997,374
1420	Buildings	10,762,632
1450	Furniture And Fixtures	<u>709,579</u>

13,469,585

1495	Less: Accumulated Depreciation	<u>1,683,186</u>
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Total Property And Equipment 11,786,399

OTHER ASSETS

1520	Financing Fees, Net Of Accumulated Amortization Of \$116,243	<u>553,007</u>
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Total Other Assets 553,007

TOTAL ASSETS \$ 12,841,876

See Accountants' Report

Savannah Heights Limited Partnership
Balance Sheet Data

December 31, 2010

Liabilities And Partners' Capital

CURRENT LIABILITIES

2110	Accounts Payable - Operations	\$	42,058	
2123	Accrued Management Fee		5,574	
2131	Accrued Interest Payable - First Mortgage		36,688	
2132	Accrued Interest Payable - Second Mortgage		160,612	
2133	Accrued Interest Payable - Third Mortgage		98,690	
2150	Accrued Property Taxes		17,427	
2170	Mortgage Payable - First Mortgage (Current Maturities)		69,022	
2190	Accrued Asset Management Fee		1,974	
2210	Prepaid Revenue		7,376	
2190	Due To Affiliate		17,261	
2190	Loan Payable - Limited Partner		<u>30,173</u>	
	Total Current Liabilities			\$ 486,855

DEPOSIT LIABILITIES

2191	Tenant Security Deposits Held In Trust (Contra)		<u>44,973</u>	
	Total Deposit Liabilities			44,973

LONG-TERM LIABILITIES

2320	Mortgage Payable - First Mortgage		7,534,806	
2322	Mortgage Payable - Second Mortgage		984,853	
2322	Mortgage Payable - Third Mortgage		300,000	
2324	Developer Fee Payable		<u>540,993</u>	
	Total Long-Term Liabilities			<u>9,360,652</u>

TOTAL LIABILITIES **9,892,480**

PARTNERS' CAPITAL

3130	Partners' Capital			<u>2,949,396</u>
------	-------------------	--	--	------------------

TOTAL LIABILITIES AND PARTNERS' CAPITAL **\$ 12,841,876**

See Accountants' Report

Savannah Heights Limited Partnership

Statement Of Operations Data

For The Year Ended December 31, 2010

RENTAL REVENUE

5120	Rent Revenue - Gross Potential	\$ 1,256,541
5100T	Total Rent Revenue	<u>1,256,541</u>

VACANCIES

5220	Apartments	52,345
5250	Rental Concessions	<u>15,195</u>
5200T	Total Vacancies	<u>67,540</u>
5152N	Net Rental Revenue	<u>1,189,001</u>

FINANCIAL REVENUE

5410	Financial Revenue - Project Operations	62
5440	Financial Revenue - Replacement Reserves	<u>185</u>
5400T	Total Financial Revenue	<u>247</u>

OTHER REVENUE

5920	Tenant Charges	6,313
5990	Miscellaneous Revenue - Miscellaneous Income 2,108	<u>2,108</u>
5900T	Total Other Revenue	<u>8,421</u>
5000T	Total Revenue	<u>1,197,669</u>

Savannah Heights Limited Partnership
Statement Of Operations Data
(Continued)

For The Year Ended December 31, 2010

ADMINISTRATIVE EXPENSES

6210	Advertising And Marketing	\$ 12,298
6250	Other Renting Expenses	4,006
6310	Office Salaries	62,381
6311	Office Expenses	10,064
6320	Management Fee	49,868
6340	Legal Expense	13,319
6350	Audit Expense	10,000
6370	Bad Debts	17,117
6390	Miscellaneous Administrative Expenses - Bank Fees 43; Admin Contractor 16,310; Admin - Other 2,392; Tax Credit Fee 3,500	22,245
6263T	Total Administrative Expenses	201,298

UTILITY EXPENSES

6450	Electricity	15,655
6451	Water	28,214
6400T	Total Utility Expenses	43,869

OPERATING AND MAINTENANCE EXPENSES

6510	Payroll	34,827
6515	Supplies	47,307
6520	Contracts	62,399
6525	Garbage And Trash Removal	7,633
6530	Security Payroll / Contract	22,918
6546	Heating / Cooling Repairs And Maintenance	2,771
6548	Snow Removal	12,535
6590	Miscellaneous Operating And Maintenance - Miscellaneous Maintenance 339	339
6500T	Total Operating And Maintenance Expenses	190,729

Savannah Heights Limited Partnership
Statement Of Operations Data
(Continued)

For The Year Ended December 31, 2010

TAXES AND INSURANCE

6710	Real Estate Taxes	\$ 71,286
6711	Payroll Taxes (Project's Share)	8,566
6720	Property And Liability Insurance (Hazard)	34,912
6723	Health Insurance And Other Employee Benefits	6,149
6790	Miscellaneous Taxes, Licenses, Permits, And Insurance - Other Taxes And Insurance 770; Licenses 7,299	<u>8,069</u>
6700T	Total Taxes And Insurance	<u>128,982</u>

FINANCIAL EXPENSES

6820	Interest On First Mortgage	442,009
6825	Interest On Second Mortgage	24,621
6825	Interest On Third Mortgage	15,900
6850	Mortgage Insurance Premium/Service Charge	38,170
6890	Miscellaneous Financial Expenses - Interest On Security Deposits 1,583	<u>1,583</u>
6800T	Total Financial Expenses	<u>522,283</u>
6000T	Total Expenses Before Depreciation and Amortization	<u>1,087,161</u>
5060T	Profit Before Depreciation and Amortization	<u>110,508</u>
6600	Depreciation	357,343
6010	Amortization	<u>17,938</u>
5060N	Operating Loss	<u>(264,773)</u>

ENTITY EXPENSES

7190	Other Expense - Entity Fees - Asset Management Fees 3,872	<u>3,872</u>
7100T	Total Entity Expenses	<u>3,872</u>
3250	Net Loss	<u>\$ (268,645)</u>

S1000-010	Total mortgage principal payments required during the year -	\$ 65,148
S1000-020	Total of 12 monthly deposits during the year into the replacement reserve account, as required by the regulatory agreement -	\$ 35,831
S1000-030	Replacement reserves or residual receipts releases which are included as expense items on this profit and loss statement -	\$ 19,057
S1000-040	Project improvement reserve releases under the flexible subsidy program that are included as expense items on this profit and loss statement -	\$ -

See Accountants' Report

Savannah Heights Limited Partnership
Statement Of Changes In Partners' Capital Data (Deficit)

For The Year Ended December 31, 2010

	GP	GP	GP	LP	LP	
	FCG SAVANNAH, L.L.C. 0.002%	AHD SAVANNAH LLC 0.006%	JLC SAVANNAH LLC 0.002%	SAVANNAH STREET INVESTORS L. P. 99.98%	MOUNT VERNON PLACE / SAVANNAH HEIGHTS, LLC 0.01%	TOTAL 100%
S1100-010 PARTNERS' CAPITAL (DEFICIT) BEGINNING OF YEAR	\$ (18)	\$ (57)	\$ (18)	\$ 3,218,227	\$ (93)	\$ 3,218,041
3250 LESS: NET LOSS FOR THE YEAR	(5)	(17)	(5)	(268,591)	(27)	(268,645)
3130 PARTNERS' CAPITAL (DEFICIT) END OF YEAR	<u>\$ (23)</u>	<u>\$ (74)</u>	<u>\$ (23)</u>	<u>\$ 2,949,636</u>	<u>\$ (120)</u>	<u>\$ 2,949,396</u>

See Accountants' Report

Savannah Heights Limited Partnership
Statement Of Cash Flows Data
Increase (Decrease) In Cash

For The Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received For:		
S1200-010	Rental Income	\$ 1,224,922
S1200-020	Interest Income	247
S1200-030	Other Income	8,421
		<u>1,233,590</u>
S1200-040	Total Cash Receipts	<u>1,233,590</u>
Cash Paid For Services And To Employees For:		
S1200-050	Administrative Expenses	(98,114)
S1200-070	Management Fees	(47,288)
S1200-090	Utilities	(56,166)
S1200-100	Salaries And Wages	(97,208)
S1200-110	Operating and Maintenance	(137,725)
S1200-120	Real Estate Taxes	(70,845)
S1200-140	Property Insurance	(35,723)
S1200-150	Miscellaneous Taxes And Insurance	(28,951)
S1200-160	Tenant Security Deposits	1,546
S1200-180	Interest On First Mortgage	(442,324)
S1200-210	Mortgage Insurance Premium	(38,170)
S1200-220	Miscellaneous Financial Expense	(1,583)
S1200-225	Asset Management Fees	(3,722)
		<u>(1,056,273)</u>
S1200-230	Total Cash Disbursements	<u>(1,056,273)</u>
S1200-240	Net Cash Provided By Operating Activities	<u>177,317</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
S1200-245	Increase In Mortgage Escrow Deposits	(592)
S1200-250	Increase In Replacement Reserve Fund	(3,586)
S1200-330	Acquisition Of Property And Equipment	(26,570)
		<u>(30,748)</u>
S1200-350	Net Cash Used In Investing Activities	<u>(30,748)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
S1200-360	Mortgage Principal Payments - First Mortgage	(65,148)
S1200-365	Advances From Affiliate	17,261
S1200-450	Developer Fee Payments	(43,896)
		<u>(91,783)</u>
S1200-460	Net Cash Used In Financing Activities	<u>(91,783)</u>
S1200-470	Net Increase In Cash	54,786
S1200-480	Unrestricted Cash - Beginning Of Year	<u>64,557</u>
S1200T	Unrestricted Cash - End Of Year	<u>\$ 119,343</u>

See Accountants' Report

Savannah Heights Limited Partnership
Statement Of Cash Flows Data
Increase (Decrease) In Cash
(Continued)

For The Year Ended December 31, 2010

RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
3250	Net Loss	\$ (268,645)
	Adjustments To Reconcile Net Loss To Net Cash Provided By Operating Activities	
6600	Depreciation	357,343
6610	Amortization	17,938
	(Increase) Decrease In Operating Assets	
S1200-490	Tenant Accounts Receivable	35,122
S1200-520	Prepaid Expenses	(6,978)
S1200-530	Tenant Security Deposits	(8,108)
	Increase (Decrease) In Operating Liabilities	
S1200-540	Accounts Payable	(3,185)
S1200-560	Accrued Expenses	43,377
S1200-580	Security Deposit Liability	9,654
S1200-590	Prepaid Revenue	<u>799</u>
S1200-610	Net Cash Provided By Operating Activities	<u>\$ 177,317</u>

See Accountants' Report

Savannah Heights Limited Partnership
Supporting Data Required By HUD
Schedule Of Surplus Cash

December 31, 2010

CASH

S1300-010	Cash	\$ 164,442
S1300-040	Total Cash	164,442

CURRENT OBLIGATIONS

S1300-050	Accrued Mortgage Interest Payable	36,688
S1300-075	Accounts Payable - 30 Days	42,058
S1300-100	Accrued Expenses	5,574
S1300-110	Other Current Obligations	17,261
2210	Prepaid Revenue	7,376
2191	Tenant/Patient Deposits Held In Trust (Contra)	44,973
S1300-140	Total Current Obligations	153,930
S1300-150	Surplus Cash (Deficiency)	\$ 10,512
S1300-200	Amount Available For Distribution During Next Fiscal Period	\$ 10,512

Savannah Heights Limited Partnership
Supporting Data Required By HUD
(Continued)
Schedule Of Surplus Cash

June 30, 2010

CASH

S1400-020	Cash	\$ 164,667
S1400-050	Total Cash	164,667

CURRENT OBLIGATIONS

S1400-060	Accrued Mortgage Interest Payable	36,848
S1400-090	Accounts Payable - 30 Days	23,913
S1400-100	Accrued Expenses	3,409
S1400-130	Prepaid Revenue	9,339
S1400-140	Tenant/Patient Deposits Held In Trust (Contra)	43,540
S1400-180	Total Current Obligations	117,049
S1400-190	Surplus Cash (Deficiency)	\$ 47,618
S1400-240	Amount Available For Distribution After June 30, 2010	\$ 47,618

Savannah Heights Limited Partnership
Supporting Data Required By HUD
(Continued)

For The Year Ended December 31, 2010

CHANGES IN FIXED ASSETS:

		ASSETS			
		Balance 01/01/10	Additions	Deductions	Balance 12/31/10
1410	Land	\$ 1,390,109	\$ -	\$ -	\$ 1,390,109
1410	Land Improvements	580,695	26,570	-	607,265
1420	Buildings	10,762,632	-	-	10,762,632
1450	Furniture And Fixtures	709,579	-	-	709,579
TOTAL		<u>\$ 13,443,015</u>	<u>\$ 26,570</u>	<u>\$ -</u>	<u>\$ 13,469,585</u>

FIXED ASSET ADDITIONS CONSIST OF:

1410	Fence	<u>\$ 26,570</u>
------	-------	------------------

Savannah Heights Limited Partnership
Supporting Data Required By HUD

For The Year Ended December 31, 2010

ACCUMULATED DEPRECIATION					Net Book Value 12/31/10
	Balance 01/01/10	Net Provisions	Deductions	Balance 12/31/10	
	\$ -	\$ -	\$ -	\$ -	\$ 1,390,109
1495	105,348	29,146	-	134,494	472,771
1495	1,000,898	269,065	-	1,269,963	9,492,669
1495	219,597	59,132	-	278,729	430,850
	<u>\$ 1,325,843</u>	<u>\$ 357,343</u>	<u>\$ -</u>	<u>\$ 1,683,186</u>	<u>\$ 11,786,399</u>

Savannah Heights Limited Partnership
Supporting Data Required By HUD
(Continued)

December 31, 2010

MANAGEMENT FEE RATE: 4%

IDENTITY OF INTEREST FIRMS:

The Partnership has a Development Services Fee agreement with Franklin Capital Development Co, L.L.C., an affiliate of FCG, AHDT, Inc., an affiliate of AHDS and JLC Development, L.L.C., an affiliate of JLC.

The Partnership has a Partnership Management Fee agreement with FCG, AHDS and JLC, the general partners.

The Partnership has an Asset Management Fee agreement with FCG Asset Management Co., L.L.C., an affiliate of FCG.

The Partnership has a property management agreement with AHD/Equity Management Joint Venture, of which AHD Management Inc., an affiliate of AHDS, is a member.

**LISTING OF IDENTITY OF INTEREST COMPANIES & ACTIVITIES
DOING BUSINESS WITH OWNER/AGENT:**

Company Name	Type of Service	Amount Received
AHD Management, Inc.	Property Management Fee	\$ 11,822
AHDT, Inc.	Developer Fee	26,337
Franklin Capital Development Co. LLC	Developer Fee	8,779
JLC Development LLC	Developer Fee	4,390
FCG Asset Management Co. LLC	Asset Management Fee	3,722

Identity of Interest amounts accrued: \$ 537,694

PARTNERSHIP EMPLOYER IDENTIFICATION NUMBER: 37-1463723

RESERVE FOR REPLACEMENTS:

In accordance with the provisions of the regulatory agreement, restricted cash is held by Deutsche Bank Berkshire Mortgage to be used for the replacement of the property with the approval of HUD, as follows:

Balance - January 1, 2010	\$ 133,850
Monthly deposits (\$2,985.91 x 12)	35,831
Authorized Releases	(32,430)
Interest Income	<u>185</u>
Balance - December 31, 2010, confirmed by mortgagee	<u>\$ 137,436</u>



Report Of Independent Certified Public Accountants

On Internal Control Over Financial Reporting

Based On An Audit Of Financial Statements And Internal Control

Over Compliance For HUD-Assisted Programs

To The Partners
Savannah Heights Limited Partnership
3 Bethesda Metro Center
Suite 110
Bethesda, Maryland 20814

We have audited the financial statements of Savannah Heights Limited Partnership as of and for the year ended December 31, 2010, and have issued our report thereon dated March 15, 2011. We have also audited the Partnership's compliance with specific program requirements that could have a direct and material effect on each of its major HUD-assisted programs for the year ended December 31, 2010, and have issued our report thereon dated March 15, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Consolidated Audit Guide for Audits of HUD Programs (the Guide), issued by the U.S. Department of Housing and Urban Development. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the Partnership complied with the compliance requirements referred to above that could have a direct and material effect on a major HUD-assisted program.

The management of Savannah Heights Limited Partnership is responsible for establishing and maintaining effective internal control over financial reporting and internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of the financial statements and compliance, we considered the Partnership's internal control over financial reporting and its internal control over compliance with the specific program requirements that could have a direct and material effect on a major HUD-assisted program to determine the

Savannah Heights Limited Partnership
Report Of Independent Certified Public Accountants
On Internal Control Over Financial Reporting Based
On An Audit Of Financial Statements And Internal Control Over
Compliance For HUD-Assisted Programs
Page Two

auditing procedures for the purpose of expressing our opinions on the financial statements and compliance but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting and internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control over financial reporting and internal control over compliance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) misstatements of the entity's financial statements or (2) noncompliance with specific program requirements of a HUD-assisted program on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that (1) a material misstatement of the entity's financial statements or (2) material noncompliance with specific program requirements of a HUD-assisted program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the mortgagor, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Baltimore, Maryland
March 15, 2011



Report Of Independent Certified Public Accountants

On Compliance With Specific Program Requirements That Could Have

A Direct And Material Effect On Each Major HUD-Assisted Program

To The Partners
Savannah Heights Limited Partnership
3 Bethesda Metro Center
Suite 101
Bethesda, Maryland 20814

We have audited Savannah Heights Limited Partnership's compliance with the specific program requirements governing fair housing and non-discrimination, mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant security deposits, management functions, unauthorized change of ownership/acquisition of liabilities and unauthorized loans of project funds that could have a direct and material effect on each of the Partnership's major HUD-assisted programs for the year ended December 31, 2010. Compliance with those requirements is the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Consolidated Audit Guide for Audits of HUD Programs, (the Guide), issued by the U.S. Department of Housing and Urban Development. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD-assisted program occurred. An audit includes examining, on a test basis, evidence about the Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Partnership's compliance with those requirements.

Savannah Heights Limited Partnership
Report Of Independent Certified Public Accountants
On Compliance With Specific Program Requirements
That Could Have A Direct And Material Effect
On Each Major HUD-Assisted Program
Page Two

In our opinion, Savannah Heights Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD-assisted programs for the year ended December 31, 2010.

This report is intended solely for the information and use of the mortgagor, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Baltimore, Maryland
March 15, 2011



Report Of Independent Certified Public Accountants

Compliance With Specific Requirements

Applicable To Affirmative Fair Housing and Non-Discrimination

To The Partners
Savannah Heights Limited Partnership
3 Bethesda Metro Center
Suite 110
Bethesda, Maryland 20814

We have applied procedures to test Savannah Heights Limited Partnership's compliance with the Affirmative Fair Housing and Non-Discrimination requirements applicable to its HUD-assisted program, for the year ended December 31, 2010.

Our procedures were limited to the applicable compliance requirement described in the Consolidated Audit Guide for Audits of HUD Programs, (the "Guide"), issued by the U.S. Department of Housing and Urban Development. Our procedures were substantially less in scope than an audit, the objective of which would be the expression of an opinion on Savannah Heights Limited Partnership's compliance with the Affirmative Fair Housing and Non-Discrimination requirements. Accordingly, we do not express such an opinion.

The results of those procedures disclosed no instances of noncompliance that are required to be reported herein under the Guide.

This report is intended solely for the information and use of the mortgagor, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Hertzbach & Company, P.A.
Certified Public Accountants

Baltimore, Maryland
March 15, 2011

Savannah Heights Limited Partnership
Corrective Action Plan

December 31, 2010

CORRECTIVE ACTION PLAN

Name Of Mortgagor: Savannah Heights Limited Partnership

Audit Firm: Hertzbach & Company, P.A.

Audit Period: January 1, 2009 - December 31, 2009

Status Of Correction Actions On Prior Year Findings

Finding 2009-1

Statement Of Condition:

There was a HUD REAC physical inspection report issued on April 20, 2009 that resulted in a score of 43c.

Status:

A subsequent HUD REAC physical inspection occurred in February 2011 and the property received a satisfactory score of 81.

Savannah Heights Limited Partnership
Auditors' Comments On Audit Resolution Matters Relating To
HUD Programs

December 31, 2010

AUDITORS' COMMENTS ON AUDIT RESOLUTION MATTERS
RELATING TO HUD PROGRAMS

Name Of Mortgagor: Savannah Heights Limited Partnership

Audit Firm: Hertzbach & Company, P.A.

Audit Period: January 1, 2009 - December 31, 2009

The auditee has taken corrective action on Finding 2009-1 from the December 31, 2009 audit report:

Finding 2009-1

Statement Of Condition:

There was a HUD REAC physical inspection report issued on April 20, 2009 that resulted in a score of 43c.

Status:

A subsequent HUD REAC physical inspection occurred in February 2011 and the property received a satisfactory score of 81.


**Savannah Heights Limited Partnership
Statement Of Mortgagor's Certification**

December 31, 2010

Savannah Heights Limited Partnership
HUD Project No: 000-35428

CERTIFICATION OF PARTNER

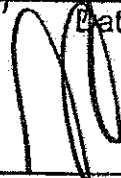
We hereby certify that we have examined the accompanying financial statements and supplemental data of Savannah Heights Limited Partnership and, to the best of our knowledge and belief, the same are complete and accurate.



AHD Savannah, LLC,
General Partner
AHD, Inc., its Managing Member
Richard N. Tager, President

3/15/11

Date



FCG Savannah, LLC

President

Title

Joseph E. Resende

Name

3/15/11

Date

Savannah Heights Limited Partnership

Partnership Employer Identification Number: 37-1463723

**Savannah Heights Limited Partnership
Statement Of Management Agent's Certification**

December 31, 2010

Savannah Heights Limited Partnership
HUD Project No: 000-35428

MANAGEMENT AGENT'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplemental data of Savannah Heights Limited Partnership and, to the best of our knowledge and belief, the same are complete and accurate.

**MANAGEMENT AGENT'S
REPRESENTATIVE**

AHD/Equity Management Joint Venture
By: Equity Management II, LLC


By: John Potvin, Managing Member

3-15-11
Date

AHD/Equity Management Joint Venture

Management Agent Employer Identification Number: 52-2266560