



**Housing Authority of the
City of Las Cruces**

Financial Statements and
Independent Auditors' Report
June 30, 2009

REDW

Housing Authority of the City of Las Cruces

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Housing Authority of the City of Las Cruces

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Housing Authority of the City of Las Cruces
June 30, 2009

DIRECTORY OF OFFICIALS

Housing Authority

Winifred Y. Jacobs

Chairman

Paul Miller

Vice-Chairman

Ellen Haltom

Commissioner

Thomas G. Hassell

Executive Director

Independent Auditors' Report

Mr. Hector Balderas
New Mexico State Auditor,
The Board of Commissioners of the Housing
Authority of the City of Las Cruces
and the
Honorable Mayor and City Council Members of
the City of Las Cruces

We have audited the accompanying basic financial statements of the Housing Authority of the City of Las Cruces (the "Housing Authority"), a component unit of the City of Las Cruces, New Mexico as of and for the year ended June 30, 2009, as listed in the table of contents. We have also audited the budget comparison schedule presented as supplementary information in the schedule of revenues, expenses and changes in net assets—budget and actual as listed in the table of contents. These financial statements and schedule are the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. We did not audit the financial statements of Montana Senior Village, LLC (MSV), MSV II Limited Partnership (MSV II), Stone Mountain Place, LP (SMP), Falcon Ridge, LP (FR), and Cimmaron II Apartments, LP (Cimmaron II), component units of the Housing Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for MSV, MSV II, SMP, FR and Cimmaron II, is based on the report of the other auditors.

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. The financial statements of the Housing Authority's discretely presented component units were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority and its discretely presented component units as of June 30, 2009, and the

respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedule referred to above presents fairly, in all material respects, the budgetary comparison of the Housing Authority in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 17, 2009, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority's basic financial statements. The accompanying combining statements identified in the table of contents as supplementary information, HUD required supplementary information, and New Mexico State Auditor's supplementary information is presented for purposes of additional analysis and to meet the requirements of the United States Department of Housing and Urban Development and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

November 17, 2009

Management's Discussion and Analysis

This section of the financial report presents our discussion and analysis of the Housing Authority of the City of Las Cruces' (the "Housing Authority") financial performance during the fiscal year that ended June 30, 2009. Please read it in conjunction with the Housing Authority's financial statements, which follow this section.

Housing Authority of the City of Las Cruces, New Mexico

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LAS CRUCES, NEW MEXICO 88001**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Housing Authority of the City of Las Cruces' (the "Housing Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2009.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Housing Authority's finances is, "Is the Housing Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets reports information about the Housing Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. They report the Housing Authority's net assets at year-end and changes in net assets during the year.

You can think of the Housing Authority's net assets, the difference between assets and liabilities, as one way to measure the Housing Authority's financial health, or financial position. Over time, increases or decreases in the Housing Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Housing Authority's tenant base, which includes such variables as housing assistance demand, family size, family income, the condition of the Housing Authority's rental units, and the Housing Authority's investments in mixed-financing ventures to assess the overall health of the Housing Authority.

The statement of net assets and the statement of revenues, expenses and changes in net assets include component units, legally separate entities for which the Housing Authority is financially accountable. The Housing Authority's component units are Montana Senior Village, LLC (MSV), Montana Senior Village II, LP (MSV II), Stone Mountain Place, LP (SMP), Falcon Ridge, LP (FR), and Cimmaron II Apartments, LP (Cimmaron II). These component units are described in the notes to the financial statements. The component units are legally separate from the Housing Authority and may buy, sell, lease, and mortgage property in their own name and can sue or be sued in their own name. The Housing Authority is the managing member of MSV, is the sole member of Montana Street, LLC, which is MSV II's general partner, is the sole member of Stone Mountain Place LLC, which is SMP's general partner, is the sole member of Falcon Ridge, LLC, which is FR's general partner, and is the sole member of Cimmaron Apartments, LLC, which is Cimmaron II's general partner.

Housing Authority of the City of Las Cruces
Management's Discussion and Analysis
For the Year Ended June 30, 2009

The Housing Authority's total assets decreased from a year ago by \$15,343, which is a change of less than one percent. This small change is due mainly to the expenditure of cash in the Section 8 Voucher program for housing assistance payments (HAP) of \$173,967 in excess of HAP funding, and \$57,020 of administrative expenses in excess of administrative fee funding, which will assist in the utilization of the Housing Authority's HAP and administrative reserves. This reserve is the accumulation of previous year's underutilization of Section 8 Voucher HAP and administrative funding.

Net assets are summarized as follows:

	June 30,	
	2009	2008
Current assets	\$ 4,216,784	\$ 3,464,697
Restricted assets	502,637	678,602
Noncurrent assets	<u>10,698,598</u>	<u>11,290,063</u>
Total assets	<u>\$ 15,418,019</u>	<u>\$ 15,433,362</u>
Current liabilities	\$ 700,968	\$ 363,199
Noncurrent liabilities	<u>3,310,483</u>	<u>3,515,122</u>
Total liabilities	<u>4,011,451</u>	<u>3,878,321</u>
Net assets		
Invested in capital assets, net of related debt	5,946,294	6,367,359
Restricted	502,637	678,602
Unrestricted	<u>4,957,637</u>	<u>4,509,080</u>
Total net assets	<u>11,406,568</u>	<u>11,555,041</u>
Total liabilities and net assets	<u>\$ 15,418,019</u>	<u>\$ 15,433,362</u>

The Housing Authority's total operating revenues increased by \$205,989 compared to 2008, due to a reclassification from transfers to other operating revenues of the Section 8 New Construction administrative fee in the amount of \$205,343. Operating expenses remained nearly constant, decreasing by only \$3,097 from a year ago. Nonoperating revenue decreased by \$374,037 due in part to a decrease in HUD funding for the Section 8 Voucher program of \$177,643. Additionally, drawdowns requested by the housing authority for its Capital Fund Programs decreased by \$144,010 due to fewer modernization expenditures in 2009. Finally, investment income decreased by \$82,551 due to declining interest rates and an increase in our sweep checking account balance from \$200,000 in 2008 to \$550,000 in 2009. This increase was necessary to minimize service charges on the account.

Housing Authority of the City of Las Cruces
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Changes in net assets are summarized as follows:

	Year Ended June 30,	
	<u>2009</u>	<u>2008</u>
Total operating revenues	\$ 1,217,222	\$ 1,011,233
Total operating expenses	<u>6,669,322</u>	<u>6,672,419</u>
Operating loss	(5,452,100)	(5,661,186)
Total nonoperating revenue (expenses)	<u>5,303,627</u>	5,677,664
Change in net assets	(148,473)	16,478
Beginning net assets	<u>11,555,041</u>	<u>11,538,563</u>
Ending net assets	<u>\$ 11,406,568</u>	<u>\$ 11,555,041</u>

As the Housing Authority completed the year, total net assets decreased from a year ago by \$148,473.

Budgetary Highlights

The Housing Authority made only one revision to its budget during fiscal year 2009. This revision increased expenditures and administrative fee in the Section 8 New Construction program by \$20,000. Total operating revenues were under budget by \$656,803 and total operating expenses were over budget by \$516,213. These variances resulted from a variety of factors, including the lack of an annual funding budget provided by HUD at the beginning of a new fiscal or calendar year for HUD programs, startup costs for new developments, and closing costs for units sold and purchased. The Housing Authority bases its budget on the expenditure rate for the previous fiscal year and incorporates any anticipated changes. The Housing Authority is not required by HUD to revise budgets based on line item changes, except in its Capital Fund Programs. Additionally, budgets are not prepared for funds that track expenses for reimbursement purposes only.

Capital Assets

At the end of fiscal year 2009, the Housing Authority had \$9,407,624 net of depreciation, invested in a range of capital assets, including land, dwelling units, administrative buildings, office furniture and equipment, maintenance equipment, and vehicles. This amount represents a net decrease of \$614,205 from last year's amount of \$10,021,829 due primarily to the sale of five properties (two from public housing stock). See Note 4 to the financial statements for further information on capital assets.

Housing Authority of the City of Las Cruces
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Long-Term Debt

At year-end, the Housing Authority had \$3,461,330 in bonds and notes outstanding compared to \$3,654,470 last year, for a net decrease of \$193,140. See Note 6 to the financial statements for further information on long-term debt.

Economic Factors and Next Year's Budgets and Rates

The Housing Authority's staff and Board of Commissioners considered many factors when setting the fiscal-year 2009 budget. One of the main factors is the economy. The demand for housing assistance should not diminish due to the growth of the community and surrounding area, and the local and national economies. The New Mexico Department of Workforce Solutions has stated that "the outlook is for further increases in the state's unemployment rate as stagnating job growth fails to keep pace with population increases."

As of August 2009, the unemployment rate for Dona Ana County was 7.38% while the average rate for the state of New Mexico as a whole was 7.6%. It is important to keep in mind that the actual HUD Section 8 Voucher funding level is mainly based on the Housing Authority's actual expenditure level for housing assistance payments, as reported to HUD electronically on a monthly basis through the Voucher Management System (VMS). The final public housing funding percentage for calendar year 2009 is 88.42%, or \$417,224. In the previous calendar year 2008, we received \$548,454, which was a funding percentage of 88.96%. This decrease in funding of \$131,230 is due partly to funding prorations, and partly because of the sale of 104 public housing units since February 2001.

Contacting the Housing Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Housing Authority of the City of Las Cruces at 926 South San Pedro, Las Cruces, New Mexico 88001.

Financial Statements

Statement of Net Assets

Housing Authority of the City of Las Cruces
Statement of Net Assets
June 30, 2009

	City of Las Cruces Housing Authority	Component Units	
		Montana Senior Village, LLC	MSV II Limited Partnership
Assets			
Current assets			
Cash and cash equivalents	\$ 2,830,652	\$ 11,447	\$ 67,709
Accounts receivable, net	636,399	98	6
Prepaid expenses and other assets	329,180	6,209	15,108
Due from other funds	288,013	-	-
Inventories	132,540	-	-
Total current assets	<u>4,216,784</u>	<u>17,754</u>	<u>82,823</u>
Restricted assets			
Cash and cash equivalents	<u>502,637</u>	<u>125,297</u>	<u>519,595</u>
Noncurrent assets			
Capital assets, net	9,407,624	2,227,441	4,416,690
Receivables from component units, net	1,290,974	-	-
Other	-	45,556	57,041
Total noncurrent assets	<u>10,698,598</u>	<u>2,272,997</u>	<u>4,473,731</u>
Total assets	<u>15,418,019</u>	<u>2,416,048</u>	<u>5,076,149</u>

December 31, 2008

Stone Mountain Place, LP	Falcon Ridge, LP	Cimmaron II Apartments LP
\$ 42,596	\$ 8,945	\$ 3,784
3,557	-	-
19,887	-	-
-	-	-
-	-	-
<u>66,040</u>	<u>8,945</u>	<u>3,784</u>
<u>288,073</u>	<u>-</u>	<u>-</u>
9,087,236	457,822	371,244
-	-	-
112,539	-	-
<u>9,199,775</u>	<u>457,822</u>	<u>371,244</u>
<u>9,553,888</u>	<u>466,767</u>	<u>375,028</u>

The accompanying notes are an integral part of these financial statements.

Housing Authority of the City of Las Cruces
Statement of Net Assets
June 30, 2009

	City of Las Cruces Housing Authority	Component Units	
		Montana Senior Village, LLC	MSV II Limited Partnership
Liabilities			
Current liabilities			
Accounts payable	90,707	8,164	6,535
Accrued liabilities	28,609	21,985	44,225
Deposits due others	86,261	8,334	21,151
Due to other funds	288,013	-	-
Current portion of long-term debt	207,378	7,237	24,210
Total current liabilities	<u>700,968</u>	<u>45,720</u>	<u>96,121</u>
Noncurrent liabilities			
Long-term debt	3,253,952	1,138,424	1,992,967
Payables to Housing Authority	-	680,226	1,483,941
Accrued compensated absences	56,531	-	-
Total noncurrent liabilities	<u>3,310,483</u>	<u>1,818,650</u>	<u>3,476,908</u>
Total liabilities	<u>4,011,451</u>	<u>1,864,370</u>	<u>3,573,029</u>
Net Assets			
Invested in capital assets, net of related debt	5,946,294	517,293	905,635
Restricted for program activities	502,637	-	-
Unrestricted	4,957,637	34,385	597,485
Total net assets	<u>\$ 11,406,568</u>	<u>\$ 551,678</u>	<u>\$ 1,503,120</u>

December 31, 2008

Stone Mountain Place, LP	Falcon Ridge, LP	Cimmaron II Apartments LP
21,920	206	934
304,786	5,418	-
34,276	-	-
-	-	-
<u>14,258</u>	<u>461,143</u>	<u>374,094</u>
<u>375,240</u>	<u>466,767</u>	<u>375,028</u>
2,704,169	-	-
256,574	-	-
-	-	-
<u>2,960,743</u>	<u>-</u>	<u>-</u>
<u>3,335,983</u>	<u>466,767</u>	<u>375,028</u>
6,368,809	(3,321)	(2,850)
-	-	-
<u>(150,904)</u>	<u>3,321</u>	<u>2,850</u>
<u>\$ 6,217,905</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and
Changes in Net Assets

Housing Authority of the City of Las Cruces
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2009

	<u>Component Units (For the Year</u>		
	City of Las Cruces Housing Authority	Montana Senior Village, LLC	MSV II Limited Partnership
Operating Revenues			
Tenant revenues	\$ 959,432	\$ 223,855	\$ 368,182
Other revenues	<u>257,790</u>	<u>7,726</u>	<u>9,303</u>
Total operating revenues	<u>1,217,222</u>	<u>231,581</u>	<u>377,485</u>
Operating Expenses			
Housing assistance payments	3,647,149	-	-
Administration	1,425,050	52,399	97,609
Maintenance and operations	643,227	39,936	56,425
Depreciation	398,311	108,397	250,480
Utilities	148,465	14,870	26,946
Other	<u>407,120</u>	<u>27,809</u>	<u>38,661</u>
Total operating expenses	<u>6,669,322</u>	<u>243,411</u>	<u>470,121</u>
Operating loss	<u>(5,452,100)</u>	<u>(11,830)</u>	<u>(92,636)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental revenues	5,438,623	-	-
Investment income	36,191	-	-
Interest expense	(204,594)	(97,709)	(107,775)
Gain on sale of capital assets	<u>33,407</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>5,303,627</u>	<u>(97,709)</u>	<u>(107,775)</u>
Income (loss) before capital contribution	(148,473)	(109,539)	(200,411)
Capital contribution	<u>-</u>	<u>-</u>	<u>100,000</u>
Change in net assets	(148,473)	(109,539)	(100,411)
Net assets, beginning of year	<u>11,555,041</u>	<u>661,217</u>	<u>1,603,531</u>
Net assets, end of year	<u><u>\$ 11,406,568</u></u>	<u><u>\$ 551,678</u></u>	<u><u>\$ 1,503,120</u></u>

Ended December 31, 2008)

Stone Mountain Place, LP	Falcon Ridge, LP	Cimmaron II Apartments LP
\$ 466,340	\$ -	\$ -
<u>26,954</u>	<u>-</u>	<u>-</u>
<u>493,294</u>	<u>-</u>	<u>-</u>
-	-	-
147,392	-	-
62,685	-	-
281,873	-	-
38,885	-	-
<u>92,691</u>	<u>-</u>	<u>-</u>
<u>623,526</u>	<u>-</u>	<u>-</u>
<u>(130,232)</u>	<u>-</u>	<u>-</u>
-	-	-
-	-	-
(68,024)	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>(68,024)</u>	<u>-</u>	<u>-</u>
(198,256)	-	-
<u>370,471</u>	<u>-</u>	<u>-</u>
172,215	-	-
<u>6,045,690</u>	<u>-</u>	<u>-</u>
<u>\$ 6,217,905</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Housing Authority of the City of Las Cruces
Statement of Cash Flows
For the Year Ended June 30, 2009

Cash flows from operating activities

Cash received from tenants	\$ 964,614
Cash paid to employees	(866,860)
Cash paid for other operating expenses	(5,938,662)
Other receipts	<u>248,072</u>
Net cash used by operating activities	<u>(5,592,836)</u>

Cash flows from noncapital financing activities

Intergovernmental revenue received	5,438,623
Net transfers from other funds	<u>464,070</u>
Net cash provided by noncapital financing activities	<u>5,902,693</u>

Cash flows from capital and related financing activities

Acquisition of capital assets	(248,176)
Principal paid on long-term debt	(193,140)
Interest paid on long-term debt	<u>(171,187)</u>
Net cash used by capital and related financing activities	<u>(612,503)</u>

Cash flows from investing activities

Interest and dividends on investments	<u>36,191</u>
Net decrease in cash and cash equivalents	(266,455)
Cash and cash equivalents, beginning of year	<u>3,599,744</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,333,289</u></u>

The accompanying notes are an integral part of these financial statements.

Housing Authority of the City of Las Cruces
Statement of Cash Flows
For the Year Ended June 30, 2009

Reconciliation of operating loss to net cash used by operating activities

Operating loss	<u>\$ (5,452,100)</u>
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	398,311
Change in assets and liabilities	
Accounts receivable	(344,587)
Inventories	26
Prepaid expenses and other assets	(210,005)
Due from component units	(22,740)
Accounts payable	21,384
Accrued liabilities	12,418
Deposits due others	<u>4,457</u>
Total adjustments	<u>(140,736)</u>
Net cash used by operating activities	<u>\$ (5,592,836)</u>

The accompanying notes are an integral part of these financial statements.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies

Reporting Entity—The Housing Authority of the City of Las Cruces (the “Housing Authority”) is a public housing authority that provides affordable housing to low-income families. The programs are primarily funded with federal grants and tenant rents.

The reporting entity for the Housing Authority is based upon criteria established by the Governmental Accounting Standards Board. All functions of the Housing Authority for which it exercises oversight responsibility are included. The oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, and special financing relationships.

The Las Cruces Housing Development Corporation (LCHDC) is a legally separate nonprofit corporation formed to provide for the construction and financing of a low-income “New Construction” housing project. The project is managed by the Housing Authority. LCHDC is governed by a self-appointed board. LCHDC is reported as if it was part of the Housing Authority (blended) because its sole purpose is to finance and construct the housing project.

The New Mexico Housing Corporation (NMHC) was formed in 2006 and is a legally separate nonprofit corporation formed to assist the Housing Authority in providing affordable housing. NMHC is reported as if it was part of the Housing Authority (blended) because its board of directors is comprised of the same members as the Housing Authority’s board of directors.

The Housing Authority is reported as a component unit of the City of Las Cruces (the “City”) because the City appoints the Board of Commissioners and the City is able to impose its will on the entity. The financial statements present the financial position and results of operations of only that portion of the financial reporting attributed to the component unit.

Discretely-Presented Component Units

Montana Senior Village, LLC (MSV), MSV II Limited Partnership (MSV II), Stone Mountain Place, LP (SMP), Falcon Ridge, LP (FR) and Cimmaron II Apartments, LP (Cimmaron II), were formed to acquire, construct and rehabilitate, and operate apartment buildings for rental to low-income tenants. The Housing Authority is the managing member of MSV, is the sole member of Montana Street, LLC, which is MSV II’s general partner, is the sole member of Stone Mountain Place LLC, which is SMP’s general partner, is the sole member of Falcon Ridge, LLC, which is FR’s general partner, and is the sole member of Cimmaron Apartments, LLC, which is Cimmaron II’s general partner. The criteria provided in Government Accounting Standards Board Statements No. 14 and No. 39 have been considered and MSV, MSV II, SMP, FR and Cimmaron II

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies — continued

Discretely-Presented Component Units — continued

meet the criteria for inclusion as component units of the Housing Authority. MSV, MSV II, SMP, FR and Cimmaron II do not meet the requirements for blending and are included as discretely-presented component units (see Note 11).

MSV, MSV II, SMP, FR, and Cimmaron II have a December 31 fiscal year end. Accordingly, these financial statements contain their balances and results of operations as of and for the year ended December 31, 2008.

Measurement Focus, Basis of Accounting

Basis of Accounting and Presentation

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

Proprietary Fund Accounting

The Housing Authority follows proprietary fund accounting. Proprietary funds are accounted for on the flow of economic measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The Housing Authority applies FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Housing Authority has also elected to apply FASB Statements and Interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Under the terms of grant agreements, the Housing Authority funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Housing Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies — continued

Measurement Focus, Basis of Accounting — continued

Cash and Cash Equivalents

The Housing Authority's cash and cash equivalents are comprised of cash on hand, demand deposits, U.S. government money market funds, federated cash reserves and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Accounts receivable are presented net of allowance for doubtful accounts. The allowance is estimated based on management's knowledge of past collection history.

Investments

Investments are recorded at fair value. Fair value of securities and mutual funds is determined by the reported market value on national exchanges. Fair value of the Housing Authority's investments is determined as follows:

- 1) Investments with stated interest rates (savings accounts, CDs, repurchase accounts/agreements) are stated at cost,
- 2) U.S. treasury bills are stated at amortized cost, which does not vary materially from fair value, and
- 3) Bond and reserve fund investments are stated at fair value.

Revenue and Expenses

Revenues are recognized in the accounting period in which they are earned. Other operating revenues consist mainly of administrative fees and developer fees. Intergovernmental grant revenue includes annual contributions and operating subsidies from HUD, as well as development and modernization grants. Intergovernmental grant revenue is recognized when all eligibility requirements have been met. Expenses are recognized in the accounting period in which the related liability is incurred.

Capital Assets

Additions of property are recorded at cost, or, if donated, at fair value at the date of the gift. The Housing Authority capitalizes all capital asset purchases, including buildings, building improvements, furniture, fixtures, equipment and software, over \$5,000.

Proceeds of long-term borrowings are invested during construction periods. The difference between interest earnings and expense during this time is negligible resulting in no avoidable interest cost for capitalization.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies — continued

Measurement Focus, Basis of Accounting — continued

Inventory

Inventory of parts and supplies are recorded on a first-in first-out basis at cost, which is recorded as an expense at the time the items are used.

Accrued Liabilities

Accrued liabilities consist mainly of accrued payroll and related liabilities. For the component units, accrued liabilities consist of accrued interest and retainage payable.

Net Assets

Unrestricted net assets represent the amount available to budget for future operations. Restricted net assets represent the amounts that have been externally restricted for specific purposes.

Insurance

Premiums on insurance policies are charged to prepaid insurance and amortized over the life of the policy, if significant.

Depreciation

Depreciation is recognized each year using the straight-line method. Site improvements have an estimated useful life of 15 years. Structures are depreciated over 15-40 years and equipment has estimated useful lives of 5-7 years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Compensated absences and accumulated vacation leave are reported as an expense and a liability of the program that will fund it.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

1) Summary of Significant Accounting Policies — continued

Measurement Focus, Basis of Accounting — continued

Bond and Reserve Funds

LCHDC mortgage revenue bonds require the following bond and reserve funds, which are presented as restricted assets in the financial statements:

- ◆ Debt Service Reserve—Funds set aside to cover the highest level of debt service requirements during the bond term.
- ◆ Bond Fund—Funds accumulated to pay the next principal and interest payment.
- ◆ Extraordinary Maintenance and Replacements—Annual deposits equal three percent of fair market rents set aside for maintenance and replacements.
- ◆ Insurance and Tax Escrow—Funds accumulated to pay insurance and tax expense.

The bonds also require certain insurance coverage. LCHDC complied with all these bond requirements.

Budgets

The Housing Authority's budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of the anticipated revenues and expenditures. Budgets are approved and amended by the Board of Commissioners.

Component Units

Significant accounting policies of component units are presented in Note 11.

Subsequent Events

The Housing Authority has evaluated subsequent events through November 17, 2009, the date which the financial statements were available to be issued.

2) **Activities of the Housing Authority**

The Housing Authority manages the following units:

HUD Public Housing (Contract FW5434)	
Scattered sites, Development II and modernization programs	255 units
HUD Section 8 Housing	
Voucher (Contract FW5374V)	917 units
New Construction Housing (NMOZ-0002-0004)	
Includes Valley and Burley Drive projects and Las Cruces Housing Development Corporation	101 units

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

3) Cash and Investments

State statutes authorize the Housing Authority to invest in interest-bearing accounts with local financial institutions, direct obligations of the U.S. Treasury or New Mexico political subdivisions, and the State Treasurer's Investment Pool.

Deposits and Repurchase Agreement

At June 30, 2009, the carrying amount of the Housing Authority's bank deposits was \$509,391, and the bank balance was \$554,124, which was fully insured by the Federal Deposit Insurance Corporation.

New Mexico statutes require that financial institutions with public monies on deposit, governed by a repurchase agreement, pledge collateral to the owner of such public monies in an amount not less than 102% of the uninsured public monies held on deposit. As of June 30, 2009, the Housing Authority had \$2,570,978 invested in a repurchase agreement, which is collateralized by securities with a fair value of \$2,622,398 held by Wells Fargo Bank, N.A. in the Housing Authority's name.

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. New Mexico statutes require that financial institutions with public monies on deposit pledge collateral to the owner of such public monies in an amount not less than 50% of the uninsured public monies held on deposit. Collateral securities are held by the Housing Authority's bank. Securities pledged by financial institutions are required to be pledged at par with the exception of U.S. government obligations, which are pledged at fair value. As of June 30, 2009, the bank balance of the Housing Authority's deposits was fully insured, and thus, was not exposed to custodial credit risk.

Investments

As of June 30, 2009, the Housing Authority owned money market funds, which had a fair value of \$219,591. Due to their short maturities, these investments are held for the purpose of meeting bond requirements and are included in restricted cash and cash equivalents on the statement of net assets.

*Interest Rate Risk—*At June 30, 2009, investments consist of Federated U.S. Treasury Cash Reserves, which are highly liquid and are not subject to significant interest rate risk.

*Credit Risk—*The Housing Authority's investment policy lists the criteria for selecting investments and the order of priority as follows: 1) safety 2) yield 3) liquidity 4) maturity 5) amount and 6) administrative cost. As of June 30, 2009, ratings were not available for the Housing Authority's money market investments in Federated U.S. Treasury Cash Reserves.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

3) Cash and Investments — continued

Investments — continued

Custodial Credit Risk—For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty, the Housing Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Housing Authority’s securities are held in the Housing Authority’s name.

Concentration of Credit Risk—The Housing Authority’s investment policy places no limit on the amount the Housing Authority may invest in any one issuer. As of June 30, 2009, 100% of the Housing Authority’s investment pool was invested in Federated U.S. Treasury Cash Reserves held by Wells Fargo Bank, N.A.

4) **Capital Assets**

Capital asset activity of the Housing Authority for the year ended June 30, 2009, was as follows:

	June 30, 2008	Additions	Deletions	June 30, 2009
Public housing	\$ 7,844,404	\$ 45,214	\$ (171,650)	\$ 7,717,968
Less accumulated depreciation	(5,981,189)	(206,625)	70,883	(6,116,931)
Net public housing	<u>1,863,215</u>	<u>(161,411)</u>	<u>(100,767)</u>	<u>1,601,037</u>
Section 8 housing	4,541	-	-	4,541
Less accumulated depreciation	(826)	(131)	-	(957)
Net section 8 housing	<u>3,715</u>	<u>(131)</u>	<u>-</u>	<u>3,584</u>
New construction	1,470,952	6,267	-	1,477,219
Housing development corporation	3,380,000	-	-	3,380,000
Total new construction	4,850,952	6,267	-	4,857,219
Less accumulated depreciation	(770,150)	(68,672)	-	(838,822)
Net new construction	<u>4,080,802</u>	<u>(62,405)</u>	<u>-</u>	<u>4,018,397</u>
Local housing projects	4,364,024	196,695	(383,111)	4,177,608
Less accumulated depreciation	(289,927)	(122,883)	19,808	(393,002)
Net local housing	<u>4,074,097</u>	<u>73,812</u>	<u>(363,303)</u>	<u>3,784,606</u>
Net capital assets	<u>\$ 10,021,829</u>	<u>\$ (150,135)</u>	<u>\$ (464,070)</u>	<u>\$ 9,407,624</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

4) Capital Assets — continued

	June 30, 2008	Additions	Deletions	June 30, 2009
Summary totals				
Capital assets				
Land	\$ 3,328,745	\$ 50,000	\$ (45,027)	\$ 3,333,718
Site improvements	1,548,550	83,780	(53,195)	1,579,135
Structures	11,760,395	99,063	(456,539)	11,402,919
Equipment	393,873	-	-	393,873
Construction in progress	32,358	15,333	-	47,691
Subtotal	<u>17,063,921</u>	<u>248,176</u>	<u>(554,761)</u>	<u>16,757,336</u>
Accumulated depreciation				
Site improvements	(1,146,675)	(31,652)	7,144	(1,171,183)
Structures	(5,572,738)	(346,681)	83,547	(5,835,872)
Equipment	(322,679)	(19,978)	-	(342,657)
Subtotal	<u>(7,042,092)</u>	<u>(398,311)</u>	<u>90,691</u>	<u>(7,349,712)</u>
Net capital assets	<u>\$ 10,021,829</u>	<u>\$ (150,135)</u>	<u>\$ (464,070)</u>	<u>\$ 9,407,624</u>

Details of capital assets of component units are presented in Note 11.

5) **Component Unit Receivables**

The following is a reconciliation of amounts due to the Housing Authority from its component units from December 31, 2008 (component units' year-end) to June 30, 2009 (Housing Authority's year-end). Reconciling items include timing differences and an allowance for doubtful accounts based on management's assessment of the collection of receivables from MSV II.

MSV payables to Housing Authority (December 31, 2007)

Note payable—Housing Authority	\$ 487,250
Deferred development fees—Housing Authority	107,446
Land note payable—Housing Authority	77,237
Due to Housing Authority	<u>8,293</u>
	<u>680,226</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

5) Component Unit Receivables — continued

MSV II payables to Housing Authority (December 31, 2008)		
Deferred development fee note	175,157	
Authority loan payable	800,000	
Authority AHP loan payable	500,000	
Development advances—general partner	451	
Operating advances—general partner	<u>8,333</u>	
		<u>1,483,941</u>
SMP payables to Housing Authority (December 31, 2008)		
Development fees payable		<u>256,574</u>
Net payable to Housing Authority from MSV, MSV II, and SMP at December 31, 2008		2,420,741
Reconciling items		
Allowance for doubtful accounts		(1,300,000)
Accrued interest from January 1, 2009 through June 30, 2009		186,859
Other reconciling items		<u>(16,626)</u>
Housing Authority receivables from component units at June 30, 2009, net of allowance		<u>\$ 1,290,974</u>

6) **Long-Term Debt**

Details of the Housing Authority and LCHDC's debt are as follows:

Description	Issue Date	Interest Rates (%)	Maturity Date	Total Outstanding 6/30/2008	Retired	Total Outstanding 6/30/2009	Amount Due Within One Year
LCHDC Mortgage							
Revenue Bond (Series 2005)	07/06/2005	5.35%	10/01/2019	\$ 2,406,804	\$ 158,764	\$ 2,248,040	\$ 167,464
Note payable - Gallup Federal							
Savings Bank	10/13/2004	7.5%	01/20/2014	401,211	14,434	386,777	15,525
Note payable - Wells Fargo Bank	04/15/2005	8.13%	04/15/2025	361,279	9,942	351,337	11,199
Note payable - First Federal Bank	08/15/2005	8%	08/15/2025	276,221	8,073	268,148	8,803
Note payable - Firstlight Federal							
Credit Union	03/13/08	6.5%	04/01/2038	131,718	1,927	129,791	1,638
Note payable - Other	12/02/1998	0%	11/02/2015	<u>77,237</u>	<u>-</u>	<u>77,237</u>	<u>2,749</u>
Total				<u>\$ 3,654,470</u>	<u>\$ 193,140</u>	<u>\$ 3,461,330</u>	<u>\$ 207,378</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

6) Long-Term Debt — continued

Debt service requirements on long-term debt at June 30, 2009, are as follows:

Year ending June 30,	Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2010	\$ 167,464	\$ 116,203	\$ 39,914	\$ 84,712
2011	176,652	107,021	42,865	81,763
2012	186,338	97,335	46,046	78,579
2013	196,555	87,118	49,484	75,142
2014	207,333	76,311	349,241	61,216
2015-2019	1,220,185	198,385	250,024	203,449
2020-2024	93,513	1,044	275,130	114,850
2025-2029	-	-	92,210	60,192
2030-2034	-	-	32,094	17,836
2035-2038	-	-	36,282	5,673
	<u>\$ 2,248,040</u>	<u>\$ 683,417</u>	<u>\$ 1,213,290</u>	<u>\$ 783,412</u>

Details of component unit debt are presented in Note 11.

7) **Refunded Bonds**

In a prior fiscal year, LCHDC entered into an advance refunding transaction related to its bonded debt. A portion of the proceeds of the refunded issues was placed in trust and used to purchase U.S. Government and agencies securities at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. The assets are administered by trustees and are restricted for retirement of refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements since LCHDC defeased its obligation for the payment of the refunded bonded debt upon completion of the refunding transactions.

The amount of the LCHDC bond issue that is outstanding but which has been refunded and is payable from an escrow account is \$2,248,040.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

8) Employee Retirement System

Retirement Plan

Substantially all full-time employees of the Housing Authority participate in a defined benefit contributory retirement plan through the Public Employees' Retirement Act (PERA) of the State of New Mexico, a cost-sharing multiple employer public employee retirement system. Benefit provisions are established and may only be amended by state statute. Information pertaining to the actuarially computed present value of vested accumulated plan benefits and nonvested accumulated plan benefits, the plan's net assets available for benefits and the assumed rate of return used in computing the present value, and ten-year historical trend information presenting PERA's progress in accumulating sufficient assets to pay benefits when due is not available by individual government agencies participating in the plan. Actuarial pension data for the State of New Mexico, as employer, is provided at the statewide level in a separately issued audit report of PERA. That report may be obtained by writing to PERA, P.O. Box 2123, 1120 Paseo de Peralta, Santa Fe, NM, 87504-2123 or on their internet website at www.state.nm.us/pera/.

Retirement Eligibility

Eligibility for receiving the monthly benefit equal to the number of years of credited service times 2.5% of their final average monthly salary, the 36 consecutive months of credited service producing the largest average, is as follows:

- ◆ Employees may retire at:
 - Any age with 25 or more years of credited service
 - Age 60 or older with 20 or more years of credit service
- ◆ All employees are eligible for retirement at:
 - Age 61 or older with 17 or more years of credited service
 - Age 62 or older with 14 or more years of credited service
 - Age 63 or older with 11 or more years of credited service
 - Age 64 or older with 8 or more years of credited service
 - Age 65 or older with 5 or more years of credited service
- ◆ Benefits vest after five years of credited service

Disability Benefits

Members or vested former members with five or more years of credited service will receive their normal retirement pension based on credited service and final average salary at the time of disability or retirement. The five-year service requirement is waived if the disability is incurred in the line of duty. Disability retirements are subject to reevaluation until the member reaches normal retirement. Payment of the disability pension is suspended for the balance of any year in which a disability-retired member does not submit an annual statement of earnings from gainful employment by June 30th of each

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

8) Employee Retirement System — continued

Disability Benefits — continued

year or if the amount of earnings in the previous year is more than the amount that causes the suspension of, or a decrease in, the Social Security Old Age Benefit for a 65 year old.

Funding Policy

The Housing Authority's retirement plan requires a 9.15% contribution by the employees and a 9.15% contribution by the Housing Authority.

Contribution requirements for the years ended are as follows:

	Housing Authority	Employee	Total	Percentage Contributed
June 30, 2005	\$ 73,220	\$ 73,220	\$ 146,440	100%
June 30, 2006	73,365	73,365	146,730	100%
June 30, 2007	62,400	62,400	124,800	100%
June 30, 2008	66,291	66,291	132,582	100%
June 30, 2009	64,483	64,483	128,966	100%

9) **Risk Management**

The Housing Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters for which the Housing Authority carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the previous three years.

10) **Contingent Liabilities**

Legal Proceedings—The Housing Authority is subject to various legal proceedings that arise in the ordinary course of the Housing Authority's operations. In the opinion of the Housing Authority's management, the ultimate resolution of the matters will not have a material adverse impact on the financial position or results of operations of the Housing Authority.

Federal Grants—The Housing Authority receives federal grants for various specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowance, if any, will not be material to the financial statements.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units

A. Montana Senior Village, LLC

Nature of Business and Organization

Montana Senior Village, LLC (the “Project” or the “Company”) was organized on January 22, 1998 as a New Mexico Limited Liability Company to acquire, construct, rehabilitate, and operate a 49 unit rental housing project for rental to persons of low income. The Project is located in the city of Las Cruces, New Mexico and is currently known as Montana Senior Village Apartments.

The Managing Member is the Housing Authority of the City of Las Cruces (the “Managing Member”) and the Investor Member is The Banc of America Housing Fund II Limited Partnership (the “Investor Member”). The major activities of the Company are governed by the Management and Operating Agreements and the Internal Revenue Code Section 42.

The management of the Company and the ongoing management of Montana Senior Village Apartments are vested in the Members. The Company has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the Operating Agreement and Management Agreement.

The Project is financed and constructed under Section 542(c) of the Housing and Community Development Act, as amended, and is administered by the New Mexico Mortgage Finance Authority (MFA). Under this program, the Company provides housing to low and moderate income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Project through rent subsidies provided by the local Public Housing Authority (PHA).

The Company is reported as a component unit of the Housing Authority of the City of Las Cruces because the Housing Authority of the City of Las Cruces is the Managing Member of the Company. The Company has no component units.

The Company issues separate audited financial statements. These financial statements may be obtained by writing to the Housing Authority of the City of Las Cruces, 926 S. San Pedro Street, Las Cruces, New Mexico, 88001.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Summary of Significant Accounting Policies

Basis of Accounting

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

Cash Equivalents

Cash and cash equivalents consist of short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificate of deposit.

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Project does not accrue interest on the tenant receivable balances. The Project has not established an allowance for doubtful accounts and does not use the reverse method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

Income Taxes

No federal income taxes are payable by the Company and none have been provided in the accompanying financial statements. The Members are to include their respective share of Company income or loss in their separate tax returns.

Rental Property

Rental property is recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method over a recovery period of 3 to 27.5 years.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Summary of Significant Accounting Policies — continued

Estimates — continued

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.

Rental Income

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

Amortization

Permanent loan fees of \$57,161 are amortized on a straight-line basis over the life of the respective loan.

Member's Profit and Loss Allocation and Distributions

The Members of Montana Senior Village, LLC and their respective profit and loss percentages are as follows at December 31, 2008:

Managing Member

<i>Housing Authority of the City of Las Cruces</i>	0.01%
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Investor Member

<i>The Banc of America Housing Fund II LP</i>	99.99%
Total	<u>100.00%</u>

Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow

The Investor Member has contributed \$1,235,342 for a 99.99% interest in the Company. The Managing Member contributed \$170,000 for a 0.01% interest in the Company. The final Investor Member contribution of \$64,342 was made during 2003 upon achievement of breakeven operations, as defined.

Profits, losses, and tax credits generally are to be allocated to the Members in accordance with their ownership interests. In the event the Managing Member makes an operating deficit contribution, the Managing Member receives a special allocation equal to the amount of the contribution.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Member's Profit and Loss Allocation and Distributions — continued

Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow — continued

Net cash flow from operations, as defined, is to be distributed annually as follows:

- 1) To the Managing Member to pay the Deferred Development Fee in accordance with the Development Services Agreement;
- 2) To the Managing Member to pay the annual Company Management Fee in accordance with the Company Administration Agreement;
- 3) To the Managing Member to pay the Incentive Management Fee in accordance with the Company Administration Agreement;
- 4) To the Managing Member to repay any Operating Deficit Contribution;
- 5) The balance, .01% to the Managing Member and 99.99% to the Investor Member.

Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows.

	Balances January 1, 2008	Additions	Deletions	Balances December 31, 2008
Capital assets				
Land	\$ 249,000	\$ -	\$ -	\$ 249,000
Buildings	600,000	-	-	600,000
Site improvements	2,260,635	-	-	2,260,635
Furniture, fixtures and equipment	82,837	6,596	(81,869)	7,564
	<u>3,192,472</u>	<u>6,596</u>	<u>(81,869)</u>	<u>3,117,199</u>
Accumulated depreciation	<u>(864,696)</u>	<u>(106,931)</u>	<u>81,869</u>	<u>(889,758)</u>
Net capital assets	<u>\$ 2,327,776</u>	<u>\$ (100,335)</u>	<u>\$ -</u>	<u>\$ 2,227,441</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Long-Term Debt

At December 31, 2008, notes payable consist of the following:

On February 5, 2001, the Company executed a \$1,030,000 Loan Agreement with the New Mexico Mortgage Finance Authority to permanently finance the Project under the 542(c) FHA-Insured Multifamily Loan Program. The loan amortizes at a fixed interest rate of 8.15% per annum over 39 years. Monthly principal and interest payments of \$7,303 commenced March 1, 2001. The note matures on February 1, 2040 and is secured by the Project's rental property and an assignment of the Project's rental revenue	\$ 989,741
On January 12, 2000, the Company executed a \$487,250 promissory note with the Housing Authority of the City of Las Cruces to partially finance predevelopment and rehabilitation costs. The loan bears interest at the rate of 4% per annum and is payable in full on December 15, 2017 or immediately upon the sale or dissolution of the Project. The loan is subordinate to the First Mortgage Loan and payment is subject to available cash flow. Interest of \$155,920 was accrued and payable as of December 31, 2008	<u>487,250</u> 1,476,991
Less current portion	<u>(7,237)</u>
Long-term notes payable	<u>\$1,469,754</u>
Long-term interest accrued-included in long-term debt	<u>\$ 155,920</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Long-Term Debt — continued

The schedule of maturities for the mortgage is as follows:

Year ending December 31,	Principal	Interest
2009	\$ 7,237	\$ 80,397
2010	8,103	79,531
2011	8,789	78,845
2012	9,533	78,101
2013	10,339	77,295
2014-2018	64,313	373,858
2019-2023	96,533	341,638
2024-2028	144,895	293,276
2029-2033	217,486	220,685
2034-2038	326,443	111,728
2039-2040	96,070	5,025
Total	<u>\$ 989,741</u>	<u>\$ 1,740,379</u>

Notes Payable - Managing Member

On November 29, 1999, the Company executed a \$99,000 promissory note (the “Land Loan”) with the Housing Authority of the City of Las Cruces. The loan is subordinate to the First Mortgage Loan and payment is subject to available cash flow. During 2004, the terms of the Land Loan were changed and previously paid interest was applied to principal. The loan is now a non-interest bearing loan and is payable in full on December 1, 2015. The balance of the loan as of December 31, 2008 was \$77,237.

Reserve Accounts

Operating Reserve

In accordance with the Operating Agreement the Operating Reserve should maintain a balance of at least \$60,000. The Managing Member may use funds in the Operating Reserve with the consent of the Investor Member, for any Company purpose, but only to the extent the revenues of the Company are insufficient to accomplish such purposes. MFA required that an amount equal to three monthly first mortgage payments, or \$30,327, be retained in escrow as the Operating Deficit Reserve Account. The Managing Member has established an Operating Reserve account to accumulate the additional funds

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Reserve Accounts — continued

Operating Reserve — continued

required by the Operating Agreement. The combined balance of the Operating Reserves as of December 31, 2008 was \$66,503.

Replacement Reserve

A Replacement Reserve is required to be funded from the Project's gross revenue to fund major repair and capital expenditures. The Replacement Reserve balance as of December 31, 2008 was \$43,436.

Transactions with Affiliates and Related Parties

Property Management Fee

The Company has entered into a Management Agreement with JL Gray Company to manage the rental operations of the apartment community. The compensation for this service is based on the Management Agreement. The management fee shall equal 5.25% of monthly gross rental collections excluding any service or laundry income. Property management fees expensed were \$11,963 during 2008. The amounts due to the Management Agent related to property management fees were \$277 as of December 31, 2008.

Company Administrative Management Fee

The Company executed a Company Administrative Agreement with the Managing Member for its services in managing the business of the Project. An annual administrative management fee of \$15,000 beginning in 2000 is payable subject to available cash flow, as defined. In addition, an annual incentive management fee equal to 75% of net cash flow is payable subject to available cash flow, as defined. The fees are noncumulative and as of December 31, 2008, no fees have been paid

Development Fee

On January 20, 2000, the Company entered into a Development Agreement with the Managing Member to render development services for construction of the Project. The fee of \$250,448 has been fully earned as of December 31, 2000 and is included in rental property on the accompanying balance sheets. The liability is non-interest bearing. Payment is subject to available cash flow and shall be repaid no later than December 31, 2011. Deferred developer fees of \$107,446 were outstanding as of December 31, 2008.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Transactions with Affiliates and Related Parties — continued

Reimbursed Expenses

The Management Agent is reimbursed for certain expenses that are directly related to this property.

Related Party Transactions

Balances payable to the managing member at December 31, were as follows:

	Paid	Payable
Note payable	\$ -	\$ 487,250
Deferred development fees	-	107,446
Land note payable	-	77,237
Other	-	8,293

Vulnerability Due to Certain Concentrations

The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company are subject to the administrations directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directive, rules and regulations are subject to change by an act of Congress or administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with change.

Commitments and Contingencies

Guaranty of Tax Credits

Under the terms of the Operating Agreement, the Managing Member has the duty to use its best efforts to ensure that the Company qualifies for the maximum lawful Low Income Housing Tax Credits. In the event that actual Low Income Housing Tax Credits accruing to the benefit of the Investor Member are less than the amount of Credits that were projected at the formation of the Company, the contributions of capital otherwise required of the Investor Member may be reduced, or constructive advances deemed made, in accordance with applicable provisions of the Operating Agreement.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

A. Montana Senior Village, LLC — continued

Commitments and Contingencies — continued

Operating Deficit Contributions

The Managing Member is obligated to make contributions to the Company as necessary to fund operating expenses, debt service payments, reserve and escrow accounts, capital improvements, and maintenance expenses that occur during certain specified periods, as defined. The Managing Member's obligation to make operating deficit contributions after the lease-up date, as defined, is limited to \$100,000 and terminates upon achievement of certain operating milestones. According to the Operating Agreement, losses equal to the deficit payments are allocated to the Managing Member.

Regulatory Agreement Provisions

On February 5, 2001, the Company executed a 542(c) Multifamily Insurance Program Regulatory Agreement with the New Mexico Mortgage Finance Authority in order to obtain a "risk-sharing" mortgage loan. The Company is required to abide by the regulatory agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) Replacement Reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

Housing Tax Credits

As incentive for investment equity, the Company applied for and received an allocation certificate for housing tax credits established by the Tax Reform Act of 1986. To qualify for the tax credits, the Company must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management has certified that each Tax Credit unit has met these qualifications to allow the credits allocated to each unit to be claimed. Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed tax credits plus interest.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

- 11) Component Units — continued
- A. Montana Senior Village, LLC — continued

B. MSV II Limited Partnership

Nature of Business and Organization

MSV II Limited Partnership (MSV II or the “Partnership”) was formed as a Limited Partnership on January 29, 2001 to acquire, construct, rehabilitate, and operate an 84 unit rental housing project for low income senior tenants. The project is located in the city of Las Cruces, New Mexico and is currently known as Montana Senior Village II Apartments. The major activities of the Partnership are governed by the Management and Operating Agreements and the Internal Revenue Code Section 42.

The management of the Partnership and the ongoing management of Montana Senior Village II Apartments are vested in the Partners. The Partnership has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement, Management Agreement, and Management Certification.

The Partnership is reported as a component unit of the Housing Authority because the Housing Authority is the sole member of Montana Street, LLC, MSV II’s general partner. The Partnership has no component units.

The Partnership issues separate audited financial statements. These financial statements may be obtained by writing to the Housing Authority of the City of Las Cruces, 926 S. San Pedro Street, Las Cruces, New Mexico, 88001.

Summary of Significant Accounting Policies

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.

Cash Equivalents

Cash and cash equivalents consist of short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificate of deposit.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Summary of Significant Accounting Policies — continued

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Partnership does not accrue interest on the tenant receivable balances. The Partnership has not established an allowance for doubtful accounts and does not use the reverse method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the Partners individually. The Partnership's Federal Identification Number is 85-0476760.

Rental Property

Rental property is recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method over a recovery period 3 to 27.5 years.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Rental Income

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

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Summary of Significant Accounting Policies — continued

Amortization

Permanent loan fees of \$79,593 are amortized on a straight-line basis over the life of the respective loan.

Partners' Profit and Loss Allocation and Distributions

The Partners of MSV II Limited Partnership and their respective profit and loss percentages are as follows at December 31, 2008:

General Partner	
<i>Montana Street, LLC</i>	0.01%
Limited Partner	
<i>The Housing Outreach Fund IX LP</i>	99.99%
Total	<u>100.00%</u>

Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow

The Limited Partner has contributed \$2,285,313 for a 99.99% interest in the Partnership. The General Partner has contributed \$300,000 for a 0.01% interest in the Partnership, including \$100,000 during 2008.

Profits, losses, and tax credits generally are to be allocated to the partners in accordance with their ownership interests. In the event the General Partner makes an operating deficit contribution, the General Partner receives a special allocation equal to the amount of the contribution.

Net cash flow from operations, as defined, is to be distributed annually as follows:

- ◆ First to the Limited Partner, an amount equal to the credit deficiency;
- ◆ Second, to the Limited Partner, an amount sufficient to pay federal income taxes on taxable income allocated to the Limited Partner for such fiscal year;

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Partners' Profit and Loss Allocation and Distributions — continued

Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow — continued

- ◆ Third to the Limited Partner to pay the Investor Services Fee, as defined;
- ◆ Fourth to fund Operating Reserves, as required;
- ◆ Fifth to the Deferred Development Fee and interest thereon;
- ◆ Sixth to the Developer to pay the Partnership Administration Fee, as defined;
- ◆ Seventh, to the Developer to pay the Tenant Services Fee, as defined;
- ◆ Eighth, to the General Partner to repay any operating deficit contributions; and
- ◆ The balance, .01% to the General Partner and 99.99% to the Limited Partner.

Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows.

	Balances			Balances
	January 1, 2008	Additions	Deletions	December 31, 2008
Land	\$ 195,230	\$ -	\$ -	\$ 195,230
Site improvements	341,500	13,115	-	354,615
Buildings	4,898,956	-	-	4,898,956
Furniture, fixtures and equipment	241,825	7,211	-	249,036
	5,677,511	20,326	-	5,697,837
Less accumulated depreciation	(1,035,973)	(245,174)	-	(1,281,147)
	<u>\$ 4,641,538</u>	<u>\$ (224,848)</u>	<u>\$ -</u>	<u>\$ 4,416,690</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Long-Term Debt

At December 31, 2008, notes payable consist of the following:

On September 23, 2004, the Partnership executed a \$1,790,000 Loan Agreement with Enterprise Mortgage Investments, Inc., an affiliate of the Limited Partner. The loan amortizes at a fixed interest rate of 7.03% per annum over 18 years. Monthly principal and interest payments of \$11,945 commenced November 1, 2004. The note matures on October 1, 2022 and is secured by the Project's rental property and an assignment of the Project's rental revenue.	\$ 1,705,550
On October 18, 2002, the Partnership executed a \$275,000 Home Loan Agreement with the city of Las Cruces, NM with an interest rate of 1% for 17 years. Beginning in year 18, the outstanding interest becomes principal and the balance accrues interest at the rate of 3% per year payable in 180 monthly installments of \$2,243. The loan matures at the end of year 32. The note is secured by the Project's rental property and is subordinate to the first mortgage loan. Accrued and unpaid interest was \$17,058 as of December 31, 2008.	275,000
On November 1, 2002, the Partnership executed a \$700,000 promissory note (Authority Loan) with the Housing Authority, an affiliate of the General Partner, to partially finance the predevelopment and construction costs with an interest rate of .25% per annum. All unpaid principal and interest is payable in full on November 1, 2034. The note is subordinate to the first mortgage loan and payment is subject to available cash flow. During 2004, \$100,000 of development advances was added to this loan balance. Accrued and unpaid interest was \$11,860 as of December 31, 2008.	800,000
On November 1, 2002, the Partnership executed a \$500,000 promissory note (Authority AHP Loan) with the Housing Authority, an affiliate of the General Partner, to partially finance the predevelopment and construction costs with an interest rate of .25% per annum. All unpaid principal and interest is payable in full on November 1, 2034. The note is subordinate to the first mortgage loan and payment is subject to available cash flow. Accrued and unpaid interest was \$7,709 as of December 31, 2008.	<u>500,000</u>
Total payable	3,280,550
Less current portion	<u>(24,210)</u>
Long-term notes payable	<u>\$ 3,256,340</u>
Long-term accrued interest – included in long-term debt	<u>\$ 36,627</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Long-Term Debt — continued

The schedule of maturities for the first mortgage noted above is as follows:

Year ending December 31,	Principal	Interest
2009	\$ 24,210	\$ 119,130
2010	25,680	117,660
2011	27,545	115,795
2012	29,545	113,795
2013	31,690	111,650
2014-2018	196,495	520,205
2019-2023	278,972	437,729
2024-2028	396,067	320,633
2029-2033	562,313	154,387
2034	<u>133,033</u>	<u>136,996</u>
Total	<u>\$ 1,705,550</u>	<u>\$ 2,147,980</u>

Reserve Accounts

Operating Reserve

In accordance with the Partnership Agreement the Operating Reserve should maintain a balance of at least \$89,000. The General Partner may use funds in the Operating Reserve with the consent of the Limited Partner, for any Partnership purpose, but only to the extent the revenues of the Partnership are insufficient to accomplish such purposes. The balance of the Operating Reserve Account was \$94,191 as of December 31, 2008.

Replacement Reserve

A Replacement Reserve is required to be funded from the Project's gross revenue to fund major repair and capital expenditures. The Reserve should be funded \$200 per unit per year, \$16,800 increasing at 3%. The Replacement Reserve balance was \$71,533 as of December 31, 2008.

Guaranty Reserve

The General Partner is required to fund a Guaranty Reserve in the amount of \$300,000 in order to guarantee its construction, operating deficit, and Partnership obligations. Upon termination and winding-up of the Partnership, this Reserve shall be disbursed to the General Partner. The Guaranty Reserve balance was \$314,718 as of December 31, 2008.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Transactions with Affiliates and Related Parties

Property Management Fee

The Partnership has entered into a Management Agreement with JL Gray Company to manage the rental operations of the apartment community. The compensation for this service is based on the Management Agreement. The management fee shall equal 5.25% of monthly gross rental collections excluding any service or laundry income. Property Management Fees expensed were \$19,692 during 2008. The amounts due to the Management Agent related to Property Management Fees were \$549 as of December 31, 2008.

Investor Services Fee

The Partnership executed an Investor Services Agreement with the Limited Partner for investor administrative services provided to the Partnership. An annual Investor Services Fee of \$3,000 beginning in 2003, increasing at a rate of 3% each year, is payable subject to available cash flow. If cash flow is insufficient in any year, the unpaid fees shall be deferred and shall be payable out of the next available cash flow. Investor Service Fees of \$3,478 were accrued during 2008. Investor Service Fees of \$3,377 were paid during 2008. Investor Services Fees of \$9,938 were due as of December 31, 2008.

Partnership Administration Fee

The Partnership executed a Partnership Administration Agreement with the Housing Authority, an affiliate of the General Partner, for its services in managing certain administrative issues of the Project. An annual Partnership Administration Fee of \$20,000 beginning in 2003, increasing at a rate of 3% each year, is payable subject to available cash flow. The fees are noncumulative and no fees have been paid as of December 31, 2008.

Tenant Services Fee

The Partnership executed a Tenant Services Agreement with HACLC, an affiliate of the General Partner, for social services provided to tenants of the Project. An annual Tenant Services Fee of \$20,000 beginning in 2003, increasing at a rate of 3% each year, is payable subject to available cash flow. The fees are noncumulative and no fees have been paid as of December 31, 2008.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Transactions with Affiliates and Related Parties — continued

Development Fee

On November 1, 2002, the Partnership entered into a Development Services Agreement with the Housing Authority, an affiliate of the General Partner. The fee due under the agreement of \$382,752 has been fully earned as of December 31, 2003 and is included in rental property on the accompanying balance sheets. The entire fee was deferred as of December 31, 2003 and is classified as a long-term liability on the accompanying balance sheets. Deferred developer fees of \$57,595 were paid at permanent loan closing during 2004. During 2008, deferred developer fees of \$150,000 were paid out of a bank account held by the Housing Authority for the Partnership. Deferred developer fees were \$175,157 as of December 31, 2008 and are payable from net cash flow, as defined.

Advances — General Partner

As of December 31, 2003, the General Partner advanced \$614,240 to the Partnership in order to fund predevelopment and construction costs. During 2004, \$506,298 was repaid from the collateral account and \$100,000 was converted to the Authority Loan Payable. There were also operating advances due to the General Partner for the payment of various operating and financing expenses. Total advances due to the General Partner were \$8,784 as of December 31, 2008.

Reimbursed Expenses

The Management Agent is reimbursed for certain expenses that are directly related to this property.

Related Party Transactions

Payments in the year ended December 31, 2008, and related balances at December 31, 2008, with the above related parties and/or affiliates were as follows:

	Paid	Payable
Authority loan - Housing Authority	\$ -	\$ 800,000
AHP loan - Housing Authority	-	500,000
Deferred development fees - Housing Authority	150,000	175,157
Advances - general partner*	-	8,784
Investor service/reporting fee	3,377	9,938

* Includes development of \$451 and operating of \$8,333

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Vulnerability Due to Certain Concentrations

The Partnership's sole asset is Montana Senior Village II Apartments. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrations directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directive, rules and regulations are subject to change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Commitments and Contingencies

Guaranty of Tax Credits

Under the terms of the Operating Agreement, the General Partner has the duty to use its best efforts to ensure that the Partnership qualifies for the maximum lawful Low Income Housing Tax Credits. In the event that actual Low Income Housing Tax Credits accruing to the benefit of the Limited Partner are less than the amount of Credits that were projected at the formation of the Partnership, the contributions of capital otherwise required of the Limited Partner may be reduced, or constructive advances deemed made, in accordance with applicable provisions of the Operating Agreement.

Operating Deficit Contributions

The General Partner is obligated to make contributions to the Partnership as necessary to fund operating expenses, debt service payments, reserve and escrow accounts, capital improvements, and maintenance expenses that occur during certain specified periods, as defined. The General Partner's obligation to make operating deficit contributions after the lease-up date, as defined, is limited to \$250,000 and terminates upon achievement of certain operating milestones. The General Partner shall be allocated the expenses paid by the proceeds of such Operating Deficit contribution.

Housing Tax Credits

As incentive for investment equity, the Partnership applied for and received an allocation certificate for Housing Tax Credits established by the Tax Reform Act of 1986. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management has certified that each Tax Credit unit has met these qualifications to allow the Credits allocated to each unit to be claimed.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

B. MSV II Limited Partnership — continued

Commitments and Contingencies — continued

Housing Tax Credits

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

C. Stone Mountain Place Limited Partnership

Nature of Business and Organization

Stone Mountain Place Limited Partnership (SMP or the “Partnership”) is a New Mexico Limited Partnership that was formed on August 4, 2005. The Partnership was organized to acquire, construct, rehabilitate, and operate an 84 unit apartment building in Las Cruces, New Mexico for rental to low and middle income tenants. The major activities of the Partnership are governed by the Partnership Agreement and the Internal Revenue Code Section 42.

The management of the Partnership and the ongoing management of Stone Mountain Place Apartments are vested in the Partners. The Partnership has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

The Partnership is financed and constructed under Section 542(c) of the Housing and Community Development Act, as amended, and is administered by the New Mexico Mortgage Finance Authority (MFA). Under this program, the Partnership provides housing to low and moderate income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Partnership through rent subsidies provided by the local Public Housing Authority (PHA).

The Partnership is reported as a component unit of the Housing Authority because the Housing Authority is the sole member of Stone Mountain Place, LLC, SMP’s general partner. The Partnership has no component units.

The Partnership issues separate audited financial statements. These financial statements may be obtained by writing to the Housing Authority of the City of Las Cruces, 926 S. San Pedro Street, Las Cruces, New Mexico, 88001.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Summary of Significant Accounting Policies

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.

Cash Equivalents

Cash and cash equivalents consist of short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificate of deposit.

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Partnership does not accrue interest on the tenant receivable balances. The Partnership has not established an allowance for doubtful accounts and does not use the reverse method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually. The Partnership Federal Identification Number is 86-1144510.

Rental Property

Rental property is recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method over a recovery period of 3 to 27.5 years.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Summary of Significant Accounting Policies — continued

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Rental Income

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

Amortization

Organization costs are expensed as incurred. Permanent loan fees of \$115,425 are amortized on a straight-line basis over the life of the respective loan.

Partners' Profit and Loss Allocation and Distributions

The Partners of Stone Mountain Place Limited Partnership and their respective profit and loss percentages are as follows at December 31, 2008:

General Partner

<i>Stone Mountain Place, LLC</i>	0.01%
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Limited Partner

<i>TGIG Tax Credit Fund II, LLC</i>	99.99%	
Total	<table style="margin-left: auto; margin-right: 0; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black; padding: 0 10px;">100.00%</td> </tr> </table>	100.00%
100.00%		

Profit, losses, and tax credits generally are to be allocated to the partners in accordance with their ownership interests.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Partners' Profit and Loss Allocation and Distributions — continued

Provided that all required reserves have been funded, net cash flow from operations, as defined, is to be distributed annually as follows:

- ◆ First, to the Limited Partner, an amount equal to the credit deficiency;
- ◆ Second, to the Limited Partner to pay the Asset Management Fee, as defined;
- ◆ Third, to maintain the Operating Reserve at \$205,000;
- ◆ Fourth, to the payment of any operating deficit loans and interest thereon;
- ◆ Fifth, to the Developer to pay the deferred Development Fee;
- ◆ Sixth, 10% of the remaining balance to the Limited Partner;
- ◆ Seventh, to the General Partner to pay the Incentive Management Fee, as defined;
- ◆ Eighth, the balance shall be distributed to the General Partner.

Partner Contributions

The General Partner is to contribute \$10 for a .01% interest in the Partnership. The Limited Partner is to contribute, subject to certain Tax-Credit adjustment terms, \$6,689,469 for a 99.99% interest in the Partnership. As of December 31, 2008, the Limited Partner had contributed a cumulative total of \$6,637,708. Future Limited Partner capital contributions are contingent upon the achievement of certain financing, operating, and reporting milestones, as defined in the Partnership Agreement.

Reserve Accounts

Operating Reserve

In accordance with the Partnership Agreement, the General Partner shall cause the Partnership to establish and maintain an Operating Reserve with a bank designated by the Lender in an amount not less than \$205,000. At the termination of the Compliance Period, the General Partner and the Limited Partner shall release the funds, if any, remaining in the Operating Reserve Account. The Operating Reserve Account had a balance of \$206,929 as of December 31, 2008.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Partners' Profit and Loss Allocation and Distributions — continued

Replacement Reserve

In accordance with the Partnership Agreement, the General Partner shall cause the Partnership to establish and maintain a Replacement Reserve. The Account should be funded monthly at a rate of \$200 per dwelling unit per year, totaling \$16,800 per year. At the termination of the Compliance Period, the General Partner and the Limited Partner shall release the funds, if any, remaining in the Replacement Reserve Account. The Replacement Reserve Account had a balance of \$10,529 as of December 31, 2008.

	<u>Operating</u>	<u>Replacement</u>
Beginning balance, January 1, 2008	\$ -	\$ -
Deposits	205,000	10,500
Interest earned (net of fees)	<u>1,929</u>	<u>29</u>
Ending balance, December 31, 2008	<u>\$ 206,929</u>	<u>\$ 10,529</u>

Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows.

	Balances January 1, 2008	Additions	Deletions	Balances December 31, 2008
Land	\$ 663,800	\$ 35,942	\$ -	\$ 699,742
Site improvements	644,824	6,370	-	651,194
Buildings	7,912,529	62,935	-	7,975,464
Furniture, fixtures and equipment	<u>254,959</u>	<u>-</u>	<u>-</u>	<u>254,959</u>
	9,476,112	105,247	-	9,581,359
Less accumulated depreciation	<u>(215,135)</u>	<u>(278,988)</u>	<u>-</u>	<u>(494,123)</u>
Net capital assets	<u>\$ 9,260,977</u>	<u>\$ (173,741)</u>	<u>\$ -</u>	<u>\$ 9,087,236</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Long-Term Debt

At December 31, 2008, notes payable consist of the following:

On June 10, 2008, the Partnership executed a \$2,305,000 loan agreement bearing 6.1% interest with the New Mexico Mortgage Finance Authority; monthly payments of \$12,843 include principal and interest; the loan will mature in 40 years and secured by a first lien position on the Project. \$ 2,299,311

On August 1, 2006, the Partnership executed a \$419,116 note payable to the City of Las Cruces, the 1% interest loan is payable in 180 monthly interest only payments of \$349 for the first fifteen years; in year sixteen the note will be payable in 360 monthly installments of \$1,348, principal and interest; the note matures 45 years from August 1, 2006 or at the sell or refinancing of the Project. The note is secured by the Project's rental property and is subordinate to the first mortgage loan. 419,116

2,718,427

Less current portion (14,258)

Long-term notes payable \$ 2,704,169

Interest paid to Wachovia Bank on the construction loan in the amount \$62,935 was capitalized into the basis of the building for the year ended December 31, 2008.

Wachovia Bank is a related party to the Limited Partner.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Long-Term Debt — continued

The schedule of maturities for the first mortgage noted above is as follows:

Year ending December 31,	Principal	Interest
2009	\$ 14,258	\$ 139,864
2010	15,152	138,969
2011	16,103	138,019
2012	17,113	137,008
2013	18,187	135,935
2014-2018	109,549	661,059
2019-2023	148,502	622,106
2024-2028	201,306	569,303
2029-2033	272,885	497,723
2034-2038	369,917	400,691
2039-2043	501,452	269,157
2044-2048	614,887	91,504
Total	<u>\$ 2,299,311</u>	<u>\$ 3,801,338</u>

Transactions with Affiliates and Related Parties

Property Management Fee

In accordance with the Management Agreement, the Partnership has incurred management fee expenses for services rendered in connection with the leasing and operation of the Project. The current year management fee expense is equal to 6% of the monthly gross rental income. Property management fees expensed were \$29,683 during 2008. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. The amounts due to the Management Agent related to property management fees were \$559 as of December 31, 2008.

Asset Management Fee

In accordance with the Partnership Agreement, the Limited Partner is entitled to receive an asset management fee in the annual cumulative amount of \$3,500, commencing in 2007. The fee will increase by three percent (3%) each year. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. Asset management fees of \$7,105 were accrued during 2008.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Transactions with Affiliates and Related Parties — continued

Incentive Management Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the General Partner a noncumulative incentive management fee. The fee shall equal 90% of cash flow remaining after the priorities set forth in the Partnership Agreement. In no event shall the incentive management fee and the property management fee exceed, in the aggregate, 12% of the gross revenues of the Project in any fiscal year. There were no incentive management fees accrued during 2008.

Development Fee

The Partnership entered into a Development Services Agreement with the Housing Authority (Owner), an affiliate of the General Partner, and JL Gray Company, Inc. (Developer). The Development Fee is payable 30% to the Owner and 70% to the Developer. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. The amounts due to the Owner related to Development Fees were \$256,574 as of December 31, 2008. The amounts due to the Developer related to Development Fees were \$260,205 as of December 31, 2008.

Reimbursed Expenses

The Management Agent is reimbursed for certain expenses that are directly related to this property.

Related Party Transactions

Payments in the year ended December 31, 2008, and related balances at December 31, 2008, with the above related parties and/or affiliates were as follows:

	Paid	Payable
Note payable - City of Las Cruces	\$ -	\$ 419,116
Deferred development fees - Housing Authority	-	256,574

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Vulnerability Due to Certain Concentrations

The Partnership's sole asset is Stone Mountain Place Apartments. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directive, rules and regulations are subject to change by an act of Congress or administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Commitments and Contingencies

Guaranty of Tax Credits

Under the terms of the Partnership Agreement, the General Partner has the duty to use its best efforts to ensure that the Partnership qualifies for the maximum lawful Low Income Housing Tax Credits. In the event that actual Low Income Housing Tax Credits accruing to the benefit of the Limited Partner are less than the amount of credits that were projected at the formation of the Partnership, the contributions of capital otherwise required of the Limited Partner may be reduced, or constructive advances deemed made, in accordance with applicable provisions of the Partnership Agreement.

Operating Deficit and Completion Guarantees

The General Partner is obligated to make contributions to the Partnership as necessary to fund operating expenses, debt service payments, reserve and escrow accounts, capital improvements and maintenance expenses that occur during certain specified periods, as defined. The General Partner's obligation to make operating deficits is unlimited prior to the later of (1) permanent loan closing and (2) the achievement of debt service coverage ratio of 1.15:1 for ninety (90) consecutive days. Subsequently, the General Partner's obligation to make operating deficit contributions is limited to \$205,000 and terminates upon the achievement of certain operating milestones. Operating deficit loans bear interest at 10% per annum and are repayable subject to distributable cash flow, as defined.

Additionally, the General Partner has guaranteed to fund any cost overruns necessary to complete the Project. The Developer has guaranteed the operating deficit and construction completion obligations.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

C. Stone Mountain Place Limited Partnership — continued

Commitments and Contingencies — continued

Regulatory Agreement Provisions

On February 5, 2001, the Company executed a 542 (c) Multifamily Insurance Program Regulatory Agreement with the New Mexico Mortgage Finance Authority in order to obtain the “risk-sharing” mortgage loan. The Company is required to abide by the regulatory agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) Replacement Reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

Housing Tax Credits

The Project has received an allocation of Low Income Housing Tax Credits from the New Mexico Mortgage Finance Authority under Section 42 of the Internal Revenue Code of 1986, as amended. As such, the Project has a requirement of minimum units that shall be leased to families based on the level of income.

As incentive for investment equity, the Partnership applied for and received an allocation certificate for Housing Tax Credits established by the Tax Reform Act of 1986. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management has certified that each Tax Credit unit has met these qualifications to allow the Credits allocated to each unit to be claimed.

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

Floating HOME Assisted Units

The Partnership received funding from the HOME Investment Partnerships Program to assist with financing the development of the Project. Under the terms of the agreement, eight units shall be designated as floating HOME assisted units.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

D. Falcon Ridge Limited Partnership

Nature of Business and Organization

Falcon Ridge Limited Partnership (the “Partnership”) was formed as a Limited Partnership on June 8, 2007 to acquire, construct, rehabilitate, and operate a 72-unit rental housing project for low income senior tenants (“the Project”). The Project is located in the city of Hatch, New Mexico and is to be known as Falcon Ridge Apartments. The major activities of the Partnership are governed by the Management and Operating Agreements and the Internal Revenue Code Section 42.

The Project was acquired on November 11, 2007 and is under construction. The total development cost is budgeted at \$9,806,893.

The management of the Partnership and the ongoing management of Falcon Ridge Apartments are vested in the General Partner.

The Partnership is reported as a component unit of the Housing Authority because the Housing Authority is the sole member of the General Partner of the Partnership. The Partnership has no component units.

The Partnership issues separate audited financial statements. These financial statements may be obtained by writing to the Housing Authority of the City of Las Cruces, 926 S. San Pedro Street, Las Cruces, New Mexico, 88001.

Summary of Significant Accounting Policies

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.

Cash Equivalents

Cash and cash equivalents consist of short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificate of deposit. Cash for purposes of the Statements of Cash Flows does not include Tenant Security Deposits Held in Trust.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

D. Falcon Ridge Limited Partnership — continued

Summary of Significant Accounting Policies — continued

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the Partners individually. The Partnership's Federal Identification Number is 26-0750404.

Rental Property

Rental property is recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method over a recovery period of 3 to 27.5 years.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Partners' Profit and Loss Allocation and Distributions

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages are as follows at December 31, 2008:

General Partner	
<i>Falcon Ridge LLC</i>	6.00%
Original Limited Partner	
<i>Thomas G. Hassell, Executive Director of the Housing Authority of the City of Las Cruces</i>	94.00%
Total	<u>100.00%</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

D. Falcon Ridge Limited Partnership — continued

Partners' Profit and Loss Allocation and Distributions — continued

Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow

No contributions have been made to date by either the General Partner or the Limited Partner. Profits, losses, and tax credits generally are to be allocated to the partners in accordance with their ownership interests. Further provisions are outlined in the Partnership Agreement.

Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows.

	Balances January 1, 2008	Additions	Deletions	Balances December 31, 2008
Land	\$ 106,160	\$ -	\$ -	\$ 106,160
Construction in progress	82,064	269,598	-	351,662
Net capital assets	<u>\$ 188,224</u>	<u>\$ 269,598</u>	<u>\$ -</u>	<u>\$ 457,822</u>

Long-Term Debt

At December 31, 2008, notes payable consist of the following:

On September 4, 2007, the Partnership executed a \$300,000 Loan Agreement with Citizens Bank of Las Cruces to finance the pre-development of the Partnership. The note matured on September 4, 2008, at which time the entire principal amount and any unpaid accrued interest became due. On December 30, 2008, the Partnership acquired a new pre-development demand promissory note, payable in the amount of \$475,000, or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of such advances. The maturity date of the new promissory note is April 4, 2009. The variable interest rate is subject to change based on an independent index which is the Wall Street Journal Prime Lending Rate (4.5%-18%). The index was 3.250% per annum based on a year of 360 days, resulting in an initial interest rate of 4.5%, as of December 31, 2008. Interest only payments of accrued interest are due monthly beginning February 4, 2009. The note is secured by the Project's property under a mortgage to the Lender dated September 4, 2007.

\$ 461,143

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

D. Falcon Ridge Limited Partnership — continued

Long-Term Debt — continued

The schedule of maturities for the mortgage noted above is as follows:

	Principal	Interest
April 4, 2009	\$ 461,143	\$ 5,937

Reserve Accounts

Replacement Reserve

In accordance with the provisions of the Partnership Agreement, restricted cash is to be held by the General Partner to be used for replacement of capital improvements. Such reserves shall be established by the General Partner in their absolute discretion, provided that such reserves are sufficient to ensure that any distributions of cash in allocation of net income and losses and other distributions do not in any way jeopardize or limit the business of the Partnership. The Replacement Reserve has not been funded as of December 31, 2008.

Transaction with Affiliates and Related Parties

Development Fee

On June 20, 2007, the Partnership entered into a Development Agreement with J.L. Gray Company, Inc. (a third party New Mexico Corporation, the “Developer”) to render development services for construction of the Project. The total Development Fee of \$1,113,846 will be paid 85% to the Developer and 15% to the Housing Authority. None of the fees due under the agreement have been earned or recorded as of December 31, 2008.

Development Advances from General Partner

As of December 31, 2007, the Housing Authority had advanced \$11,950 to the Partnership in order to fund predevelopment costs. This amount was repaid during 2008.

Schedule of Related Party Transactions

Payments in the years ended December 31, 2008, and related balances at December 31, 2008, with the above related parties and/or affiliates were as follows:

	Paid	Payable
Development advances - general partner	\$ 11,950	\$ -

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

D. Falcon Ridge Limited Partnership — continued

Vulnerability Due to Certain Concentrations

The Partnership's sole asset is Falcon Ridge Apartments. The Partnership's future operations will be concentrated in the multifamily real estate market. In addition, the Partnership will operate in a heavily regulated environment. The operations of the Partnership will be subject to the administrations directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directive, rules and regulations are subject to change by an act of Congress or administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Commitments and Contingencies

As incentive for investment equity, the Partnership applied for and received an allocation certificate for Housing Tax Credits established by the Tax Reform Act of 1986. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management will have to certify that each Tax Credit unit has met these qualifications to allow the Credits allocated to each unit to be claimed.

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

E. Cimmaron II Apartments Limited Partnership

Nature of Business and Organization

Cimmaron II Apartments Limited Partnership (the "Partnership") was formed as a Limited Partnership on July 24, 2004 to acquire, construct, rehabilitate, and operate a 24-unit rental housing project for low income tenants. The Project is located in the city of Anthony, New Mexico (the "Project") and is to be known as Cimmaron II Apartments. The major activities of the Partnership are governed by the Management and Operating Agreements and the Internal Revenue Code Section 42.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

E. Cimmaron II Apartments Limited Partnership — continued

Nature of Business and Organization — continued

The management of the Partnership and the ongoing management of Cimmaron II Apartments are vested in the General Partners.

The Partnership is reported as a component unit of the Housing Authority because the Housing Authority is the sole member of the General Partner of the Partnership. The Partnership has no component units.

The Partnership issues separate audited financial statements. These financial statements may be obtained by writing to the Housing Authority of the City of Las Cruces, 926 S. San Pedro Street, Las Cruces, New Mexico, 88001.

Summary of Significant Accounting Policies

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.

Cash Equivalents

Cash and cash equivalents consist of short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificate of deposit. Cash for purposes of the Statements of Cash Flows does not include tenant security deposits held in trust.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the Partners individually. The Partnership's Federal Identification Number is 03-0546398.

Rental Property

Rental property is recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method over a recovery period of 3 to 27.5 years.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

E. Cimmaron II Apartments Limited Partnership — continued

Summary of Significant Accounting Policies — continued

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Partners' Profit and Loss Allocation and Distributions

The Partners of Cimmaron II Apartments Limited Partnership and their respective profit and loss percentages are as follows at December 31, 2008:

General Partner	
<i>Cimmaron Apartments LLC</i>	1.00%
Limited Partner	
<i>Tom Andrews</i>	99.00%
Total	<u>100.00%</u>

Effective October 21, 2008, the J.L. Gray Company withdrew as the General Partner of the Partnership and Cimmaron Apartments, LLC, stepped in as the General Partner. The Managing Member of Cimmaron Apartments, LLC is the Housing Authority.

Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow

No contributions have been made to date by either the General Partner or the Limited Partner.

Profits, losses, and Tax Credits generally are to be allocated to the Partners in accordance with their ownership interests. Further provisions are outlined in the Partnership Agreement.

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

E. Cimmaron II Apartments Limited Partnership — continued

Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows.

	Balances January 1, 2008	Additions	Deletions	Balances December 31, 2008
Land	\$ -	\$ 221,022	\$ -	\$ 221,022
Construction in progress	-	150,222	-	150,222
Net capital assets	<u>\$ -</u>	<u>\$ 371,244</u>	<u>\$ -</u>	<u>\$ 371,244</u>

Long-Term Debt

At December 31, 2008, notes payable consist of the following:

On January 29, 2008, the Partnership executed a \$249,500 loan agreement with Citizens Bank of Las Cruces to finance the pre-development of the Partnership. The original note was due to mature on January 29, 2009. On November 14, 2008, the partnership acquired a secured renewal loan for pre-development of the Partnership, payable in the amount of \$404,500, or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of such advances. The maturity date of the promissory note is November 14, 2009. The variable interest rate is subject to change based on an independent index which is the Wall Street Journal Prime Lending Rate (4.5% - 18.0%). The index was 4.00% per annum at December 31, 2008, based on a year of 360 days. Interest only payments of accrued interest are due monthly beginning December 14, 2008. The note is secured by the Project's property under a mortgage to the Lender dated January 29, 2008.

\$ 374,094

The schedule of maturities on the note is as follows:

	Principal	Interest
November 14, 2009	<u>\$ 374,094</u>	<u>\$ 706</u>

Housing Authority of the City of Las Cruces
Notes to Financial Statements
June 30, 2009

11) Component Units — continued

E. Cimmaron II Apartments Limited Partnership — continued

Reserve Accounts

Restricted Reserve Cash

In accordance with the provisions of the Partnership Agreement, the General Partner may establish restricted cash reserves sufficient to provide for any anticipated expenditures or liabilities of the Partnership reasonably known in amount and to maintain the Partnership in a sound financial and cash position. Such reserves shall be established by the General Partners in their absolute discretion, provided that such reserves are sufficient to ensure that any distributions of cash in allocation of net income and losses and other distributions do not in any way jeopardize or limit the business of the Partnership. Reserve balances were zero as of December 31, 2008.

Vulnerability Due to Certain Concentrations

The Partnership's sole asset is Cimmaron II Apartments. The Partnership's future operations will be concentrated in the multifamily real estate market. In addition, the Partnership will operate in a heavily regulated environment. The operations of the Partnership will be subject to the administrations directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directive, rules and regulations are subject to change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

Commitments and Contingencies

As incentive for investment equity, the Partnership applied for and received an allocation certificate for Housing Tax Credits established by the Tax Reform Act of 1986. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management will have to certify that each Tax Credit unit has met these qualifications to allow the Credits allocated to each unit to be claimed.

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

Supplementary Information

Housing Authority of the City of Las Cruces
Schedule of Revenues, Expenses and
Changes in Net Assets – Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Operating Revenues				
Tenant revenues	\$ 678,928	\$ 678,928	\$ 959,432	\$ 280,504
Other revenues	<u>1,175,097</u>	<u>1,195,097</u>	<u>257,790</u>	<u>(937,307)</u>
Total operating revenues	<u>1,854,025</u>	<u>1,874,025</u>	<u>1,217,222</u>	<u>(656,803)</u>
Budgeted Operating Expenses				
Housing assistance payments	3,544,341	3,544,341	3,647,149	(102,808)
Administration	824,086	844,086	1,425,050	(580,964)
Maintenance and operations	525,412	525,412	643,227	(117,815)
Utilities	178,625	178,625	148,465	30,160
Other operating expenses	<u>662,334</u>	<u>662,334</u>	<u>407,120</u>	<u>255,214</u>
Total budgeted operating expenses	<u>5,734,798</u>	<u>5,754,798</u>	<u>6,271,011</u>	<u>(516,213)</u>
Operating loss	<u>(3,880,773)</u>	<u>(3,880,773)</u>	<u>(5,053,789)</u>	<u>(1,173,016)</u>
Nonoperating Revenues				
Intergovernmental revenues	4,329,493	4,329,493	5,438,623	1,109,130
Investment income	143,857	143,857	36,191	(107,666)
Gain on sale of capital assets	<u>-</u>	<u>-</u>	<u>33,407</u>	<u>33,407</u>
Total nonoperating revenues	<u>4,473,350</u>	<u>4,473,350</u>	<u>5,508,221</u>	<u>1,034,871</u>
Income before unbudgeted expenses	<u>\$ 592,577</u>	<u>\$ 592,577</u>	454,432	<u>\$ (138,145)</u>
Unbudgeted Expenses				
Depreciation			(398,311)	
Interest expense			<u>(204,594)</u>	
Change in net assets			<u>\$ (148,473)</u>	

Combining Financial Statements

Combining Statements of Net Assets

Housing Authority of the City of Las Cruces
Detail Statement of Net Assets
June 30, 2009

	HUD Public Housing	HUD Section 8 Housing
Assets		
Current assets		
Cash and cash equivalents	\$ 1,637,443	\$ 852,331
Accounts receivable, net	10,037	-
Prepaid expenses and other assets	27,442	291,646
Due from other funds	-	-
Inventories	883	-
Total current assets	1,675,805	1,143,977
Restricted assets		
Cash and cash equivalents	-	-
Noncurrent assets		
Capital assets, net	1,601,037	3,584
Receivable from component units, net	-	-
Total noncurrent assets	1,601,037	3,584
Total assets	3,276,842	1,147,561
Liabilities		
Current liabilities		
Accounts payable	13,582	14,420
Accrued liabilities	7,211	3,227
Deposits due others	52,345	-
Due to other funds	-	282,063
Current portion of long-term debt	-	-
Total current liabilities	73,138	299,710
Noncurrent liabilities		
Long-term debt	-	-
Accrued compensated absences	21,613	12,294
Total noncurrent liabilities	21,613	12,294
Total liabilities	94,751	312,004
Net Assets		
Invested in capital assets, net of related debt	1,601,037	3,584
Restricted for program activities	-	-
Unrestricted	1,581,054	831,973
Total net assets	\$ 3,182,091	\$ 835,557

New Construction Housing	Local Housing Projects	Total
\$ 340,878	\$ -	\$ 2,830,652
21,894	604,468	636,399
2,388	7,704	329,180
-	288,013	288,013
-	131,657	132,540
<u>365,160</u>	<u>1,031,842</u>	<u>4,216,784</u>
<u>219,592</u>	<u>283,045</u>	<u>502,637</u>
4,018,397	3,784,606	9,407,624
-	1,290,974	1,290,974
<u>4,018,397</u>	<u>5,075,580</u>	<u>10,698,598</u>
<u>4,603,149</u>	<u>6,390,467</u>	<u>15,418,019</u>
7,070	55,635	90,707
10,442	7,729	28,609
16,570	17,346	86,261
-	5,950	288,013
167,464	39,914	207,378
<u>201,546</u>	<u>126,574</u>	<u>700,968</u>
2,080,574	1,173,378	3,253,952
2,231	20,393	56,531
<u>2,082,805</u>	<u>1,193,771</u>	<u>3,310,483</u>
<u>2,284,351</u>	<u>1,320,345</u>	<u>4,011,451</u>
1,770,359	2,571,314	5,946,294
219,592	283,045	502,637
328,847	2,215,763	4,957,637
<u>\$ 2,318,798</u>	<u>\$ 5,070,122</u>	<u>\$ 11,406,568</u>

Housing Authority of the City of Las Cruces
Combining Statement of Net Assets—HUD Public Housing Programs
June 30, 2009

	Public Housing Operations	2006 Capital Fund Program
Assets		
Current assets		
Cash and cash equivalents	\$ 1,643,210	\$ -
Accounts receivable, net	3,289	-
Prepaid expenses and other assets	27,442	-
Inventories	883	-
Total current assets	1,674,824	-
Noncurrent assets		
Capital assets, net	1,601,037	-
Total noncurrent assets	1,601,037	-
Total assets	3,275,861	-
Liabilities		
Current liabilities		
Accounts payable	13,043	-
Accrued liabilities	6,769	-
Deposits due to others	52,345	-
Total current liabilities	72,157	-
Noncurrent liabilities		
Accrued compensated absences	21,613	-
Total liabilities	93,770	-
Net Assets		
Invested in capital assets, net of related debt	1,601,037	-
Unrestricted	1,581,054	-
Total net assets	\$ 3,182,091	\$ -

2007 Capital Fund Program	2008 Capital Fund Program	Total
\$ -	\$ (5,767)	\$ 1,637,443
-	6,748	10,037
-	-	27,442
-	-	883
-	981	1,675,805
-	-	1,601,037
-	-	1,601,037
-	981	3,276,842
-	539	13,582
-	442	7,211
-	-	52,345
-	981	73,138
-	-	21,613
-	981	94,751
-	-	1,601,037
-	-	1,581,054
\$ -	\$ -	\$ 3,182,091

Housing Authority of the City of Las Cruces
Combining Statement of Net Assets—New Construction Housing Programs
June 30, 2009

	New Construction Operations	Housing Development Corporation	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 340,878	\$ -	\$ 340,878
Accounts receivable, net	9,506	12,388	21,894
Prepaid assets and other assets	2,388	-	2,388
Total current assets	<u>352,772</u>	<u>12,388</u>	<u>365,160</u>
Restricted assets			
Cash and cash equivalents	-	219,592	219,592
Noncurrent assets			
Capital assets, net	<u>1,024,156</u>	<u>2,994,241</u>	<u>4,018,397</u>
Total assets	<u>1,376,928</u>	<u>3,226,221</u>	<u>4,603,149</u>
Liabilities			
Current liabilities			
Accounts payable	7,070	-	7,070
Accrued liabilities	1,510	8,932	10,442
Deposits due other	16,570	-	16,570
Current portion of long-term debt	-	167,464	167,464
Total current liabilities	25,150	176,396	201,546
Noncurrent liabilities			
Long-term debt	-	2,080,574	2,080,574
Accrued compensated absences	<u>2,231</u>	<u>-</u>	<u>2,231</u>
Total liabilities	<u>27,381</u>	<u>2,256,970</u>	<u>2,284,351</u>
Net Assets			
Invested in capital assets, net of related debt	1,024,156	746,203	1,770,359
Restricted	-	219,592	219,592
Unrestricted	<u>325,391</u>	<u>3,456</u>	<u>328,847</u>
Total net assets	<u>\$ 1,349,547</u>	<u>\$ 969,251</u>	<u>\$ 2,318,798</u>

Housing Authority of the City of Las Cruces
Combining Statement of Net Assets—Local Housing Projects
June 30, 2009

	Dona Ana County Housing Authority	Conventional Home Choice II	Shelter Plus Care	Totals
Assets				
Current assets				
Accounts receivable, net	\$ 38,660	\$ 559,737	\$ 6,071	\$ 604,468
Prepaid expenses and other assets	-	1,754	5,950	7,704
Due from other funds	-	288,013	-	288,013
Inventories	-	131,657	-	131,657
Total current assets	<u>38,660</u>	<u>981,161</u>	<u>12,021</u>	<u>1,031,842</u>
Restricted assets				
Cash and cash equivalents	-	283,045	-	283,045
Noncurrent assets				
Capital assets, net	1,336	3,783,270	-	3,784,606
Receivable from component unit	-	1,290,974	-	1,290,974
Total assets	<u>39,996</u>	<u>6,338,450</u>	<u>12,021</u>	<u>6,390,467</u>
Liabilities				
Current liabilities				
Accounts payable	45,204	4,840	5,591	55,635
Accrued liabilities	2,914	4,725	90	7,729
Deposits due others	-	17,346	-	17,346
Due to other funds	-	-	5,950	5,950
Current portion of long-term debt	-	39,914	-	39,914
Total liabilities	<u>48,118</u>	<u>66,825</u>	<u>11,631</u>	<u>126,574</u>
Noncurrent liabilities				
Long-term debt	-	1,173,378	-	1,173,378
Accrued compensated absences	13,182	7,211	-	20,393
Total noncurrent liabilities	<u>13,182</u>	<u>1,180,589</u>	<u>-</u>	<u>1,193,771</u>
Total liabilities	<u>61,300</u>	<u>1,247,414</u>	<u>11,631</u>	<u>1,320,345</u>
Net Assets (Deficit)				
Invested in capital assets, net of related debt	1,336	2,569,978	-	2,571,314
Restricted	-	283,045	-	283,045
Unrestricted	(22,640)	2,238,013	390	2,215,763
Total net assets (deficit)	<u>\$ (21,304)</u>	<u>\$ 5,091,036</u>	<u>\$ 390</u>	<u>\$ 5,070,122</u>

Combining Statements of Revenues, Expenses and
Changes in Net Assets

Housing Authority of the City of Las Cruces
Detail Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2009

	HUD Public Housing	HUD Section 8 Housing
Operating Revenues		
Tenant revenues	\$ 445,131	\$ -
Other revenues	<u>3,200</u>	<u>673</u>
Total operating revenues	<u>448,331</u>	<u>673</u>
Operating Expenses		
Housing assistance payments	-	3,647,149
Administration	369,773	335,463
Maintenance and operations	356,254	22,933
Depreciation and amortization	206,625	131
Utilities	73,733	3,072
Other	<u>32,959</u>	<u>121,345</u>
Total operating expenses	<u>1,039,344</u>	<u>4,130,093</u>
Operating loss	<u>(591,013)</u>	<u>(4,129,420)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenues	795,158	3,895,365
Investment income	4,283	3,062
Interest expense	-	-
Gain on sale of capital assets	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>799,441</u>	<u>3,898,427</u>
Income (loss) before transfers	208,428	(230,993)
Transfers in	88,733	163,112
Transfers out	<u>(149,383)</u>	<u>(163,112)</u>
Change in net assets	147,778	(230,993)
Net assets, beginning of year	<u>3,034,313</u>	<u>1,066,550</u>
Net assets, end of year	<u><u>\$ 3,182,091</u></u>	<u><u>\$ 835,557</u></u>

New Construction Housing	Local Housing Projects	Total
\$ 145,540	\$ 368,761	\$ 959,432
<u>205,343</u>	<u>48,574</u>	<u>257,790</u>
<u>350,883</u>	<u>417,335</u>	<u>1,217,222</u>
-	-	3,647,149
263,747	456,067	1,425,050
101,798	162,242	643,227
68,672	122,883	398,311
48,830	22,830	148,465
<u>61,671</u>	<u>191,145</u>	<u>407,120</u>
<u>544,718</u>	<u>955,167</u>	<u>6,669,322</u>
<u>(193,835)</u>	<u>(537,832)</u>	<u>(5,452,100)</u>
355,001	393,099	5,438,623
2,781	26,065	36,191
(124,909)	(79,685)	(204,594)
-	33,407	33,407
<u>232,873</u>	<u>372,886</u>	<u>5,303,627</u>
39,038	(164,946)	(148,473)
-	197,390	449,235
-	(136,740)	(449,235)
<u>39,038</u>	<u>(104,296)</u>	<u>(148,473)</u>
<u>2,279,760</u>	<u>5,174,418</u>	<u>11,555,041</u>
<u>\$ 2,318,798</u>	<u>\$ 5,070,122</u>	<u>\$ 11,406,568</u>

Housing Authority of the City of Las Cruces
Combining Statement of Revenues, Expenses and Changes in Net Assets
HUD Public Housing Programs
For the Year Ended June 30, 2009

	Public Housing Operations	2006 Capital Fund Program
Operating Revenues		
Tenant revenues	\$ 445,131	\$ -
Other revenues	3,200	-
Total operating revenues	<u>448,331</u>	<u>-</u>
Operating Expenses		
Administration	308,104	1,628
Ordinary maintenance and operations	290,604	589
Depreciation	206,625	-
Utilities	73,733	-
Other expenses	32,959	-
Total operating expenses	<u>912,025</u>	<u>2,217</u>
Operating loss	<u>(463,694)</u>	<u>(2,217)</u>
Nonoperating Revenues		
Intergovernmental revenues	579,050	2,217
Investment income	4,283	-
Total nonoperating revenues	<u>583,333</u>	<u>2,217</u>
Income before transfers	119,639	-
Transfers in	88,733	-
Transfers out	(60,650)	-
Change in net assets	147,722	-
Net assets, beginning of year	<u>3,034,369</u>	<u>-</u>
Net assets, end of year	<u><u>\$ 3,182,091</u></u>	<u><u>\$ -</u></u>

2007 Capital Fund Program	2008 Capital Fund Program	Total
\$ -	\$ -	\$ 445,131
-	-	3,200
<u>-</u>	<u>-</u>	<u>448,331</u>
6,731	53,310	369,773
8,933	56,128	356,254
-	-	206,625
-	-	73,733
<u>-</u>	<u>-</u>	<u>32,959</u>
<u>15,664</u>	<u>109,438</u>	<u>1,039,344</u>
<u>(15,664)</u>	<u>(109,438)</u>	<u>(591,013)</u>
23,031	190,860	795,158
<u>-</u>	<u>-</u>	<u>4,283</u>
<u>23,031</u>	<u>190,860</u>	<u>799,441</u>
7,367	81,422	208,428
-	-	88,733
<u>(7,311)</u>	<u>(81,422)</u>	<u>(149,383)</u>
56	-	147,778
<u>(56)</u>	<u>-</u>	<u>3,034,313</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,182,091</u>

Housing Authority of the City of Las Cruces
Combining Statement of Revenues, Expenses and Changes in Net Assets
New Construction Housing Programs
For the Year Ended June 30, 2009

	New Construction Operations	Housing Development Corporation	Total
Operating Revenues			
Tenant revenues	\$ 145,540	\$ -	\$ 145,540
Other revenues	205,343	-	205,343
Total operating revenues	<u>350,883</u>	<u>-</u>	<u>350,883</u>
Operating Expenses			
Administration	55,904	207,843	263,747
Ordinary maintenance and operations	101,798	-	101,798
Depreciation	38,672	30,000	68,672
Utilities	48,830	-	48,830
Other expenses	31,780	29,891	61,671
Total operating expenses	<u>276,984</u>	<u>267,734</u>	<u>544,718</u>
Operating loss	<u>73,899</u>	<u>(267,734)</u>	<u>(193,835)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental revenues	-	355,001	355,001
Investment income	1,065	1,716	2,781
Interest expense	-	(124,909)	(124,909)
Total nonoperating revenues (expenses)	<u>1,065</u>	<u>231,808</u>	<u>232,873</u>
Income (loss) before transfers	74,964	(35,926)	39,038
Transfers in (out)	<u>(111,942)</u>	<u>111,942</u>	<u>-</u>
Change in net assets	(36,978)	76,016	39,038
Net assets, beginning of year	<u>1,386,525</u>	<u>893,235</u>	<u>2,279,760</u>
Net assets, end of year	<u><u>\$ 1,349,547</u></u>	<u><u>\$ 969,251</u></u>	<u><u>\$ 2,318,798</u></u>

Housing Authority of the City of Las Cruces
Combining Statement of Revenues, Expenses and Changes in Net Assets
Local Housing Projects
For the Year Ended June 30, 2009

	Dona Ana County Housing Authority	Conventional Home Choice II	Shelter Plus Care	Totals
Operating Revenues				
Tenant revenues	\$ -	\$ 368,761	\$ -	\$ 368,761
Other revenues	-	42,900	5,674	48,574
Total operating revenues	<u>-</u>	<u>411,661</u>	<u>5,674</u>	<u>417,335</u>
Operating Expenses				
Administration	294,327	157,086	4,654	456,067
Ordinary maintenance and operations	30,224	132,018	-	162,242
Depreciation	43	122,840	-	122,883
Utilities	671	22,159	-	22,830
Other expenses	34	119,565	71,545	191,144
Total operating expenses	<u>325,299</u>	<u>553,668</u>	<u>76,199</u>	<u>955,166</u>
Operating loss	(325,299)	(142,007)	(70,525)	(537,831)
Nonoperating Revenues (Expenses)				
Intergovernmental Revenue	324,698	(2,514)	70,915	393,099
Investment income	-	26,065	-	26,065
Interest expense	-	(79,685)	-	(79,685)
Gain on sale of fixed assets	-	33,407	-	33,407
Total nonoperating revenues (expenses)	<u>324,698</u>	<u>(22,727)</u>	<u>70,915</u>	<u>372,886</u>
Loss before transfers	(601)	(164,734)	390	(164,945)
Transfers in	-	197,390	-	197,390
Transfers out	-	(136,741)	-	(136,741)
Change in net assets	(601)	(104,085)	390	(104,296)
Net assets (deficit), beginning of year	<u>(20,703)</u>	<u>5,195,121</u>	<u>-</u>	<u>5,174,418</u>
Net assets (deficit), end of year	<u>\$ (21,304)</u>	<u>\$ 5,091,036</u>	<u>\$ 390</u>	<u>\$ 5,070,122</u>

Combining Statement of Cash Flows

Housing Authority of the City of Las Cruces
Combining Statement of Cash Flows
For the Year Ended June 30, 2009

	HUD Public Housing	HUD Section 8 Housing	New Construction Housing
Cash flows from operating activities			
Cash received from tenants	\$ 447,053	\$ -	\$ 145,963
Cash paid to employees	(406,925)	(114,526)	(23,990)
Cash paid for other operating expenses	(447,525)	(3,938,364)	(441,341)
Other receipts	16,222	673	205,343
Net cash used by operating activities	<u>(391,175)</u>	<u>(4,052,217)</u>	<u>(114,025)</u>
Cash flows from noncapital financing activities			
Intergovernmental revenue received	795,158	3,895,365	355,001
Net transfers from other funds	40,117	-	-
Net cash provided by noncapital financing activities	<u>835,275</u>	<u>3,895,365</u>	<u>355,001</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	(45,214)	-	(6,267)
Principal paid on long-term debt	-	-	(158,766)
Interest paid on long-term debt	-	-	(124,909)
Net cash used by capital and related financing activities	<u>(45,214)</u>	<u>-</u>	<u>(289,942)</u>
Cash flows from investing activities			
Interest and dividends on investments	4,283	3,062	2,781
Net increase (decrease) in cash and cash equivalents	403,169	(153,790)	(46,185)
Cash and cash equivalents, beginning of year	<u>1,234,274</u>	<u>1,006,121</u>	<u>606,655</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,637,443</u></u>	<u><u>\$ 852,331</u></u>	<u><u>\$ 560,470</u></u>

Local Housing	
Projects	Total
\$ 371,598	\$ 964,614
(321,419)	(866,860)
(1,111,432)	(5,938,662)
<u>25,834</u>	<u>248,072</u>
<u>(1,035,419)</u>	<u>(5,592,836)</u>
393,099	5,438,623
<u>423,953</u>	<u>464,070</u>
<u>817,052</u>	<u>5,902,693</u>
(196,695)	(248,176)
(34,374)	(193,140)
<u>(46,278)</u>	<u>(171,187)</u>
<u>(277,347)</u>	<u>(612,503)</u>
<u>26,065</u>	<u>36,191</u>
(469,649)	(266,455)
<u>752,694</u>	<u>3,599,744</u>
<u>\$ 283,045</u>	<u>\$ 3,333,289</u>

Housing Authority of the City of Las Cruces
Combining Statement of Cash Flows — continued
For the Year Ended June 30, 2009

	HUD Public Housing	HUD Section 8 Housing	New Construction Housing
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	\$ (591,013)	\$ (4,129,420)	\$ (193,835)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	206,625	131	68,672
Change in assets and liabilities			
Accounts receivable	13,022	-	725
Due from other funds	-	-	-
Inventories	26	-	-
Prepaid expenses and other assets	(9,759)	(217,700)	4,062
Due from component units	-	-	-
Accounts payable	(23,994)	13,549	(108)
Due to other funds	-	282,063	-
Accrued liabilities	11,996	(840)	6,761
Deposits due others	1,922	-	(302)
Total adjustments	199,838	77,203	79,810
Net cash used by operating activities	\$ (391,175)	\$ (4,052,217)	\$ (114,025)

Local Housing Projects	Total
\$ (537,832)	\$ (5,452,100)
122,883	398,311
(358,334)	(344,587)
(288,013)	(288,013)
-	26
13,392	(210,005)
(22,740)	(22,740)
31,937	21,384
5,950	288,013
(5,499)	12,418
<u>2,837</u>	<u>4,457</u>
<u>(497,587)</u>	<u>(140,736)</u>
<u>\$ (1,035,419)</u>	<u>\$ (5,592,836)</u>

HUD Required Supplementary Information

Housing Authority of the City of Las Cruces
Financial Data Schedule
June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872
Assets				
Current assets				
<i>Cash</i>				
111	Cash - unrestricted	\$ 1,643,210	\$ 852,331	\$ (5,767)
112	Cash - restricted - modernization and development	-	-	-
113	Cash - other restricted	-	-	-
100	Total cash	<u>1,643,210</u>	<u>852,331</u>	<u>(5,767)</u>
<i>Accounts and notes receivable</i>				
122	Accounts receivable - HUD other projects	-	-	6,748
125	Accounts receivable - miscellaneous	-	-	-
126	Accounts receivable - tenants, dwelling rents	3,397	-	-
126.1	Allowance for doubtful accounts - dwelling rents	<u>(108)</u>	<u>-</u>	<u>-</u>
120	Total receivables, net of allowances for doubtful accounts	<u>3,289</u>	<u>-</u>	<u>6,748</u>
<i>Other current assets</i>				
132	Restricted investments	-	-	-
142	Prepaid expenses and other assets	27,442	291,646	-
143	Inventories	883	-	-
144	Due from program	-	-	-
150	Total current assets	<u>1,674,824</u>	<u>1,143,977</u>	<u>981</u>
Noncurrent assets				
<i>Fixed assets</i>				
161	Land	592,441	-	-
168	Site Improvements	1,438,176	433	-
162	Buildings	5,293,479	4,108	-
163	Furniture, equipment and machinery - dwellings	-	-	-
164	Furniture, equipment and machinery - administration	393,873	-	-
166	Accumulated depreciation	<u>(6,116,932)</u>	<u>(957)</u>	<u>-</u>
167	Construction in progress	-	-	-
160	Total fixed assets, net of accumulated depreciation	<u>1,601,037</u>	<u>3,584</u>	<u>-</u>
<i>Other noncurrent assets</i>				
171	Notes and mortgages receivable - noncurrent	-	-	-
174	Other assets	-	-	-
180	Total noncurrent assets	<u>1,601,037</u>	<u>3,584</u>	<u>-</u>
190	Total assets	<u>\$ 3,275,861</u>	<u>\$ 1,147,561</u>	<u>\$ 981</u>

N/C S/R Section 8 Programs	Business Activities	State/Local	Total	Component Units (12/31/08)
\$ 340,878	\$ -	\$ -	\$ 2,830,652	\$ 134,481
-	283,045	-	283,045	-
<u>219,592</u>	<u>-</u>	<u>-</u>	<u>219,592</u>	<u>932,965</u>
<u>560,470</u>	<u>283,045</u>	<u>-</u>	<u>3,333,289</u>	<u>1,067,446</u>
-	-	-	6,748	-
21,320	597,149	6,071	624,540	-
726	1,576	-	5,699	3,661
<u>(152)</u>	<u>(328)</u>	<u>-</u>	<u>(588)</u>	<u>-</u>
<u>21,894</u>	<u>598,397</u>	<u>6,071</u>	<u>636,399</u>	<u>3,661</u>
-	-	-	-	-
2,388	1,754	5,950	329,180	41,204
-	131,657	-	132,540	-
<u>-</u>	<u>288,013</u>	<u>-</u>	<u>288,013</u>	<u>-</u>
<u>584,752</u>	<u>1,302,866</u>	<u>12,021</u>	<u>4,719,421</u>	<u>1,112,311</u>
2,180,000	561,277	-	3,333,718	1,471,154
47,215	93,312	-	1,579,136	3,266,444
2,630,004	3,475,327	-	11,402,918	13,474,420
-	-	-	-	511,559
-	-	-	393,873	-
(838,822)	(393,001)	-	(7,349,712)	(2,665,028)
<u>-</u>	<u>47,691</u>	<u>-</u>	<u>47,691</u>	<u>501,884</u>
<u>4,018,397</u>	<u>3,784,606</u>	<u>-</u>	<u>9,407,624</u>	<u>16,560,433</u>
-	1,290,974	-	1,290,974	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>215,136</u>
<u>4,018,397</u>	<u>5,075,580</u>	<u>-</u>	<u>10,698,598</u>	<u>16,775,569</u>
<u>\$ 4,603,149</u>	<u>\$ 6,378,446</u>	<u>\$ 12,021</u>	<u>\$ 15,418,019</u>	<u>\$ 17,887,880</u>

Housing Authority of the City of Las Cruces
Financial Data Schedule — continued
June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872
Liabilities and Net Assets				
Liabilities				
<i>Current liabilities</i>				
312	Accounts payable ≤ 90 days	\$ 13,043	\$ 14,420	\$ 539
321	Accrued wage/payroll taxes payable	6,769	3,227	442
325	Accrued interest payable	-	-	-
341	Tenant security deposits	52,345	-	-
343	Current portion of long-term debt - capital projects	-	-	-
345	Other current liabilities	-	282,063	-
346	Other accrued liabilities	-	-	-
310	Total current liabilities	<u>72,157</u>	<u>299,710</u>	<u>981</u>
<i>Noncurrent liabilities</i>				
351	Long-term debt, net of current-capital projects	-	-	-
352	Long-term debt, net of current-operating borrowings	-	-	-
354	Accrued compensated absences	<u>21,613</u>	<u>12,294</u>	<u>-</u>
350	Total noncurrent liabilities	<u>21,613</u>	<u>12,294</u>	<u>-</u>
300	Total liabilities	<u>93,770</u>	<u>312,004</u>	<u>981</u>
Net Assets				
508.1	Invested in capital assets, net of related debt	1,601,037	3,584	-
511.1	Restricted net assets	-	-	-
512.1	Unrestricted net assets	<u>1,581,054</u>	<u>831,973</u>	<u>-</u>
513	Total net assets	<u>3,182,091</u>	<u>835,557</u>	<u>-</u>
600	Total liabilities and net assets	<u>\$ 3,275,861</u>	<u>\$ 1,147,561</u>	<u>\$ 981</u>
Revenue				
703	Net tenant rental revenue	\$ 427,618	\$ -	\$ -
704	Tenant revenue - other	<u>17,513</u>	<u>-</u>	<u>-</u>
705	Total tenant revenue	<u>445,131</u>	<u>-</u>	<u>-</u>
706	HUD PHA grants	579,050	3,895,365	216,108
708	Other government grants	-	-	-
711	Investment income - unrestricted	4,283	3,062	-
715	Other revenue	3,200	673	-
716	Gain or loss on the sale of fixed assets	-	-	-
720	Investment income - restricted	<u>-</u>	<u>-</u>	<u>-</u>
700	Total revenue	<u>1,031,664</u>	<u>3,899,100</u>	<u>216,108</u>

N/C S/R Section 8 Programs	Business Activities	State/Local	Totals	Component Units
\$ 7,070	\$ 50,044	\$ 5,591	\$ 90,707	\$ 37,759
1,510	5,333	90	17,371	-
-	-	-	-	27,662
16,570	17,346	-	86,261	63,761
167,464	39,914	-	207,378	419,799
8,932	2,306	5,950	299,251	180,701
-	-	-	-	273,853
<u>201,546</u>	<u>114,943</u>	<u>11,631</u>	<u>700,968</u>	<u>1,003,535</u>
2,080,574	1,173,378	-	3,253,952	7,790,581
-	-	-	-	821,061
<u>2,231</u>	<u>20,393</u>	<u>-</u>	<u>56,531</u>	<u>-</u>
<u>2,082,805</u>	<u>1,193,771</u>	<u>-</u>	<u>3,310,483</u>	<u>8,611,642</u>
<u>2,284,351</u>	<u>1,308,714</u>	<u>11,631</u>	<u>4,011,451</u>	<u>9,615,177</u>
1,770,359	2,571,314	-	5,946,294	7,785,566
219,592	283,045	-	502,637	-
<u>328,847</u>	<u>2,215,373</u>	<u>390</u>	<u>4,957,637</u>	<u>487,137</u>
<u>2,318,798</u>	<u>5,069,732</u>	<u>390</u>	<u>11,406,568</u>	<u>8,272,703</u>
<u>\$ 4,603,149</u>	<u>\$ 6,378,446</u>	<u>\$ 12,021</u>	<u>\$ 15,418,019</u>	<u>\$ 17,887,880</u>
\$ 138,322	284,124	\$ -	\$ 850,064	\$ 1,058,377
<u>7,218</u>	<u>84,637</u>	<u>-</u>	<u>109,368</u>	<u>-</u>
<u>145,540</u>	<u>368,761</u>	<u>-</u>	<u>959,432</u>	<u>1,058,377</u>
355,001	-	-	5,045,524	-
-	322,184	70,915	393,099	-
2,781	-	-	10,126	-
205,343	42,900	5,674	257,790	43,983
-	33,407	-	33,407	-
-	26,065	-	26,065	-
<u>708,665</u>	<u>793,317</u>	<u>76,589</u>	<u>6,725,443</u>	<u>1,102,360</u>

Housing Authority of the City of Las Cruces
Financial Data Schedule — continued
June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872
Expenses				
<i>Administrative</i>				
911	Administrative salaries	\$ 159,024	\$ 49,152	\$ 38,268
912	Auditing fees	10,038	18,346	-
913	Outside management fees	-	-	-
915	Employee benefit contributions - administrative	99,092	64,534	(14)
916	Other operating - administrative	39,949	203,431	23,415
	Subtotal	308,103	335,463	61,669
<i>Tenant services</i>				
922	Relocation costs	189	-	-
924	Tenant services - other	-	-	-
	Subtotal	189	-	-
<i>Utilities</i>				
931	Water	27,151	-	-
932	Electricity	12,626	3,071	-
933	Gas	6,392	-	-
938	Other utilities expense	27,564	-	-
	Subtotal	73,733	3,071	-
<i>Ordinary maintenance and operations</i>				
941	Ordinary maintenance and operations - labor	122,550	-	-
942	Ordinary maintenance and operations - materials and other	151,320	177	14,758
943	Ordinary maintenance and operations - contract costs	16,734	22,756	50,892
	Subtotal	290,604	22,933	65,650
<i>Protective services</i>				
952	Protective services - other contract costs	1,066	-	-
	Subtotal	1,066	-	-
<i>General expenses</i>				
961	Insurance premiums	16,852	82,844	-
962	Other general expenses	3,367	38,501	-
964	Bad debt - tenant rents	4,795	-	-
967	Interest expense	-	-	-
	Subtotal	25,014	121,345	-
969	Total operating expenses	698,709	482,812	127,319
970	Operating revenue over (under) operating expenses	332,955	3,416,288	88,789
971	Extraordinary maintenance	6,690	-	-
973	Housing assistance payments	-	3,647,149	-
974	Depreciation expense	206,626	132	-
900	Total expenses	912,025	4,130,093	127,319

N/C S/R Section 8 Programs	Business Activities	State/Local	Totals	Component Units
\$ 12,341	\$ 186,793	\$ 3,155	\$ 448,733	\$ 257,223
918	21,140	-	50,442	-
10,677	-	-	10,677	-
18,410	82,234	1,499	265,755	-
<u>221,401</u>	<u>161,247</u>	<u>-</u>	<u>649,443</u>	<u>40,177</u>
<u>263,747</u>	<u>451,414</u>	<u>4,654</u>	<u>1,425,050</u>	<u>297,400</u>
-	-	-	189	-
-	-	71,026	71,026	-
-	-	71,026	71,215	-
19,970	3,585	-	50,706	-
6,825	12,273	-	34,795	-
3,433	1,620	-	11,445	-
<u>18,602</u>	<u>5,352</u>	<u>-</u>	<u>51,518</u>	<u>80,701</u>
<u>48,830</u>	<u>22,830</u>	<u>-</u>	<u>148,464</u>	<u>80,701</u>
43,869	42,240	-	208,659	159,046
44,771	97,768	-	308,794	-
13,158	22,234	-	125,774	-
<u>101,798</u>	<u>162,242</u>	<u>-</u>	<u>643,227</u>	<u>159,046</u>
258	206	-	1,530	-
<u>258</u>	<u>206</u>	<u>-</u>	<u>1,530</u>	<u>-</u>
15,331	13,083	-	128,110	159,161
21,300	98,374	519	162,061	-
4,594	-	-	9,389	-
<u>124,909</u>	<u>79,685</u>	<u>-</u>	<u>204,594</u>	<u>273,508</u>
<u>166,134</u>	<u>191,142</u>	<u>519</u>	<u>504,154</u>	<u>432,669</u>
<u>580,767</u>	<u>827,834</u>	<u>76,199</u>	<u>2,793,640</u>	<u>969,816</u>
127,898	(34,517)	390	3,931,803	132,544
20,188	7,937	-	34,815	-
-	-	-	3,647,149	-
<u>68,672</u>	<u>122,882</u>	<u>-</u>	<u>398,312</u>	<u>640,750</u>
<u>669,627</u>	<u>958,653</u>	<u>76,199</u>	<u>6,873,916</u>	<u>1,610,566</u>

Housing Authority of the City of Las Cruces
Financial Data Schedule — continued
June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 Housing Choice Vouchers 14.871	Public Housing Capital Fund Program 14.872
Other Financing Sources (Uses)				
1001	Operating transfers in	88,733	-	-
1002	Operating transfers out	(60,650)	-	(88,733)
1010	Total other financing sources (uses)	<u>28,083</u>	<u>-</u>	<u>(88,733)</u>
1000	Total revenue over (under) expenses	<u>147,722</u>	<u>(230,993)</u>	<u>56</u>
MEMO account information				
1103	Beginning equity	3,034,369	1,066,550	(56)
1104	Prior-period adjustments and equity transfers	-	-	-
Equity Roll Forward Test				
	Calculation from revenue and expenses statement	3,182,091	835,557	-
	Balance sheet line 513	<u>3,182,091</u>	<u>835,557</u>	<u>-</u>
	Difference	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

N/C S/R Section 8 Programs	Business Activities	State/Local	Totals	Component Units
163,112	197,390	-	449,235	-
(163,112)	(136,740)	-	(449,235)	-
-	60,650	-	-	-
<u>39,038</u>	<u>(104,686)</u>	<u>390</u>	<u>(148,473)</u>	<u>(508,206)</u>
2,279,760	5,174,418	-	11,555,041	8,310,438
-	-	-	-	470,471
2,318,798	5,069,732	390	11,406,568	8,272,703
<u>2,318,798</u>	<u>5,069,732</u>	<u>390</u>	<u>11,406,568</u>	<u>8,272,703</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

New Mexico State Auditor's Supplementary Information

Housing Authority of the City of Las Cruces
Schedule of Pledged Collateral
June 30, 2009

Deposits

Financial Institution	Total Amount of Deposit in Bank	Insured Portion*	Required Collateralization 50% of Uninsured Portion	Collateral Pledged	Over/ (Under) Collateralized
Citizens Bank	\$ 3,399	\$ 3,399	\$ -	\$ -	\$ -
Wells Fargo Bank	<u>550,725</u>	<u>550,725</u>	<u>-</u>	<u>293,760</u>	<u>293,760</u>
Total	<u>\$ 554,124</u>	<u>\$ 554,124</u>	<u>\$ -</u>	<u>\$ 293,760</u>	<u>\$ 293,760</u>

Pledged Collateral

Custodian	Type of Security	CUSIP Number	Sequence Number	Maturity Date	Fair Value
Wells Fargo Bank New Mexico, NA	FGIOHOO895	3128MS7G9	004501	6/1/2037	\$ 251,757
Wells Fargo Bank New Mexico, NA	FNCL	31409UCL7	020135	3/1/2036	<u>42,003</u>
					<u>\$ 293,760</u>

Repurchase Agreement

Financial Institution	Total Amount of Repurchase Agreement	Insured Portion	Required Collateralization 102% of Uninsured Portion	Collateral Pledged	Over/ (Under) Collateralized
Wells Fargo Bank	<u>\$ 2,570,978</u>	<u>\$ -</u>	<u>\$ 2,622,398</u>	<u>\$ 2,622,398</u>	<u>\$ -</u>

Pledged Collateral

Custodian	Type of Security	CUSIP Number	Sequence Number	Maturity Date	Fair Value
Wells Fargo Bank New Mexico, NA	FNCL	31408HGA7	020532	1/1/2036	<u>\$ 2,622,398</u>

* On October 14, 2008 the FDIC announced the Temporary Liquidity Guarantee Program. The program provides full deposit insurance coverage for non-interest bearing transaction accounts in FDIC-insured institutions, regardless of the amount.

Housing Authority of the City of Las Cruces
Schedule of Deposits and Investments
June 30, 2009

Account Title	Account Type	Bank Balance	Reconciling Items	Book Balance
Cash				
Wells Fargo Bank				
Operational	Checking	\$ 550,725	\$ 2,558,574	\$ 3,109,299
Citizens Bank				
Tenant rent	Checking	<u>3,399</u>	<u>-</u>	<u>3,399</u>
Total deposits		<u>554,124</u>	<u>2,558,574</u>	<u>3,112,698</u>
Petty cash		<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total cash		<u>555,124</u>	<u>2,558,574</u>	<u>3,113,698</u>
Short-term investments				
Bond fund - principal 2005	Federated Cash Reserves	13,617	-	13,617
Debt service res. 2005	Federated Cash Reserves	139,078	-	139,078
Repair/replace fund 2005	Federated Cash Reserves	10,934	-	10,934
Insurance/tax fund 2005	Federated Cash Reserves	13,709	-	13,709
Surplus fund 2005	Federated Cash Reserves	19,398	-	19,398
Project fund 2005	Federated Cash Reserves	9,503	-	9,503
Bond fund - interest 2005	Federated Cash Reserves	<u>13,352</u>	<u>-</u>	<u>13,352</u>
Total investments		<u>219,591</u>	<u>-</u>	<u>219,591</u>
Total cash and cash equivalents		<u>\$ 774,715</u>	<u>\$ 2,558,574</u>	<u>\$ 3,333,289</u>

Single Audit Section

Housing Authority of the City of Las Cruces
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/Grant or State Number	Grant Period	Program or Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development					
Section 8 New Construction and Substantial Rehabilitation	14.182	NM02-0002-004	7/1/08-6/30/09	\$ 355,001	\$ 355,001
Public and Indian Housing	14.850	NM00300000109D	7/1/08-6/30/09	572,049	572,049
		NM0038888809D	7/1/08-6/30/09	7,001	<u>7,001</u>
					579,050
Section 8 Housing Choice Vouchers	14.871	NM003V0	7/1/08-6/30/09	3,895,365	3,895,365
Public Housing Capital Fund (CFP)	14.872	NM02P003501-08	5/24/08-6/12/12	379,462	190,859
		NM02P003501-07	9/19/07-9/12/11	355,272	23,031
		NM02P003501-06	6/8/06-7/17/10	421,103	<u>2,218</u>
					<u>216,108</u>
Total expenditures of federal awards					<u>\$ 5,045,524</u>

Housing Authority of the City of Las Cruces
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

1) General

The accompanying schedule of expenditures of federal awards presents expenditures of all federal awards of the Housing Authority of the City of Las Cruces, New Mexico, (the "Housing Authority"). The Housing Authority's reporting entity is defined in Note 1 to the Housing Authority's financial statements.

2) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Housing Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

Mr. Hector Balderas,
New Mexico State Auditor,
The Board of Commissioners of the Housing
Authority of the City of Las Cruces
and the
Honorable Mayor and City Council Members of
the City of Las Cruces

We have audited the financial statements and budgetary comparison of the Housing Authority of the City of Las Cruces (the "Housing Authority"), a component unit of the City of Las Cruces, New Mexico, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 17, 2009. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of Montana Senior Village, LLC, MSV II Limited Partnership, Stone Mountain Place, LP, Falcon Ridge, LP, and Cimmaron II Apartments Limited Partnership, component units of the Housing Authority, as described in our report on the Housing Authority's financial statements and budgetary comparison. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Housing Authority's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We noted a matter that is required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16 and Section 12-6-5 NMSA 1978, which is described in the accompanying schedule of findings and questioned costs as item SA 09-1.

The Housing Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Housing Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City of Las Cruces' City Council, the Housing Authority's Board of Commissioners and management, the State of New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

REDWLLC

November 17, 2009

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Mr. Hector Balderas,
New Mexico State Auditor,
The Board of Commissioners of the Housing
Authority of the City of Las Cruces and the
Honorable Mayor and City Council Members of
the City of Las Cruces

Compliance

We have audited the compliance of the Housing Authority of the City of Las Cruces (the "Housing Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Housing Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on the Housing Authority'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority's compliance with those requirements.

In our opinion, the Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items FA 09-1 and FA 09-2.

Internal Control Over Compliance

The management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Housing Authority's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in the Housing Authority's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Housing Authority's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 09-1 and FA 09-2 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Housing Authority's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Housing Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Housing Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City of Las Cruces' City Council, the Housing Authority's Board of Commissioners and management, the State of New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

REDWLLC

November 17, 2009

Housing Authority of the City of Las Cruces
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting: Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Housing Authority of the City of Las Cruces
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2009

Section I — Summary of Auditors' Results — continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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Housing Authority of the City of Las Cruces
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2009

Section II — State Auditor Findings and Questioned Costs

The following finding is reported in accordance with the New Mexico State Audit Rule 2 NMAC 2.2., *Requirements for Contracting and Conducting Audits of Agencies*.

SA 09-1 — Rental Contracts and W-9s

Criteria or Specific Requirement: For landlords participating in the Section 8 Voucher program, the Housing Authority should obtain a signed W-9 that matches the landlord name and address on the rental contract and a signed rental contract.

Condition: One out of fifteen files tested did not have a W-9 or a signed rental contract.

Cause: Procedures were not in place to ensure that the Housing Authority maintained W-9's and signed contracts for all landlords participating in the Section 8 Voucher Program.

Effect: Failure to maintain signed contracts and W-9 forms for all landlords causes the Housing Authority to be out of compliance with their policy.

Auditors' Recommendations: A signed W-9 agreeing to the landlord name and address on the signed rental agreement should be maintained by the Housing Authority.

Management's Response: Management will ensure to maintain all W-9s and signed contracts and that the information in a signed W-9 corresponds to the landlord/owner name and address on the signed rental contract.

Housing Authority of the City of Las Cruces
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2009

Section III — Federal Award Findings and Questioned Costs

FA 09-1 — Special Tests and Provisions — HAP Payments

Federal program information:

Funding agency:	U.S. Department of Housing and Urban Development
Title:	Section 8 Housing Choice Vouchers Program
CFDA Number:	14.871
Award number:	N/A
Award period:	7/1/08 – 6/30/09

Criteria: The Housing Authority must pay a monthly Housing Assistance Payment (HAP) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register. (24 CFR section 982.158 and 982 subpart K).

Condition: For one out of fifteen files, the HAP in the check register did not agree to the HAP amount on line 12u of the HUD-50058 form.

Questioned Costs: None.

Cause: The HAP payment did not agree with line 12u of the HUD-50058 form.

Effect: Failure to document the correct HAP amount may cause the Housing Authority to be out of compliance with HUD requirements.

Auditors' Recommendations: The Housing Authority should ensure that the monthly HAP agrees to the amount on line 12u of the HUD-50058. In addition, this amount must be reflected on the HAP contract and HAP register.

Management's Response: Management will ensure that the monthly HAP agrees to the amount on line 2 of the HUD 50058 and reflected on the HAP contract and HAP register.

Housing Authority of the City of Las Cruces
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2009

Section III — Federal Award Findings and Questioned Costs — continued

FA 09-2 — Special Tests and Provisions — Reasonable Rent

Federal program information:

Funding agency:	U.S. Department of Housing and Urban Development
Title:	Section 8 Housing Choice Vouchers Program
CFDA Number:	14.871
Award number:	N/A
Award period:	7/1/08 – 6/30/09

Criteria: The Public Housing Authority's (PHA) administrative plan must state the method used by the PHA to determine that the rent to owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.

The PHA must determine that the rent to owner is reasonable at the time of initial leasing. Also, the PHA must determine reasonable rent during the term of the contract: (a) before any increase in the rent to owner; and (b) at the HAP contract anniversary if there is a five percent decrease in the published Fair Market Rent (FMR) in effect 60 days before the HAP contract anniversary. The PHA must maintain records to document the basis for the determination that rent to owner is a reasonable rent (initially and during the term of the HAP contract) (24 CFR sections 982.4, 982.54(d)(15), 982.158(f)(7), and 982.507).

Condition: One out of fifteen files did not contain evidence of rent reasonableness determination.

Questioned Costs: None.

Cause: There was no evidence that a rent reasonableness report was performed.

Effect: Failure to perform and document a rent reasonableness determination may cause the Housing Authority to be out of compliance with HUD requirements.

Auditors' Recommendations: Evidence of reasonable rent at the time of initial leasing and during the term of contract should be included in every tenant file.

Management's Response: Management will ensure that evidence of reasonable rent determination at the time of initial leasing and during the term of contract is included in every tenant file.

Housing Authority of the City of Las Cruces
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2009

Prior Audit Findings	Current Status
Financial Statement Findings	
FS 08-1 Journal Entry Supporting Documentation	Resolved.
FS 08-2 Reconciliation of Equity and Financial Statement Preparation	Resolved.

Housing Authority of the City of Las Cruces
Corrective Action Plan
For the Year Ended June 30, 2009

Federal Award	Corrective Action Plan	Person Responsible	Estimated Completion Date
FA 09-1 Special Tests and Provisions – HAP Payments	Management will ensure that the monthly HAP agrees to the amount on line 2 of the HUD 50058. In addition, this amount must be reflected on the HAP contract and HAP register.	Juanita Perez/ Thomas Hassell	Immediately
FA 09-2 Special Tests and Provisions – Reasonable Rent	Management will ensure that evidence of reasonable rent at the time of initial leasing and during the term of contract will be included in every tenant file.	Juanita Perez/ Thomas Hassell	Immediately

Housing Authority of the City of Las Cruces
Other Disclosures
For the Year Ended June 30, 2009

Exit Conference

A closed meeting exit conference was held on November 17, 2009, which was attended by the following:

Board Members

Winifred Y. Jacobs	Chairman
Paul R. Miller	Vice-Chairman
Margaret Ellen Haltom	Commissioner
Art Jiron	Commissioner

Housing Authority Administration

Thomas G. Hassell	Executive Director
Robbie R. Levey	Deputy Director/Administrative Officer
Sharon Hansen	Accountant
Jesse Padilla	Housing Manager
Martha Sanchez	Modernization/Maintenance Manager
Juanita Perez	Section 8 Housing Manager

REDW_{LLC}

Bruce Bleakman	Principal
Angie Olvera	Manager

Preparation of Financial Statements

These financial statements were compiled by the Housing Authority's independent certified public accountants.