

**Falcon Ridge Limited Partnership**  
**(A Development Stage Company)**

**Financial Statements**  
**Years Ending December 31, 2009 and 2008**

**And Supplementary Information**  
**Year Ending December 31, 2009**

# Falcon Ridge Limited Partnership

## Table of Contents

	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	1
<b>Financial Statements</b>	
Balance Sheets .....	2
Statements of Operations .....	4
Statements of Changes in Partners’ Equity (Deficit).....	5
Statements of Cash Flows .....	6
<b>Notes to Financial Statements</b> .....	8
<b>Supplementary Information</b>	
Supplementary Information Required by HUD.....	17
Computation of Surplus Cash, Distributions and Residual Receipts.....	20
<b>Independent Auditor’s Combined Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements and Internal Control over Compliance for HUD-Assisted Programs</b> .....	21
<b>Independent Auditor’s Report on Compliance with Specific Requirements Applicable to Major HUD Programs</b> .....	23
<b>Independent Auditor’s Report on Compliance with Specific Requirements Applicable to Fair Housing and Non-Discrimination</b> .....	24
<b>Schedule of Findings and Questioned Costs</b> .....	26
<b>Auditor’s Comments on Audit Resolution Matters Relating to HUD Programs</b> .....	27
<b>Partner’s Certification</b> .....	28
<b>Management Agent’s Certification</b> .....	29
<b>Information on Auditor</b> .....	30
<b>Exit Conference</b> .....	31

# Kenneth C. Boothe & Co., PC

Certified Public Accountants

1001 East Farm Road 700 • Big Spring, Texas 79720 • (432) 263-1324 • FAX (432) 263-2124

## INDEPENDENT AUDITOR'S REPORT

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Falcon Ridge Limited Partnership

We have audited the accompanying balance sheet of Falcon Ridge Limited Partnership as of December 31, 2009, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Falcon Ridge Limited Partnership as of December 31, 2008 were audited by other auditors whose report dated May 25, 2009, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Falcon Ridge Limited Partnership as of December 31, 2009, and the results of its operations, changes in partners' equity (deficit), and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 22, 2010, on our consideration of the Partnership's internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting. In accordance with *Government Auditing Standards*, we have also issued an opinion dated April 22, 2010, on the Partnership's compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters that could have a direct and material effect on a major HUD-assisted program. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information shown on Pages 17-20 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Partnership. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kenneth C. Boothe & Co., PC

April 22, 2010  
Big Spring, Texas

**Falcon Ridge Limited Partnership**  
**Balance Sheets**  
**December 31, 2009 and 2008**

**ASSETS**

	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,384	\$ 8,945
Cash - Supervised by RD	1,180,018	0
<b>Total Current Assets</b>	<b>1,181,402</b>	<b>8,945</b>
<b>Restricted Deposits &amp; Funded Reserves:</b>		
Lease Up Reserve	25,000	0
Operating Reserve	200,640	0
Replacement Reserve Escrow	235,574	0
<b>Total Restricted Deposits &amp; Funded Reserves</b>	<b>461,214</b>	<b>0</b>
<b>Property &amp; Equipment:</b>		
Land	106,160	106,160
Construction in Progress	2,320,980	351,662
<b>Total Fixed Assets</b>	<b>2,427,140</b>	<b>457,822</b>
<b>Net Fixed Assets</b>	<b>2,427,140</b>	<b>457,822</b>
<b>Total Assets</b>	<b>\$ 4,069,756</b>	<b>\$ 466,767</b>

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

**Falcon Ridge Limited Partnership**  
**Balance Sheets**  
**December 31, 2009 and 2008**

**LIABILITIES & PARTNERS' EQUITY**

	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Liabilities:</b>		
<b>Liabilities:</b>		
Current Maturities of Long-Term Debt	\$ 30,527	\$ 0
Accounts Payable	2,438	206
Accrued Liabilities	0	5,418
Pre-Development Loan	0	461,143
Construction Loan	231,395	0
<b>Total Current Liabilities</b>	<b>264,360</b>	<b>466,767</b>
<b>Long-Term Liabilities:</b>		
Rural Development Loan Assumptions (net current maturities)	2,223,538	0
New Mexico Mortgage Finance Authority	753,582	0
Deferred Development Fees	830,509	0
<b>Total Long-Term Liabilities</b>	<b>3,807,629</b>	<b>0</b>
<b>Total Liabilities</b>	<b>4,071,989</b>	<b>466,767</b>
<b>Partners' Equity (Deficit)</b>	<b>(2,233)</b>	<b>0</b>
<b>Total Liabilities &amp; Partners' Equity</b>	<b>\$ 4,069,756</b>	<b>\$ 466,767</b>

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

**Falcon Ridge Limited Partnership**  
**Statements of Operations**  
**For the Years Ended December 31, 2009 and 2008**

	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Income</b>	\$ 0	\$ 0
<b>Expenses:</b>		
Administrative	2,233	0
Financial Expenses	0	0
<b>Total Cost Of Operations Before Depreciation</b>	<b>2,233</b>	<b>0</b>
<b>Net Income / (Loss)</b>	<b>\$ (2,233)</b>	<b>\$ 0</b>

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

**Falcon Ridge Limited Partnership**  
**Statements of Changes in Partners' Equity (Deficit)**  
**For the Years Ended December 31, 2009 and 2008**

		<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
<b>Partners' Equity (Deficit), December 31, 2007</b>	\$	0	0	0
Net Income (Loss): 12/31/2008		0	0	0
Partners' Capital Contributions		0	0	0
Partners' Distributions		<u>0</u>	<u>0</u>	<u>0</u>
<b>Partners' Equity (Deficit), December 31, 2008</b>	\$	0	0	0
Net Income (Loss): 12/31/2009		(2,233)	(2,233)	0
Partners' Capital Contributions		0	0	0
Partners' Distributions		<u>0</u>	<u>0</u>	<u>0</u>
<b>Partners' Equity (Deficit), December 31, 2009</b>	\$	<u><u>(2,233)</u></u>	<u><u>(2,233)</u></u>	<u><u>0</u></u>

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

**Falcon Ridge Limited Partnership**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2009 and 2008**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2009</b>	<b>12/31/2008</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Rental Receipts	\$ 0	\$ 0
Cash Received from Housing Assistance Payments	0	0
Financial Revenue	0	0
Tenant Charges	0	0
Total Receipts	0	0
Administrative	0	0
Management Fees	0	0
Utilities	0	0
Operating and Maintenance	0	0
Salaries and Wages	0	0
Real Estate Taxes	0	0
Payroll Taxes	0	0
Property Insurance	0	0
Mortgage Insurance Premium	0	0
Interest on Mortgage Note	0	0
Tenant Security Deposits	0	0
Total Disbursements	0	0
Net Cash Provided by (Used In) Operating Activities	0	0
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Capital Expenditures	(1,969,318)	(264,180)
Net Deposits to Lease Up Reserve	(25,000)	0
Net Deposits to Operating Reserve	(200,640)	0
Net Deposits to Reserve for Replacements	(235,574)	0
Net Cash Provided by (Used In) Investing Activities	(2,430,532)	(264,180)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Pre-Development Loan	(461,143)	161,143
Construction Loan Proceeds	231,394	0
NMMFA Loan Proceeds	753,582	0
Deferred Development Fees Liability Recognized	1,107,345	0
Deferred Development Fees Paid	(276,836)	0
Rural Development Loan Assumption	2,259,318	0
Rural Development Loan Principal Payments	(5,253)	0
Other Financing Activities - Funds due from Related Parties	0	(11,950)
Accrued Liabilities-Construction Costs	(5,418)	0
Net Cash Provided (Used by) Financing Activities	3,602,989	149,193
<b>Increase (Decrease) in Cash</b>	1,172,457	(114,987)
<b>Cash at Beginning of Year</b>	8,945	123,932
<b>CASH AT END OF YEAR</b>	\$ 1,181,402	\$ 8,945
<b><u>SUPPLEMENTAL DISCLOSURES:</u></b>		
Interest Paid	\$ 21,959	\$ 18,250

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



**Falcon Ridge Limited Partnership**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2009 and 2008**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2009</b>	<b>12/31/2008</b>
<b><u>RECONCILIATION OF NET INCOME (LOSS) TO NET</u></b>		
<b><u>CASH PROVIDED BY OPERATING ACTIVITIES:</u></b>		
Net Income (Loss)	\$ (2,233)	\$ 0
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	0	0
Amortization	0	0
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	0	0
Prepaid Expenses	0	0
Tenant Security Deposits - Funded	0	0
Increase (Decrease) in Liabilities		
Accounts Payable	2,233	0
Accrued Interest	0	0
Accrued Liabilities	0	5,418
Accrued Property Taxes	0	0
Tenant Security Deposits Held	0	0
Net Cash Provided (Used by) Operating Activities	\$ 0	\$ 5,418

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

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE A - ORGANIZATION**

Falcon Ridge Limited 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 is located in the city of Hatch, New Mexico (the "Project") and is to be known as Falcon Ridge Apartments. The major activities of the Partnership are governed by the Partnership Agreement, Management Agreement and the Low Income Housing Tax Credit Exchange Program Agreement, Section 1602 of the American Recovery and Reinvestment Tax Act of 2009.

The Project was acquired on November 11, 2007 and is under construction. The total development cost is budgeted at \$12,562,594.

In August 2006, three properties known as Los Caballos I, II & III were destroyed and rendered uninhabitable by a flood in Hatch, NM. The properties were originally funded by three different RD 515 loans. A new project in a different location, but also in Hatch, NM will be built. On December 22, 2009, the transfer of the loans was made to the new entity, Falcon Ridge Apartments. The total of the loans assumed was \$2,259,317. Interest was paid on the loan prior to the assumption in the amount of \$132,229. In addition, the remaining insurance proceeds in the amount of \$1,778,290 received from the Los Caballos property insurance settlement were also transferred, along with the remaining cash in the Replacement Reserve Accounts in the amount of \$198,075. The property recognized development costs of \$414,551 related to this transfer.

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 of the City of Las Cruces because the Housing Authority of the City of Las Cruces (HACLCLC) is the sole member of the General Partner of the Partnership. The Partnership has no component units.

**NOTE B - 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.

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Reclassifications

Certain items in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

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 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.

The Partnership reviews its investments in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flows expected to be generated by the rental property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the moment by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2009 or 2008.

Concentrations of Risk

The Partnership deposits cash in financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Partnership has not experienced any losses on such accounts.

Collateralization of Deposits

Even though the Partnership is a component unit of the Housing Authority of the City of Las Cruces (HACLC), it is not subject to the requirement to secure collateralization on cash deposits.

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS**

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2008 and through November 10, 2009:

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

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages are as follows for the period from November 10, 2009 to December 31, 2009:

General Partner	
<i>Falcon Ridge LLC</i>	99.99%
Limited Partner	
<i>Housing Authority of the City of Las Cruces</i>	0.01%
TOTAL	100.00%

**Capital Contributions and Allocations of Profit, Loss, and Cash Flow**

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

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

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE D –DEBT**

As of December 31, 2009 and 2008, notes payable consist of the following:

Construction Loan

	<u>12/31/2009</u>	<u>12/31/2008</u>
<p>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 in the form of a Variable Rate Nondisclosable Draw Down Line of Credit loan, 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, based on 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. On December 22, 2009 the original principle amount and the interest due was paid in full.</p>		
<p>On December 18, 2009, a Modification of Mortgage was executed between the Partnership and Citizens Bank of Las Cruces. The principle amount of the loan was increased to \$2,650,000 and the terms of the original mortgage, dated September 4, 2007, remain unchanged and in full force.</p>	\$ <u>231,395</u>	\$ <u>461,143</u>

Long-Term Debt

	<u>12/31/2009</u>	<u>12/31/2008</u>
<p>On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principle balance of the Rural Development loan originally issued to Los Caballos I. The amount assumed was \$726,506 at the interest rate of 9.0% per annum, payable in monthly payments commencing on January 1, 2010. The maturity date of the loan is February 1, 2037.</p>	\$ 726,870	\$ 0
<p>On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principle balance of the Rural Development loan originally issued to Los Caballos II. The amount assumed was \$690,892 at the interest rate of 8.75% per annum, payable in monthly payments commencing on January 1, 2010. The maturity date of the loan is August 1, 2041.</p>	689,124	0

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE D –DEBT** (continued)

	12/31/2009	12/31/2008
On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principle balance of the Rural Development loan originally issued to Los Caballos III. The amount assumed was \$839,902 at the interest rate of 7.75% per annum, payable in monthly payments commencing on January 1, 2010. The maturity date of the loan is July 1, 2043.	838,071	0
On December 18, 2009, the Partnership executed a \$6,976,074 Mortgage Note to New Mexico Mortgage Finance Authority. The terms of the loan begin upon its execution and end 180 months after commencement of the Compliance Period. There are no interest or scheduled principal payments due with respect to this loan. In the event there is no uncured Recapture Event of Default at the time of termination, this Mortgage Note shall be forgiven. This loan is not represented in the maturities table below.		
Total Payable	753,582	0
Less: current portion	3,007,647	0
Long-Term Notes Payable	30,527	0
	\$ 2,977,120	\$ 0

The schedule of maturities for the mortgages noted above are as follows:

	Principal	Interest*
December 31, 2010	\$ 30,527	\$ 182,628
2011	25,664	187,492
2012	27,966	185,189
2013	30,476	182,680
2014	33,210	179,945
2015-2019	216,511	849,266
2020-2024	332,917	732,860
2025-2029	467,956	554,530
2030-2034	303,997	392,689
2035-2039	445,075	232,107
2040-2044	259,360	86,189
2045-2046	80,406	4,322
Total	\$ 2,254,065	\$ 3,769,897

\*The Rural Development loans assumed by the Partnership are Section 515. Interest Subsidy from Rural Development should reduce the interest paid to 1% over the term of the loan.

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE E – 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 Account has an initial funding in the amount of \$198,706, which was transferred from the Los Caballos properties on December 22, 2009. In addition to the initial funding, another \$36,868 was added to the reserve account at the time of closing. The Replacement Reserve balance as of December 31, 2009 and 2008 was \$235,574 and \$0, respectively.

Operating Reserve

An Operating Reserve Account shall be funded in the amount of \$200,640 to assure the Partnership and lender that all payments are made in full and in a timely manner. The Operating Reserve will be held by NMMFA in an interest bearing account until project compliance (compliance period) is achieved. In the event that it would be necessary to use any Operating Reserve funds to alleviate any insufficiency in rents, NMMFA must be notified of the fund shortages in writing at least ten days prior to the due date on the mortgage. The Operating Reserve balance as of December 31, 2009 and 2008 was \$200,640 and \$0, respectively.

Lease Up Reserve

On December 18, 2009 at the time of the loan closing, a Lease Up Reserve account was established in the amount of \$25,000. Upon completion of the construction, the funds will be held by the New Mexico Mortgage Finance Authority and only to be distributed by their approval. When the project reaches stabilization, any remaining funds shall be applied first to pay any monies owed to NMMFA, then to satisfy any other reserve requirement for the project, then to the owners or any lender with a continuing loan on the project. The Lease Up Reserve balance as of December 31, 2009 and 2008 was \$25,000 and \$0, respectively.

Stabilization has been achieved when all of the following conditions have been met:

1. The project has achieved an occupancy of 93%;
  2. The project has met the debt service coverage ratio for three consecutive months
  3. The owner has closed on and received permanent financing
  4. The owner has established and funded all required reserves
- The owner has delivered to NMMFA satisfactory evidence that all low-income units have been occupied by qualifying tenants.

**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE F - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES**

Development Fee

On June 20, 2007, the Partnership entered into a Development Agreement with JL Gray Company, Inc., the Developer, and the Housing Authority of the City of Las Cruces to render development services for construction of the Project. The total Development Fee of \$1,107,346 will be paid 85% to the Developer and 15% to the Housing Authority of the City of Las Cruces. Developer Fees of \$276,836 and \$0 were paid during 2009 and 2008, respectively. The amount due related to developer fees was \$830,509 and \$0 as of December 31, 2009 and 2008, respectively. The development fees will be earned during specific stages of development of the Project.

Development Advances from General Partner

As of December 31, 2007, the Housing Authority of the City of Las Cruces 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, 2009 and 2008, and related balances at December 31, 2009 and 2008, with the above related parties and/or affiliates were as follows:

	2009		2008	
	Paid	Payable	Paid	Payable
Development Advances –				
General Partner	\$ 0	0	11,950	\$ 0
Development Fees –				
JL Gray	235,411	705,833	0	0
HACLC	41,425	124,676	0	0

**NOTE G – CURRENT 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.



**Falcon Ridge Limited Partnership**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2009 and 2008**

**NOTE H – COMMITMENTS AND CONTINGENCIES**

Tax Credit Exchange Program

The Low Income Housing Tax Credit Exchange Program Agreement entered into with New Mexico Mortgage Finance Authority states that no interest or scheduled principal payments are due with respect to the loan listed above. However, the entire principal of the loan will become due and payable if an event of default under the TCEP Agreement is failed to be cured. The Events of Default that would cause the loan to become due and payable include, but are not limited to the following:

1. A Recapture Event of Default;
2. Failure to comply with the requirements of Section 42 of the Code;
3. Failure to observe or perform any term, condition or covenant in the TCEP Agreement;
4. A default under any of the Loan Documents;
5. Any representation or warranty made by the Owner or on behalf of Owner becomes materially incorrect or incomplete;
6. Failure by owner to commence construction of the project within the specified time period;
7. The Project is damaged or destroyed and cannot be restored for completion by the Completion Date and within the other terms;
8. Failure by owner to construct the project according to the contract documents;
9. For any cause (other than acts of God) that would suspend construction for a period of 20 consecutive days, construction is not carried on to permit completion by completion date, or construction is not progressing in accordance with the contract documents;
10. Failure by owner to pay the general contractor, mechanic, or supplier;
11. Property, Project or any part thereof are subject to a lien or security agreement except as provided in the TCEP agreement;
12. Failure by owner to discharge, bond over or obtain title insurance against any mechanics' lien; or
13. The General Contractor or Owner shall become insolvent or be adjudicated bankrupt.

**NOTE I – ACCRUED LIABILITIES**

There were no accrued liabilities on the balance sheet as of December 31, 2009.

**Falcon Ridge Limited Partnership**  
**Supplementary Information Required by HUD**  
**Year Ending December 31, 2009**

**Falcon Ridge Limited Partnership**  
**SUPPLEMENTARY INFORMATION REQUIRED BY HUD**  
**Year Ending December 31, 2009**

1. DELINQUENT TENANT ACCOUNTS RECEIVABLE

None.

2. TENANT SECURITY DEPOSITS

There were no security deposits in the trust account and no security deposit liabilities as of December 31, 2009.

3. RESERVES

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 balance in the reserve account was as follows:

Balance, January 1, 2009	\$	0
Funding from Los Caballos I, II & III		198,706
Funded at Closing		36,868
Interest Earned on Reserve Account (Net of Service Fees)		0
Withdrawals As Approved by the General Partner		0
None		0
Balance, December 31, 2009		235,574
Balance, December 31, 2009, confirmed by Bank	\$	235,574

According to the Low Income Housing Tax Credit Exchange Program Lease Up and Operating Agreements, additional reserve accounts are required to be established.

An Operating Reserve Account shall be funded in the amount of \$200,640 to assure the partnership and lender that all payments are made in full and in a timely manner. The Operating Reserve will be held by NMMFA in an interest bearing account until Project compliance (compliance period) is achieved. In the event that it would be necessary to use any Operating Reserve funds to alleviate any insufficiency in rents, NMMFA must be notified of the fund shortages in writing at least ten days prior to the due date on the mortgage.

A Lease Up Reserve account has been established, in the amount of \$25,000. Upon completion of the construction, the funds will be held by the New Mexico Mortgage Finance Authority and only to be distributed by their approval. When the project reaches stabilization, any remaining funds shall be applied first to pay any monies owed to NMMFA, then to satisfy any other reserve requirement for the Project, then to the owners or any lender with a continuing loan on the Project.

4. RESIDUAL RECEIPTS ACCOUNT

None.

**Falcon Ridge Limited Partnership**  
**SUPPLEMENTARY INFORMATION REQUIRED BY HUD**  
**Year Ending December 31, 2009**

5. SCHEDULE OF FUNDS

Funds Held by Mortgagor		
Petty Cash		\$ 0
Citizens Bank of Las Cruces, Las Cruces, NM		
Operating Account - Entity - Construction	\$ 1,384	
Insurance Proceeds		
(Los Caballos I, II & III)	1,180,018	
Lease Up Reserves	25,000	
Replacement Reserve Account	235,574	
Total Funds held by Mortgagor		1,441,976
Funds Held by Mortgagee		
New Mexico Mortgage Finance Authority		
Escrow - Operating Reserve - NMMFA	200,640	
		200,640
Total Funds Held by Mortgagee		200,640
		\$ 1,642,616

6. CHANGES IN FIXED ASSETS

	F I X E D   A S S E T S				NET BOOK VALUE 12/31/2009
	BALANCE 12/31/08	ADDITIONS	DEDUCTIONS	BALANCE 12/31/2009	
Land	\$ 106,160	\$ 0	\$ 0	\$ 106,160	
Buildings Site Improvements	0	0	0	0	
Furnishings	0	0	0	0	
Construction in Progress	351,662	1,969,318	0	2,320,980	
Totals	\$ 457,822	\$ 1,969,318	\$ 0	\$ 2,427,140	
DEPRECIATION EXPENSE & ACCUMULATED DEPRECIATION					
Totals	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,427,140

7. ACCRUED PROPERTY TAXES

There were no property taxes due as of December 31, 2009.

8. MANAGEMENT FEES

None.

9. IDENTITY OF INTEREST COMPANIES

Identity of Interest Companies doing business with the mortgagor and/or management agent of the project, along with a breakdown of services and amounts received for the year ending December 31, 2009, is as follows:

<u>COMPANY NAME</u>	<u>TYPE OF SERVICE</u>	<u>AMOUNT RECEIVED</u>
J L Gray	Development Fees	235,411
HACLC	Development Fees	41,425

**Falcon Ridge Limited Partnership**  
**SUPPLEMENTARY INFORMATION REQUIRED BY HUD**  
**Year Ending December 31, 2009**

10. LOANS (OTHER THAN INSURED MORTGAGES) AND NOTES PAYABLE

Note Payable - Citizens Bank of Las Cruces is a note originally dated September 4, 2007 to finance the pre-development of the Partnership. The original loan 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 in the form of a Variable Rate Nondisclosable Draw Down Line of Credit loan, up to a maximum of \$475,000. The maturity date of the new loan is April 4, 2009, with a variable interest rate subject to change based on the Wall Street Journal Prime Lending Rate. Interest accrued on the loan is payable monthly without principal beginning February 4, 2009. The note is secured by a mortgage to the Lender dated September 4, 2007. On December 22, 2009 the original principle amount of \$475,000 plus the interest due was paid in full.

On December 18, 2009, a Modification of Mortgage was executed between the partnership and Citizens Bank of Las Cruces. The principle amount of the loan was increased to \$2,560,000 and the terms of the original mortgage, dated September 4, 2007, remain unchanged.

11. CHANGES IN PARTNERSHIP INTERESTS

As of November 10, 2009, Falcon Ridge Limited Partnership substituted the Housing Authority of the City of Las Cruces for Thomas G. Hassell, Executive Director of the Housing Authority of the City of Las Cruces as Limited Partner. The Partners interest percentages were also changed. The General Partners interest changed from 6% to 99.99%. The Limited Partners interest changed from 94% to .01%.

12. COMMENTS ON BALANCE SHEET ITEMS

None.

13. AUTHORIZED / UNAUTHORIZED DISTRIBUTIONS TO PARTNERS

None.

14. COMPENSATION PAID TO PARTNERS

None.

**Computation of Surplus Cash,  
Distributions and Residual  
Receipts**

**U.S. Department of Housing  
and Urban Development**  
Office of Housing  
Federal Housing Commissioner

Project Name		Fiscal Period Ended:		Project Number	
Falcon Ridge Limited Partnership		December 31, 2009			
<b>Part A - Compute Surplus Cash</b>					
<b>Cash</b>					
1.	Cash (Accounts 1110,1120,1191, 1192)	\$		1,384	
2.	Tenant subsidy vouchers due for period covered by financial statement	\$		0	
3.	Other (describe)	\$		0	
(a) Total Cash (Add Lines 1,2, and 3)				\$	1,384
<b>Current Obligations</b>					
4.	Accrued mortgage interest payable	\$		0	
5.	Delinquent mortgage principal payments	\$		0	
6.	Delinquent deposits to reserve for replacements	\$		0	
7.	Accounts payable (due within 30 days)	\$		2,438	
8.	Loans and notes payable (due within 30 days)	\$		0	
9.	Deficient Tax Insurance or MIP Escrow deposits	\$		0	
10.	Accrued expenses (not escrowed)	\$		0	
11.	Prepaid rents (Account 2210)	\$		0	
12.	Tenant security deposits liability (Account 2191)	\$		0	
13.	Other (Describe)	Accounts Payable - HUD	0	\$	0
(b) Less Total Current Obligations (Add Lines 4 through 13)				\$	2,438
(c) Surplus Cash (Deficiency)(Line (a) minus Line (b))				\$	(1,054)
<b>Part B - Compute Distributions to Owners and Required Deposit to Residual Receipts</b>					
1.	Surplus Cash	\$		0	
<b>Limited Dividend Projects</b>					
2a.	Annual Distribution Earned During Fiscal Period Covered by the Statement	\$			
2b.	Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$			
2c.	Distributions Paid During Fiscal Period Covered by Statement	\$			
3.	Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$			
4.	Amount Available for distribution during next Fiscal Period	\$			
5.	Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after the Fiscal Period ends)	\$			
<b>Prepared By</b>			<b>Reviewed By</b>		
Loan Technician	Date	Loan Servicer	Date		

rm HUD-93486 (8/95)

# *Kenneth C. Boothe & Co., PC*

*Certified Public Accountants*

*1001 East Farm Road 700 • Big Spring, Texas 79720 • (432) 263-1324 • FAX (432) 263-2124*

---

## **INDEPENDENT AUDITOR'S COMBINED REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS AND INTERNAL CONTROL OVER COMPLIANCE FOR HUD-ASSISTED PROGRAMS**

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Falcon Ridge Limited Partnership

We have audited the financial statements of Falcon Ridge Limited Partnership, as of and for the year ended December 31, 2009, and have issued our report thereon dated April 22, 2010. We have also audited the Partnership's compliance with requirements applicable to major U.S. Department of Housing and Urban Development (HUD)-assisted programs for the year ended December 31, 2009, and have issued our report thereon dated April 22, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the HUD Office of the Inspector General. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether Falcon Ridge Limited Partnership complied with laws and regulations, noncompliance with which would be material to a major HUD-assisted program.

The management of Falcon Ridge Limited Partnership is responsible for establishing and maintaining effective internal control over financial reporting and internal control over compliance. In planning and performing our audits of the financial statements and compliance, we considered the Partnership's internal control over financial reporting and its internal control over compliance with requirements that could have a direct and material effect on a major HUD-assisted program as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and compliance, but not for the purpose of expressing an opinion on the effectiveness of Falcon Ridge Limited Partnership's internal control over financial reporting and internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Falcon Ridge Limited Partnership's internal control over financial reporting and internal control over compliance.

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

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

This report is intended solely for the information and the use of the partners, management, the U.S. Department of Housing and Urban Development, City of Las Cruces, Office of the State Auditor, and the New Mexico Department of Finance and Administration – Local Government Division and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kenneth C. Boothe & Co., PC". The signature is written in a cursive style with a horizontal line under the "PC" at the end.

Kenneth C. Boothe & Co., PC

April 22, 2010  
Big Spring, Texas



# *Kenneth C. Boothe & Co., PC*

*Certified Public Accountants*

*1001 East Farm Road 700 • Big Spring, Texas 79720 • (432) 263-1324 • FAX (432) 263-2124*

---

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR HUD PROGRAMS**

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Falcon Ridge Limited Partnership

We have audited Falcon Ridge Limited Partnership's compliance with the specific program requirements governing federal financial reports; mortgage status; the replacement reserve; distributions to members; tenant application, eligibility, and recertification; and management functions, cash receipts and disbursements, unauthorized loans of project funds, and excess income that are applicable to each major HUD-assisted program for the year ended December 31, 2009. Compliance with those requirements is the responsibility of the management of Falcon Ridge Limited Partnership. Our responsibility is to express an opinion on Falcon Ridge Limited Partnership's compliance with those requirements based on our audit.

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

The results of our audit procedures did not disclose any immaterial instances of noncompliance with the requirements referred to above.

In our opinion, Falcon Ridge Limited Partnership complied, in all material respects, with the requirements described above that are applicable to each of its major HUD-assisted programs for the year ended December 31, 2009.

This report is intended solely for the information and the use of the partners, management, the U.S. Department of Housing and Urban Development, City of Las Cruces, Office of the State Auditor, and the New Mexico Department of Finance and Administration – Local Government Division and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe & Co., PC

April 22, 2010  
Big Spring, Texas

# Kenneth C. Boothe & Co., PC

Certified Public Accountants

1001 East Farm Road 700 • Big Spring, Texas 79720 • (432) 263-1324 • FAX (432) 263-2124

---

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO FAIR HOUSING AND NON-DISCRIMINATION

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Falcon Ridge Limited Partnership

We have applied procedures to test Falcon Ridge Limited Partnership's compliance with the Fair Housing and Non-Discrimination requirements applicable to its HUD-assisted programs, for the year ended December 31, 2009.

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

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

This report is intended solely for the information and the use of the partners, management, the U.S. Department of Housing and Urban Development, City of Las Cruces, Office of the State Auditor, and the New Mexico Department of Finance and Administration – Local Government Division and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe & Co., PC

April 22, 2010  
Big Spring, Texas

## **Audit Findings**

**Falcon Ridge Limited Partnership**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended December 31, 2009**

No matters were found to be reportable for the year ended December 31, 2009.

**Falcon Ridge Limited Partnership**  
**AUDITOR'S COMMENTS ON AUDIT RESOLUTION**  
**MATTERS RELATING TO HUD PROGRAMS**  
**Year Ended December 31, 2009**

Matters reported for the year ended December 31, 2008:

Finding 08-01 Completion of Audit Report

Condition

The audit report was not completed and forwarded to the New Mexico State Auditor in a timely manner. The report was delivered on June 15, 2009.

Criteria

As per SAO 2.2.2.9, A (4), the New Mexico State Audit contract calls for this audit report to be delivered by May 1, 2009.

Cause

Additional time was needed by the auditor to assemble the necessary financial information.

Effect

Violation of the State Auditor's Rule. Audited financial information is not available for the management to use and distribute as necessary.

Recommendation

The management, along with the auditor, must implement procedures that would produce a timely audit.

Response

The Finance Officer shall be monitored on a monthly basis as per the reports and reconciliations. The fee accountant shall work diligently with the Finance Officer.

Current Condition

The required information was readily available for the performance of the audit. The report has been timely submitted in accordance with the audit contract. This issue was resolved.

**Falcon Ridge Limited Partnership**

PARTNER'S CERTIFICATION

December 31, 2009

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2009, and to the best of our knowledge and belief, the same are complete and accurate.

Date 5-26-10

By Thomas S. Hall

Housing Authority of the City of Las Cruces  
Federal ID No. 85-0163852

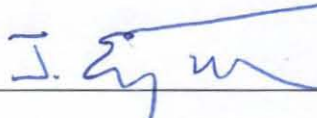
**Falcon Ridge Limited Partnership**

MANAGEMENT AGENT'S CERTIFICATION

December 31, 2009

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2009, and to the best of our knowledge and belief, the same are complete and accurate.

Date 27 MAY 2010

By 

Eric Fishburn  
Management Agent  
JL Gray Company  
1816 East Mojave Street  
Farmington, NM 87401  
Federal I.D. No. 85-0327246

## **Falcon Ridge Limited Partnership**

### INFORMATION ON AUDITOR

December 31, 2009

The following information regarding the lead auditor is submitted pursuant to paragraph 2-2 of Handbook IG 2000.04 REV 1, *Consolidated Audit Guide for Audits of HUD Programs*, issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General.

1. Lead Auditor - Name and Licensing

Kenneth C. Boothe  
State of Texas License No. 11767  
State of New Mexico License No. 10015

2. Lead Auditor Office Address and I.D. Number

Kenneth C. Boothe & Co., PC  
1001 E. FM 700  
Big Spring, Texas 79720  
Phone 432-263-1324  
Federal I.D. No. 75-1607295



**Falcon Ridge Limited Partnership**

**EXIT CONFERENCE**

**Year Ended December 31, 2009**

**EXIT CONFERENCE**

An exit conference was held on April 22, 2010, which was attended by the following:

**Housing Authority Administration**

Thomas Hassell	Executive Director
Robbie Levey	Deputy Director
Sharon Hansen	Accountant

**Kenneth C. Boothe & Co., PC**

Kenneth Boothe	Owner
----------------	-------

**Management Agent**

Bobby Griffith	Chief Financial Officer
----------------	-------------------------

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditors, Kenneth C. Boothe & Co., PC. However, the contents of the financial statements remain the responsibility of management.