

Falcon Ridge Limited Partnership

Financial Statements

Years Ended December 31, 2011 and 2010

And Supplementary Information

Year Ended December 31, 2011

Falcon Ridge Limited Partnership

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INDEPENDENT AUDITOR'S REPORT

To the Partners of

Falcon Ridge Limited Partnership
Hatch, New Mexico

We have audited the accompanying balance sheets of Falcon Ridge Limited Partnership, as of December 31, 2011 and 2010, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Falcon Ridge Limited Partnership as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years 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 25, 2012, on our consideration of Falcon Ridge Limited 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 internal control over financial reporting. In accordance with *Government Auditing Standards*, we have also issued an opinion dated April 25, 2012 on Falcon Ridge Limited 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 financial statements as a whole. The accompanying supplemental information shown on Pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script, appearing to read "Kenneth C. Boothe, P.C.", is written in dark ink.

Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Falcon Ridge Limited Partnership

Balance Sheets

December 31, 2011 and 2010

ASSETS

	<u>12/31/2011</u>	<u>12/31/2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 53,295	\$ 35,280
Cash Contractor Retainage	0	330,832
Cash Supervised by RD	0	382,619
Accounts Receivable - Tenants	1,868	412
Accounts Receivable - Rural Development	25,342	4,160
Accounts Receivable - Interest Subsidy	10,058	10,058
Prepaid Expenses	6,918	8,352
Total Current Assets	<u>97,481</u>	<u>771,713</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	31,892	2,870
Real Estate Tax & Insurance	48,064	0
Other Escrows	39,960	0
Replacement Reserve	237,253	236,669
Operating & Operating Deficit Reserve	200,881	200,779
Lease Up Reserve	25,000	24,911
Developer Fee Escrow	276,837	0
Total Restricted Deposits & Funded Reserves	<u>859,887</u>	<u>465,229</u>
Property & Equipment:		
Land	106,160	106,160
Buildings	8,299,868	8,299,868
Site Improvements	588,759	588,759
Furnishings	293,363	293,363
Accumulated Depreciation	(310,649)	(44,378)
Total Property & Equipment	<u>8,977,501</u>	<u>9,243,772</u>
Other Assets:		
Deferred Finance Cost, net of amortization	340,189	365,190
Deferred Tax Credit Fees, net of amortization	67,821	72,754
Total Other Assets	<u>408,010</u>	<u>437,944</u>
Total Assets	<u>\$ 10,342,879</u>	<u>\$ 10,918,658</u>

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

Falcon Ridge Limited Partnership

Balance Sheets

December 31, 2011 and 2010

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2011</u>	<u>12/31/2010</u>
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	\$ 30,272	\$ 17,741
Accounts Payable	5,371	8,420
Accrued Interest	15,684	15,810
Accrued Expenses	14,014	11,421
Construction Loan	0	1,332,010
Contractor Retainage	0	329,827
Construction Payables	0	190,240
Total Current Liabilities	<u>65,341</u>	<u>1,905,469</u>
 Deposits & Prepaid Liabilities:		
Tenant Security Deposits	31,090	2,370
Prepaid Tenant Fees	549	8
Total Deposits & Prepaid Liabilities	<u>31,639</u>	<u>2,378</u>
 Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	3,527,186	2,225,448
TCEP Funds	0	6,278,467
Deferred Development Fees	276,836	830,510
Total Long-Term Liabilities	<u>3,804,022</u>	<u>9,334,425</u>
Total Liabilities	<u>3,901,002</u>	<u>11,242,272</u>
 Partners' Equity (Deficit)		
Partners' Equity (Deficit)	6,448,136	(317,355)
Syndication Costs	(6,259)	(6,259)
Total Equity	<u>6,441,877</u>	<u>(323,614)</u>
Total Liabilities & Partners' Equity	<u>\$ 10,342,879</u>	<u>\$ 10,918,658</u>

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

Falcon Ridge Limited Partnership
Statements of Operations
For the Years Ended December 31, 2011 and 2010

	12/31/2011	12/31/2010
Rental Income:		
Rental Income - Rental Assistance	\$ 357,279	\$ 4,068
Rental Income - Tenant Portion	185,801	80,612
Potential Rental Income	543,080	84,680
Less: Vacancies	(81,557)	(75,524)
Less: Concessions	(771)	0
Total Rental Income	460,752	9,156
 Other Income:		
Interest Income	1,979	1,176
Laundry & Vending	1,971	0
Tenant Charges	4,848	1,350
Interest Subsidy Income	120,699	125,622
Miscellaneous Income	179	577
Total Other Income	129,676	128,725
Total Income	590,428	137,881
 Operating Expenses:		
Administrative	116,294	28,879
Utilities	25,697	6,233
Maintenance	51,931	3,541
Taxes & Insurance	74,942	11,600
Financial Expense	259,978	347,806
Total Cost of Operations	528,842	398,059
Net Income/(Loss) from Operations	61,586	(260,178)
 Non-Operating Income & (Expenses):		
Organizational Costs	0	(3,143)
Depreciation Expense	(266,271)	(44,378)
Amortization Expense	(29,934)	(7,423)
Total Non-Operating Income & (Expenses)	(296,205)	(54,944)
Net Income/(Loss)	(234,619)	(315,122)

*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, 2011 and 2010

	Total
Partners' Equity (Deficit), December 31, 2009	\$ (2,233)
Net Income/(Loss): 12/31/2010	(315,122)
Partners' Capital Contributions	0
Partners' Distributions	0
Partners' Equity (Deficit), December 31, 2010	\$ (317,355)
Net Income/(Loss): 12/31/2011	(234,619)
Partners' Capital Contributions	24,036
TCEP - Contributed Capital	6,976,074
Partners' Distributions	0
Partners' Equity (Deficit), December 31, 2011	\$ 6,448,136

*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, 2011 and 2010
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows From Operating Activities:	<u>12/31/2011</u>	<u>12/31/2010</u>
Revenue:		
Rental Receipts	\$ 102,559	\$ 4,684
Rental Income - Rental Assistance	336,097	(92)
Other Income	129,676	118,667
Total Receipts	<u>568,332</u>	<u>123,259</u>
Expenses:		
Administrative	(112,640)	(26,602)
Utilities	(28,954)	(231)
Maintenance	(51,174)	(2,947)
Taxes & Insurance	(75,120)	(11,422)
Financial Expense	(260,104)	(331,996)
Tenant Security Deposits	(302)	(500)
Organizational Costs	0	(3,143)
Total Disbursements	<u>(528,294)</u>	<u>(376,841)</u>
Net Cash from Operating Activities:	<u>40,038</u>	<u>(253,582)</u>
Cash Flows From Investing Activities:		
Property & Equipment	0	(6,861,010)
Replacement Reserve	(584)	(1,095)
Real Estate Tax & Insurance	(48,064)	0
Other Escrows	(39,960)	0
Deferred Finance Cost Paid	0	(371,380)
Deferred Tax Credit Fees	0	(73,987)
Operating & Operating Deficit Reserve	(102)	(139)
Lease Up Reserve	(89)	89
Developer Fee Escrow	(276,837)	0
Net Cash from Investing Activities:	<u>(365,636)</u>	<u>(7,307,522)</u>
Cash Flows From Financing Activities:		
Construction Loan	(1,332,010)	1,100,615
Lancaster Pollard Loan Proceeds	1,332,000	0
TCEP Funds	(6,278,467)	5,524,885
Deferred Development Fees Paid	(553,674)	0
Rural Development Loan Principal Payments	(17,730)	(10,876)
Syndication Costs	0	(6,259)
Contractor Retainage	(329,827)	329,827
Construction Payables	(190,240)	190,240
Partners' Capital Contributions	24,036	0
TCEP Equity	6,976,074	0
Net Cash from Financing Activities:	<u>(369,838)</u>	<u>7,128,432</u>
Increase (Decrease) In Cash	<u>(695,436)</u>	<u>(432,672)</u>
Cash at Beginning of Period	<u>748,731</u>	<u>1,181,403</u>
Cash at End of Period	<u><u>\$ 53,295</u></u>	<u><u>\$ 748,731</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, 2011 and 2010
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2011	12/31/2010
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (234,619)	\$ (315,122)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	266,271	44,378
Amortization Expense	29,934	7,423
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	(1,456)	(412)
Accounts Receivable - Rural Development	(21,182)	(4,160)
Accounts Receivable - Interest Subsidy	0	(10,058)
Prepaid Expenses	1,434	(8,352)
Tenant Security Deposits	(29,022)	(2,870)
Increase (Decrease) In Liabilities		
Accounts Payable	(3,051)	5,982
Accrued Interest	(126)	15,810
Accrued Expenses	2,593	11,421
Tenant Security Deposits	28,720	2,370
Prepaid Tenant Fees	541	8
Net Cash from Operating Activities	\$ 40,037	\$ (253,582)
<u>Supplemental Disclosures:</u>		
Interest Paid	\$ 135,828	\$ 216,318

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE A - ORGANIZATION

Falcon Ridge Limited Partnership was organized in 2007 as a Limited Partnership to develop, construct, own, maintain, and operate a 72-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Hatch, New Mexico, and is currently known as Falcon Ridge Apartments. The project property assumed loans regulated under Sections 515(b) and 521 of the Housing Act of 1949, as amended, which provides for interest subsidies and is regulated by the USDA Rural Development. In addition the Partnership obtained a loan guarantee and interest credit subsidy under the Guaranteed Rural Rental Housing Section 538 Program which is also regulated by the USDA Rural Development. The major activities of the Partnership are governed by the Partnership Agreement, USDA Rural Development (RD), and the Internal Revenue Service Code Section 42.

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 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 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 Partners. The Partnership has hired JL Gray Company, an affiliate of the General and Limited Partners', 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 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 (HACL) is the sole member of the General Partner of the Partnership. The Partnership has no component units.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Basis of Accounting

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

Cash and Cash Equivalents

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

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account. This account was funded in an amount greater than the security deposit liability as of December 31, 2011 and 2010.

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 reserve method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

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.

	Estimated Life
Buildings	40
Site Improvements	20
Furnishings	10

The Partnership reviews its investment 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 flow expected to be generated by the rental property including the Low Income Housing Tax Credits 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 2011 or 2010.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income passes through to, and is reportable by, the Partners individually.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 revenues 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.

Reclassifications

Certain items in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Concentrations of Risk

The Partnership deposits cash in financial institutions. At time, 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.

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2011 and 2010:

General Partner:

Falcon Ridge LLC to receive Net Income at 100.00%.

Limited Partner:

JLG Properties, LLC to receive Net Loss at 100.00%.

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

The General Partner made a contribution as of \$24,036. There have been no contributions from the Limited Partner as of December 31, 2011

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE D - LONG-TERM DEBT

	<u>12/31/2011</u>	<u>12/31/2010</u>
<p>The Project is financed with a 40-year mortgage payable dated December, 2011, to Lancaster Pollard Mortgage Company in the original amount of \$1,332,000, with an interest rate of 4.58%. The loan is under the USDA Section 538 Guaranteed Rural Rental Housing Program and has been awarded an interest credit by USDA to reduce the effective interest rate on the loan to 2.08% per annum. The mortgage is payable in monthly installments of \$6,061 including interest through the maturity date. The unpaid principal of the loan is due December 1, 2051. There was no accrued interest as of December 31, 2011. Interest expensed on this loan was \$1,864 as of December 31, 2011.</p>	1,332,000	0
<p>On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principal balance of the Rural Development Section 515 loans originally issued to Los Caballos I, Los Caballos II and Los Caballos III. The amount assumed and related interest and maturity dates were \$726,506 at 9.00% matures February 1, 2037; \$690,892 at 8.75% matures August 1, 2041; \$839,902 at 7.75% matures July 1, 2043. The assumed loans are payable in monthly installments of \$7,173, net of interest subsidy. The accrued interest was \$15,684 and \$15,810 as of December 31, 2011 and 2010, respectively. Interest expensed on these loans was \$196,095 and \$322,550 as of December 31, 2011 and 2010, respectively.</p>	2,225,459	2,243,188
<p>Total</p>	3,557,459	2,243,188
<p>Less: Current Portion</p>	30,272	17,741
<p>Long-Term Notes Payable</p>	\$ 3,527,187	\$ 2,225,447

Interest expense related to the rehabilitation and new construction of the property was paid and capitalized into the basis of the assets in the amount of \$78,548 during the period ended December 31, 2010. The amount is included in the Interest Paid disclosure on the Statement of Cash Flows.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE D - LONG-TERM DEBT (continued)

Aggregate maturities of the loans are approximated as follows:

	<u>Principal</u>	<u>Interest*</u>
December 31, 2012	\$ 30,272	\$ 179,083
2013	33,516	245,998
2014	35,965	243,549
2015	38,607	240,907
2016	41,459	238,055
2017-2021	258,721	1,138,849
2022-2026	373,553	1,024,017
2027-2031	543,875	853,696
2032-2036	797,975	599,595
2037-2041	716,044	307,593
2042-2046	362,976	112,356
2047-2051	324,496	39,182
Total	<u>\$ 3,557,459</u>	<u>\$ 5,222,880</u>

*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 (See Interest Credit and Rental Assistance Agreement Footnote). In addition the property also receives interest subsidy on the Section 538 loan. Interest subsidy payments of \$120,699 and \$125,622 were treated as a reduction of interest expense during 2011 and 2010, respectively.

The apartment project is pledged as collateral for the mortgage. The mortgage loan is nonrecourse debt secured by deeds of trust on the related real estate.

NOTE E - CONSTRUCTION LOAN

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 was April 4, 2009. The variable interest rate, based on the Wall Street Journal Prime Lending Rate (4.5% - 18%). The index was 3.25% 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 18, 2009, a Modification of Mortgage was executed between the Partnership and Citizens Bank of Las Cruces. The principal 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. The amounts due related to the construction loan were \$0 and \$1,332,010 as of December 31, 2011 and 2010, respectively.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE F - RESERVE FUNDS

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were \$276,837 and \$0 as of December 31, 2011 and 2010, respectively.

Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve at the time of the fourth installment to fund major repairs or replacements of the Project Property. The Partnership shall make deposits into the Replacement Reserve fund in the amount of \$25 per year for each residential unit in the Project, totaling \$1,800 annually. The Replacement Reserve balance was \$237,253 and \$236,669 as of December 31, 2011 and 2010, respectively.

Operating & Operating Deficit Reserve

In accordance with the Partnership Agreement, the Partnership funded an Operating Reserve fund in the amount of \$200,640. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was \$200,881 and \$200,779 as of December 31, 2011 and 2010, 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. The TCEP agreement states that the funds are required to be held by the New Mexico Mortgage Finance Authority (NMMFA) and only to be distributed by their approval. However, NMMFA did not retain these funds from the loan draws. When the project reaches stabilization, any remaining funds shall be applied first to pay any monies owed to NMMFA, then to satisfy and other reserve requirement of the project, then to the owners or any lender with a continuing loan on the project. The Lease Up Reserve balance was \$25,000 and \$24,911 as of December 31, 2011 and 2010, 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; and
5. The owner had 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, 2011 and 2010

NOTE G - TCEP FUNDS

On December 18, 2009, the Partnership executed a \$6,976,074 TCEP 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. The amount subject to recapture shall be reduced by 6.67% of the original loan amount for each compliant year. In the event there is no uncured Recapture Event of Default at the time of termination, this TCEP Mortgage Note shall be forgiven. Due to the fact that the repayment of the loan is considered less than remote, the liability was reclassified to a capital contribution as of December 31, 2011.

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.

Interest Credit and Rental Assistance Agreement

Under an agreement with Rural Developments 515 loans, a mortgage subsidy is provided which reduces the effective interest rate on the mortgage to 1% over the life of the Loan Agreement. Rural Development may terminate the agreement if it determines that no subsidy is necessary or if the Partnership is determined to be in violation of the Loan Agreement(s) or Rural Development rules or regulations.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE H - COMMITMENTS AND CONTINGENCIES *(continued)*

Rental Assistance Agreement

The Partnership has entered into a Rental Assistance Agreement with Rural Development providing rental assistance for 67 units. The Agreement provides for a maximum rental assistance commitment that expires automatically upon total disbursement, but is renewable under contract with Rural Development pending congressional approval of budget authority.

Interest Credit Agreement

Under the Guaranteed Rural Rental Housing Program the Partnership receives interest credit subsidy. The program is regulated by the USDA Rural Development Section 538.

NOTE I - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

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 is equal to 5.5% of gross rental collections. Property Management Fees expensed were \$35,558 and \$2,024 during 2011 and 2010, respectively. The amounts due to the Management Agent related to Management Fees were \$49 and \$566 as of December 31, 2011 and 2010, respectively.

Development Fee

The Partnership has incurred a Development Fee of \$1,107,346 due to JL Gray Company and the Housing Authority of the City of Las Cruces, rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2011, \$830,510 of this fee has been paid. The amounts due related to Development Fees were \$276,836 and \$830,510 as of December 31, 2011 and 2010, respectively.

Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received rental income of \$1,971 and \$0 for the years ended December 31, 2011 and 2010, respectively.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2011 and 2010

NOTE I - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (continued)

Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. For example, the properties do not have access to credit cards in order to directly pay necessary items such as seminars and motels. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. The reimbursement is considered both reasonable and immaterial. The amounts due to the Management Agent related to reimbursed expenses are considered negligible as of December 31, 2011 and 2010, respectively.

NOTE J - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Falcon Ridge 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 directives, rules, and regulations are subject to change by federal and state agencies. 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.

NOTE K - ACCRUED LIABILITIES

The accrued liabilities on the balance sheet contain the following:

Accrued Payroll Expenses	\$ 1,314
Accrued Audit Fees	12,700
Total Accrued Liabilities	<u>\$ 14,014</u>

NOTE L - SUBSEQUENT EVENTS

The Project have evaluated subsequent events through April 25, 2012 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Falcon Ridge Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2011

Falcon Ridge Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2011

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2011	\$ 236,669
Total Monthly Deposit	0
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	584
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2011	<u><u>\$ 237,253</u></u>

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2011	\$ 200,779
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	102
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2011	<u><u>\$ 200,881</u></u>

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 1/1/2011	Additions	Deductions	Balance 12/31/2011
Land	\$ 106,160	\$ 0	\$ 0	\$ 106,160
Buildings	8,299,868	0	0	8,299,868
Site Improvements/Building Equipment	588,759	0	0	588,759
Furnishings	293,363	0	0	293,363
Totals	<u>\$ 9,288,150</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,288,150</u>
Accumulated Depreciation	<u>\$ 44,378</u>	<u>\$ 266,271</u>	<u>\$ 0</u>	<u>\$ 310,649</u>
Net Book Value	<u><u>\$ 9,243,772</u></u>			<u><u>\$ 8,977,501</u></u>

Falcon Ridge Limited Partnership
Computation of Surplus Cash, Distributions and Residual Receipts
Year Ending December 31, 2011

	12/31/2011
Cash:	
Cash	85,187
Other - Interest Subsidy	10,058
Total Cash	\$ 95,245
 Current Obligations:	
Accrued Mortgage Interest Payable	15,684
Accounts Payable - 30 Days	5,371
Accrued Expenses (not escrowed)	14,014
Prepaid Revenue	549
Tenant Security Deposits Liability	31,090
Total Current Obligations	66,708
Surplus Cash (Deficiency)	\$ 28,537
 Amount Available for Distribution During Next Fiscal Period:	
Surplus Cash	\$ 28,537

Kenneth C. Boothe, P.C.

Certified Public Accountant

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 the Partners of
Falcon Ridge Limited Partnership
Hatch, New Mexico

We have audited the financial statements of Falcon Ridge Limited Partnership as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 25, 2012. 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, 2011, and have issued our report thereon dated April 25, 2012.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the 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 audit 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 on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control over financial reporting and internal control over compliance.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct (1) misstatements of the entity's financial statements, or (2) noncompliance with 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 use of management, others within the entity, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Kenneth C. Boothe, P.C.", written in dark ink.

Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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 the Partners of
Falcon Ridge Limited Partnership
Hatch, New Mexico

We have audited Falcon Ridge Limited Partnership's compliance with the specific program requirements governing tenant application, eligibility, and recertification; units leased to extremely low-income families; tenant security deposits; management functions, fair housing and non-discrimination; unauthorized change of ownership/acquisition of liabilities; unauthorized transfer of beneficial interest; unauthorized loans of project funds; federal financial reports; cash receipts and disbursements; mortgage status; the replacement reserve; the residual receipts; distributions to owners; equity skimming; electronic submission verification; and excess income that are applicable to each of its major HUD-assisted programs for the year ended December 31, 2011. Compliance with those requirements is the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the U.S. Department of Housing and Urban Development, 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 the Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Partnership's compliance with those requirements.

The results of our audit procedures disclosed no instances or other matters that are required to be reported under *Government Auditing Standards*.

In our opinion, Falcon Ridge Limited Partnership complied, in all material respects, with the requirements referred to above that are applicable to each of its major HUD-assisted programs for the year ended December 31, 2011.

This report is intended solely for the information and use of management, others within the entity, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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

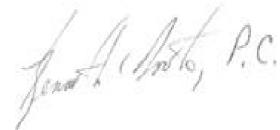
To the Partners of
Falcon Ridge Limited Partnership
Hatch, New Mexico

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, 2011.

Our procedures were limited to the applicable compliance requirement described by 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 use of management, others within the entity, the State Auditor, the New Mexico Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Falcon Ridge Limited Partnership
Schedule of Findings and Responses
December 31, 2011

Current Year Audit Findings: December 31, 2011

None Noted

Falcon Ridge Limited Partnership
Auditor's Comments on Audit Resolution
Matters Relating to HUD Programs
December 31, 2011

Prior Year Audit Findings: December 31, 2010

Matters reported for the year ended December 31, 2010:

Finding 2010-01 Completion of Audit Report

Condition: The audit report was not completed and forwarded to the New Mexico State auditor in a timely manner.

Recommendation: The owners and management, along with the auditor, must implement procedures and reviews that would facilitate in the production of a timely and materially accurate audit.

Current Condition: The prior year audit report was delivered on October 7, 2011 to the New Mexico State auditor.

Falcon Ridge Limited Partnership

Mortgagor's Certification

December 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2011, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed: Robbie R. Levey Date: 5/29/12
Robbie Levey
Housing Authority of the City of Las Cruces

Auditee Information:

505-325-6515
April 25, 2012
Falcon Ridge Limited Partnership
Hatch
New Mexico
87937
Robbie Levey
Housing Authority of the City of Las Cruces

Falcon Ridge Limited Partnership
Management Agent's Certification
December 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2011, and to the best of our knowledge and belief, the same are complete and accurate.

Signed: _____ Date: _____

Name: Bobby Griffith

Title: CFO - Senior Executive

Management
Company: JL Gray Company

Address: 1816 East Mojave St.
Farmington, NM 87401

Federal I.D.
Number: 85-0327246

Falcon Ridge Limited Partnership

Information on Auditor

December 31, 2011

Auditor's Transmittal Letter

Audit Firm: Kenneth C. Boothe, P.C.
State of Texas License No. 11767
State of New Mexico License No. 10015

Lead Auditor: Kenneth C. Boothe
Certified Public Accountant

Audit Firm Address: 1001 East Farm Road 700
Big Spring, Texas 79720
Phone: 432-263-1324
Fax: 432-263-2124

Federal I.D. Number: 75-1607295

Auditor's Report Date: April 25, 2012

Contacts: kenneth@boothevassar.com

Falcon Ridge Limited Partnership

Exit Conference

December 31, 2011

EXIT CONFERENCE

An exit conference was held on April 25, 2012, which was attended by the following:

Housing Authority Administration

Robbie Levey
Sharon Hansen

Interim Executive Director
Accountant

Kenneth C. Boothe, P.C.

Kenneth Boothe

Lead Auditor, CPA

Management Agent

Bobby Griffith

Chief Financial Officer

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Kenneth C. Boothe, P.C. However, the contents of the financial statements remain the responsibility of management.