

**Stone Mountain Place Limited Partnership**

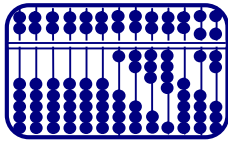
**Financial Statements  
Years Ending December 31, 2008 and 2007**

**And Supplementary Information  
Year Ending December 31, 2008**

# Stone Mountain Place Limited Partnership

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MARCUS,  
FAIRALL,  
BRISTOL + CO., L.L.P.

## INDEPENDENT AUDITORS' REPORT

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Stone Mountain Place Limited Partnership

We have audited the accompanying balance sheet of Stone Mountain Place Limited Partnership (Partnership) as of December 31, 2008 and the related statement of operations, change in partners' equity (deficit), and cash flows for the year then ended. The financial statements of Stone Mountain Place Limited Partnership as of December 31, 2007 were audited by other auditors whose report dated September 15, 2008, expressed an unqualified opinion. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stone Mountain Place Limited Partnership as of December 31, 2008, 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 May 1, 2009, 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 May 1, 2009, 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.

Marcus, Fairall, Bristol + Co., LLP

May 1, 2009  
El Paso, Texas

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**Stone Mountain Place Limited Partnership**  
**Balance Sheets**  
**December 31, 2008 and 2007**

**ASSETS**

	<u>12/31/2008</u>	<u>12/31/2007</u>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 42,596	\$ 156,664
Accounts Receivable - Tenants	3,557	4,093
Prepaid Expenses	19,887	13,868
<b>Total Current Assets</b>	<u>66,040</u>	<u>174,625</u>
<b>Deposits Held In Trust - Funded:</b>		
Tenant Security Deposits Held in Trust	<u>34,776</u>	<u>35,312</u>
<b>Total Deposits Held In Trust</b>	<u>34,776</u>	<u>35,312</u>
<b>Restricted Deposits &amp; Funded Reserves:</b>		
Real Estate Tax & Insurance	10,264	0
Real Estate Tax & Insurance Escrows	19,399	0
Operating Reserve	206,929	0
Replacement Reserve Escrow	10,529	0
Miscellaneous Escrows	6,176	0
(MIP, Loan Guaranty, Operating Deficit Surplus, Surplus NMMF)		
<b>Total Restricted Deposits &amp; Funded Reserves</b>	<u>253,297</u>	<u>0</u>
<b>Property &amp; Equipment:</b>		
Land	699,742	663,800
Buildings	7,975,464	7,912,529
Site Improvements	651,194	644,824
Furnishings	254,959	254,959
<b>Total Fixed Assets</b>	<u>9,581,359</u>	<u>9,476,112</u>
Less: Accumulated Depreciation	<u>(494,123)</u>	<u>(215,135)</u>
<b>Net Fixed Assets</b>	<u>9,087,236</u>	<u>9,260,977</u>
<b>Other Assets:</b>		
Finance Cost (Net of Amortization)	115,425	71,937
Less: Accumulated Amortization	<u>(2,886)</u>	<u>(4,000)</u>
<b>Total Other Assets</b>	<u>112,539</u>	<u>67,937</u>
<b>Total Assets</b>	<u>\$ 9,553,888</u>	<u>\$ 9,538,851</u>

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

**Stone Mountain Place Limited Partnership**  
**Balance Sheets**  
**December 31, 2008 and 2007**

**LIABILITIES & PARTNERS' EQUITY**

	<u>12/31/2008</u>	<u>12/31/2007</u>
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Current Maturities of Long-Term Debt	\$ 14,258	\$ 0
Construction Accounts Payable	0	49,230
Accounts Payable	10,111	883
Management Fees Payable	559	598
Accrued Interest	12,037	14,373
Accrued Property Taxes	32,544	7,000
Accrued Liabilities	11,250	11,793
Developer Fees Payable	516,779	655,247
<b>Total Current Liabilities</b>	<u>597,538</u>	<u>739,124</u>
<b>Deposits:</b>		
Tenant Security Deposit	34,276	34,921
<b>Total Deposits</b>	<u>34,276</u>	<u>34,921</u>
<b>Long-Term Liabilities:</b>		
Construction Loan Payable	0	2,300,000
NMMFA Loan Payable (net of current maturities)	2,285,053	0
HOME Loan Payable	419,116	419,116
<b>Total Long-Term Liabilities</b>	<u>2,704,169</u>	<u>2,719,116</u>
<b>Total Liabilities</b>	3,335,983	3,493,161
<b>Partners' Equity (Deficit)</b>	<u>6,217,905</u>	<u>6,045,690</u>
<b>Total Liabilities &amp; Partners' Equity</b>	<u>\$ 9,553,888</u>	<u>\$ 9,538,851</u>

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part of these financial statements*

**Stone Mountain Place Limited Partnership**  
**Statements of Operations**  
**For the Years Ended December 31, 2008 and 2007**

	<b>12/31/2008</b>	<b>12/31/2007</b>
<b>Rental Income:</b>		
Rent Income - Tenant	\$ 385,652	\$ 238,883
Rent Income - PHA	92,401	32,197
<b>Rent Income - Gross Potential Rent</b>	<b>478,053</b>	<b>271,080</b>
Lease Excess	11,969	1,345
<b>Total Lease Excess</b>	<b>11,969</b>	<b>1,345</b>
Vacancies	(13,991)	(52,862)
Concessions	(9,691)	(662)
<b>Total Vacancies and Concessions</b>	<b>(23,682)</b>	<b>(53,524)</b>
<b>Total Rental Income</b>	<b>466,340</b>	<b>218,901</b>
<b>Other Income:</b>		
Interest Income	2,147	0
Laundry & Vending Income	1,151	8
Tenant Charges	21,418	5,161
Miscellaneous Income	2,238	0
<b>Total Other Income</b>	<b>26,954</b>	<b>5,169</b>
<b>Total Income</b>	<b>493,294</b>	<b>224,070</b>
<b>Operating Expenses:</b>		
Administrative	137,224	70,140
Utilities	38,885	10,781
Maintenance	62,685	25,599
Taxes and Insurance	92,691	24,496
Financial Expenses	71,087	85,466
<b>Total Cost Of Operations Before Depreciation</b>	<b>402,572</b>	<b>216,482</b>
<b>Net Income (Loss) Before Depreciation</b>	<b>90,722</b>	<b>7,588</b>
<b>Depreciation &amp; Amortization:</b>		
Depreciation	278,987	215,135
Amortization	2,886	4,000
<b>Total Depreciation Expense</b>	<b>281,873</b>	<b>219,135</b>
<b>Net Operating Income / (Loss)</b>	<b>(191,151)</b>	<b>(211,547)</b>
<b>Other Income (Expense):</b>		
Administrative Fees	7,105	0
<b>Total Other Income (Expense)</b>	<b>7,105</b>	<b>0</b>
<b>Net Income / (Loss)</b>	<b>\$ (198,256)</b>	<b>\$ (211,547)</b>

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**Stone Mountain Place Limited Partnership**  
**Statements of Changes in Partners' Equity (Deficit)**  
**For the Years Ended December 31, 2008 and 2007**

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
<b>Partners' Equity (Deficit), December 31, 2006</b>	\$ 3,615,547	0	3,615,547
Net Income (Loss): 12/31/2007	(211,547)	(21)	(211,526)
Partners' Capital Contributions	2,641,690	0	2,641,690
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
<b>Partners' Equity (Deficit), December 31, 2007</b>	\$ 6,045,690	(21)	6,045,711
Net Income (Loss): 12/31/2008	(198,256)	(20)	(198,236)
Partners' Capital Contributions	370,471	0	370,471
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
<b>Partners' Equity (Deficit), December 31, 2008</b>	\$ <u><u>6,217,905</u></u>	<u><u>(41)</u></u>	<u><u>6,217,946</u></u>

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**Stone Mountain Place Limited Partnership**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2008 and 2007**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2008</b>	<b>12/31/2007</b>
<b><u>CASH FLOW FROM OPERATING ACTIVITIES:</u></b>		
Rental Receipts	374,475	181,266
Cash Received from Housing Assistance Payments	92,401	32,197
Financial Revenue	2,147	0
Tenant Charges	22,569	5,169
Other Operating Receipts	2,238	1,345
Total Receipts	493,830	219,977
Administrative	(69,514)	(12,335)
Management Fees	(29,722)	(13,106)
Utilities	(38,885)	(10,734)
Operating and Maintenance	(43,086)	(10,916)
Salaries and Wages	(44,552)	(31,058)
Real Estate Taxes	(39,545)	(5,010)
Payroll Taxes	(4,389)	(2,838)
Property Insurance	(27,070)	(29,545)
Mortgage Insurance Premium	(3,063)	(3,063)
Miscellaneous Taxes and Insurance	(6,551)	(9,068)
Interest on Mortgage Note	(70,360)	(66,982)
Miscellaneous Financial Expense	(7,105)	(1,048)
Construction Accounts Payable	(49,230)	0
Tenant Security Deposits	(109)	(391)
Total Disbursements	(433,181)	(196,094)
Net Cash Provided by (Used In) Operating Activities	60,649	23,883
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Assets Placed in Service	0	(3,446,754)
Purchase Property and Equipment	(105,247)	0
Finance Costs	(47,487)	(71,937)
Operating Reserve - Deposits	(206,929)	0
Replacement Reserve - Deposits	(10,529)	0
Real Estate Tax & Insurance - Deposits	(29,663)	0
Miscellaneous Escrows	(6,176)	0
Net Cash Provided (Used by) Investing Activities:	(406,031)	(3,518,691)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Development Fees Paid	(138,468)	0
Proceeds from HOME Loan	0	114,116
Construction Loan Closed	(2,300,000)	0
Proceeds from NMMFA Loan	2,305,000	0
Principal Payments on Mortgage	(5,689)	0
Limited Partner Capital Contribution	370,471	3,331,755
Net Cash Provided (Used by) Financing Activities:	231,314	3,445,871
<b>Increase (Decrease) in Cash</b>	(114,068)	(48,937)
<b>Cash at Beginning of Year</b>	156,664	205,601
<b>CASH AT END OF YEAR</b>	\$ 42,596	\$ 156,664
<b><u>SUPPLEMENTAL DISCLOSURES:</u></b>		
Interest Paid	\$ 133,295	\$ 170,299

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



**Stone Mountain Place Limited Partnership**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2008 and 2007**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2008</b>	<b>12/31/2007</b>
<b><u>RECONCILIATION OF NET INCOME (LOSS) TO NET</u></b>		
<b><u>CASH PROVIDED BY OPERATING ACTIVITIES:</u></b>		
Net Income (Loss)	\$ (198,256)	\$ (211,547)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	278,987	215,135
Amortization	2,886	4,000
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	536	(4,093)
Prepaid Expenses	(6,019)	(13,868)
Tenant Security Deposits - Funded	(109)	(391)
Increase (Decrease) in Liabilities		
Accounts Payable	9,228	19,356
Construction Accounts Payable	(49,230)	0
Management Fees Payable	(39)	0
Accrued Interest	(2,336)	14,373
Accrued Liabilities	(543)	918
Accrued Property Taxes	25,544	0
Net Cash Provided (Used by) Operating Activities:	60,649	23,883

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

**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The 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 General Partner of the Partnership. The Partnership has no component units.

**Summary of significant accounting policies follows.**

**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.

**Tenant Receivable and Bad Debt Policy**

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

**Income Taxes**

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

**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Rental Property

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

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 including 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 2008 and 2007.

Estimates

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

Rental Income

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

Amortization

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

Reclassifications

Certain items in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

Collateralization of Deposits

The Partnership is a component unit of the Housing Authority of the City of Las Cruces (HACLC) and, as such, is not required to secure collateralization on cash deposits.

**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

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

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

General Partner	
<i>Stone Mountain Place, LLC</i>	0.01%
Limited Partner	
<i>TGIG Tax Credit Fund II, LLC</i>	99.99%
TOTAL	<u>100.00%</u>

Profit, losses, and Tax Credits generally are to be allocated to the Partners in accordance with their ownership interests.

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

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

**Partner Contributions**

The General Partner is to contribute \$10 for a .01% interest in the Partnership. The Limited Partner is to contribute, subject to certain Tax-Credit adjustment terms, \$6,689,469 for a 99.99% interest in the Partnership. As of December 31, 2008 and 2007, the Limited Partner had contributed a cumulative total of \$6,637,708 and \$6,267,237 respectively. Future Limited Partner capital contributions are contingent upon the achievement of certain financing, operating, and reporting milestones, as defined in the Partnership Agreement.

**NOTE C – RESERVE ACCOUNTS**

**Operating Reserve**

In accordance with the Partnership Agreement, the General Partner shall cause the Partnership to establish and maintain an Operating Reserve with a bank designated by the Lender in an amount not less than \$205,000. At the termination of the Compliance Period, the General Partner and the Limited Partner shall release the funds, if any, remaining in the Operating Reserve Account. The Operating Reserve Account had a balance of \$206,929 and \$0 as of December 31, 2008 and 2007, respectively.

**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

**NOTE C – RESERVE ACCOUNTS** *(continued)*

Replacement Reserve

In accordance with the Partnership Agreement, the General Partner shall cause the Partnership to establish and maintain a Replacement Reserve. The Account should be funded monthly at a rate of \$200 per dwelling unit per year, totaling \$16,800 per year. At the termination of the Compliance Period, the General Partner and the Limited Partner shall release the funds, if any, remaining in the Replacement Reserve Account. The Replacement Reserve Account had a balance of \$10,529 and \$0 as of December 31, 2008 and 2007, respectively.

	<u>Operating</u>		<u>Replacement</u>
Beginning Balance, January 1, 2008	\$ 0	\$	0
Deposits	205,000		10,500
Interest Earned (Net of Fees)	1,929		29
Withdrawals	0		0
Ending Balance, December 31, 2008	\$ 206,929	\$	10,529

**NOTE D – LONG-TERM DEBT**

At December 31, 2008 and 2007, notes payable consist of the following:

	2008	2007
On May 31, 2006 the Partnership executed a \$2,300,000 construction loan agreement (the “Construction Loan”) with Wachovia Bank; interest only monthly payments are due and accrue at a variable rate of LIBOR plus 2%; the loan matures May 31, 2008, is collateralized by the Project’s real property and is guaranteed by the General Partner and the Developer. As of December 31, 2008 this loan was paid in full.	\$ 0	\$ 2,300,000
On June 10, 2008, the Partnership executed a \$2,305,000 loan agreement bearing 6.1% interest with the New Mexico Mortgage Finance Authority; monthly payments of \$12,843 include principal and interest; the loan will mature in 40 years and secured by a first lien position on the Project.	2,299,311	0
On August 1, 2006, the Partnership executed a \$419,116 note payable to the Housing Authority of the City of Las Cruces, an affiliate of the General Partner; the 1% interest loan is payable in 180 monthly interest only payments of \$349 for the first fifteen years; in year sixteen the note will be payable in 360 monthly installments of \$1,348, principal and interest; the note matures 45 years from August 1, 2006 or at the sell or refinancing of the Project. The note is secured by the Project’s rental property and is subordinate to the first mortgage loan.	419,116	419,116
	2,718,427	2,719,116
Less: current portion	(14,258)	0
Long-term notes payable	\$ 2,704,169	\$ 2,719,116

**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

**NOTE D – LONG-TERM DEBT** *(continued)*

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

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

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

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

**Property Management Fee**

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the Project. The current year management fee expense is equal to 6% of the monthly gross rental income. Property Management Fees expensed were \$29,683 and \$13,106 during 2008 and 2007, respectively. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. The amounts due to the Management Agent related to Property Management Fees were \$559 and \$598 as of December 31, 2008 and 2007, respectively.

**Asset Management Fee**

In accordance with the Partnership Agreement, the Limited Partner is entitled to receive an Asset Management Fee in the annual cumulative amount of \$3,500, commencing in 2007. The fee will increase by three percent (3%) each year. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. Asset Management Fees of \$7,105 and \$0 were accrued during 2008 and 2007, respectively.

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

**NOTE E - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES** *(continued)*

Incentive Management Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the General Partner a noncumulative Incentive Management Fee. The fee shall equal 90% of cash flow remaining after the priorities set forth in the Partnership Agreement. In no event, shall the Incentive Management Fee and the Property Management Fee exceed, in the aggregate, 12% of the gross revenues of the Project in any fiscal year. There were no Incentive Management Fees accrued during 2008 and 2007, respectively.

Development Fee

The Partnership entered into a Development Services Agreement with the Housing Authority of the City of Las Cruces (Owner), an affiliate of the General Partner, and JL Gray Company, Inc. (Developer). The Development Fee is payable 30% to the Owner and 70% to the Developer. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. The amounts due to the Owner related to Development Fees were \$256,574 and \$256,574 as of December 31, 2008 and 2007, respectively. The amounts due to the Developer related to Development Fees were \$260,205 and \$398,673 as of December 31, 2008 and 2007, respectively.

Reimbursed Expenses

The Management Agent 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. There were no amounts due to the Management Agent related to the reimbursed expenses as of December 31, 2008 and 2007, respectively.

Schedule of Related Party Transactions

Payments in the years ended December 31, 2008 and 2007, and related balances at December 31, 2008 and 2007, with the above related parties and/or affiliates were as follows:

	2008		2007	
	PAID	PAYABLE	PAID	PAYABLE
Note Payable - HACLC	\$ 0	\$419,116	\$ 0	\$ 0
Deferred Development Fees - HACLC	0	256,574	0	0

**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

**NOTE F – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

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

**NOTE G – COMMITMENTS AND CONTINGENCIES**

Guaranty of Tax Credits

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

Operating Deficit and Completion Guarantees

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

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

Regulatory Agreement Provisions

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

Housing Tax Credits

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



**Stone Mountain Place Limited Partnership**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008 and 2007**

**NOTE G – COMMITMENTS AND CONTINGENCIES (continued)**

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

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

**Floating HOME Assisted Units**

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

**NOTE H – TAXABLE INCOME**

A reconciliation of financial statement net earnings (loss) to taxable income (loss) of the Partnership for the year ended December 31, 2008 is as follows:

Financial statement net earnings (loss)	\$ (198,256)
Adjustments	(1,929)
Timing difference of Depreciation	<u>(129,990)</u>
Taxable income (loss) as shown on tax return	\$ <u><u>(330,175)</u></u>

**NOTE I – ACCRUED LIABILITIES**

The accrued liabilities on the balance sheet contain the following:

Miscellaneous Accrued Expenses	\$ 3,306
Accrued - Audit Fees	7,290
Prepaid Tenants Rents	<u>654</u>
Total Accrued Liabilities	\$ <u><u>11,250</u></u>

**Stone Mountain Place Limited Partnership  
Supplementary Information Required by HUD  
Year Ending December 31, 2008**

**Stone Mountain Place Limited Partnership**  
**SUPPLEMENTARY INFORMATION REQUIRED BY HUD**  
**Year Ending December 31, 2008**

1. DELINQUENT TENANT ACCOUNTS RECEIVABLE

	NUMBER OF <u>TENANTS</u>	AMOUNT <u>PAST DUE</u>
0-30 Days	9	\$ 3,620
31-60 Days	0	0
61-90 Days	0	0
Over 90 Days	0	0
Total		\$ 3,620

2. MORTGAGE ESCROW REQUIREMENTS

Estimated amounts required as of December 31, 2008, for future payment of:

Property Taxes	\$	8,136
Property Insurance		1,754
Mortgage Insurance/Loan Guaranty		255
Flood Insurance/Miscellaneous Insurance		82
Total Estimated Future Funds Required	\$	10,227
Total Confirmed by Bank	\$	10,264
Total Confirmed by Mortgagee		24,977
Amount of Deposit in Excess (Deficit) of Estimated Requirements	\$	25,014

3. TENANT SECURITY DEPOSITS

Tenant Security deposits are held in a separate interest bearing bank account in the name of the Project. See Item 6 below.

4. RESERVE FOR REPLACEMENTS

In accordance with the provisions of the Loan Agreement, restricted cash is held by New Mexico Mortgage Finance Authority, to be used for replacement of property with the approval of MFA as follows:

Balance, January 1, 2008	\$	0
Deposits - \$200 per unit per year		10,500
Interest Earned on Reserve Account (Net of Service Fees)		29
Withdrawals As Approved by MFA		0
None Noted		0
Balance, December 31, 2008, confirmed by Mortgagee	\$	10,529

5. RESIDUAL RECEIPTS ACCOUNT

None.



**Stone Mountain Place Limited Partnership**  
**SUPPLEMENTARY INFORMATION REQUIRED BY HUD**  
**Year Ending December 31, 2008**

10. 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, 2008, is as follows:

<u>COMPANY NAME</u>	<u>TYPE OF SERVICE</u>	<u>AMOUNT RECEIVED</u>
JL Gray Company	Management Fees	\$ 29,722
	Administrative Reimbursements	151
	Technical Support	963
	Administrative Management Fee	0
General Partner		

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

- a) Note Payable-New Mexico Mortgage Finance Authority is a note dated June 10, 2008, which is payable to NMMFA, at 6.1% interest.
  
- b) Note Payable-Housing Authority of the City of Las Cruces is a note dated August 1, 2006, which is payable to an affiliate of the General Partner, at 1% interest. The note is payable in interest only payments for the first fifteen years, and in year sixteen the note will be payable in monthly installments of principal plus interest. The note matures 45 years from the date of origination or at the sell or refinancing of the Project.

12. CHANGES IN PARTNERSHIP INTERESTS

There were no partner changes for the year ended December 31, 2008.

13. COMMENTS ON BALANCE SHEET ITEMS

None.

14. AUTHORIZED / UNAUTHORIZED DISTRIBUTIONS TO PARTNERS

None.

15. COMPENSATION PAID TO PARTNERS

None.

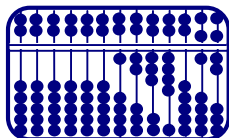
16. OTHER COMMENTS

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	
Stone Mountain Place Limited Partnership		December 31, 2008			
<b>Part A - Compute Surplus Cash</b>					
<b>Cash</b>					
1.	Cash (Accounts 1110,1120,1191, 1192)	\$	77,372		
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)			\$	77,372	
<b>Current Obligations</b>					
4.	Accrued mortgage interest payable	\$	12,037		
5.	Delinquent mortgage principal payments	\$	0		
6.	Delinquent deposits to reserve for replacements	\$	0		
7.	Accounts payable (due within 30 days)	\$	10,670		
8.	Loans and notes payable (due within 30 days)	\$	0		
9.	Deficient Tax Insurance or MIP Escrow deposits	\$	0		
10.	Accrued expenses (not escrowed)	\$	10,596		
11.	Prepaid rents (Account 2210)	\$	654		
12.	Tenant security deposits liability (Account 2191)	\$	34,276		
13.	Other (Describe)	Accounts Payable - PHA	63	\$	63
(b) Less Total Current Obligations (Add Lines 4 through 13)			\$	68,296	
(c) Surplus Cash (Deficiency)(Line (a) minus Line (b))			\$	9,076	
<b>Part B - Compute Distributions to Owners and Required Deposit to Residual Receipts</b>					
1.	Surplus Cash	\$	9,076		
<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		



MARCUS,  
FAIRALL,  
BRISTOL + CO., L.L.P.

## INDEPENDENT AUDITORS' COMBINED REPORT ON THE INTERNAL CONTROLS

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Stone Mountain Place Limited Partnership

We have audited the financial statements of Stone Mountain Place Limited Partnership, as of and for the year ended December 31, 2008, and have issued our report thereon dated May 1, 2009. We have also audited the Partnership's compliance with requirements applicable to major HUD-assisted programs and have issued our report thereon dated May 1, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the U.S. Department of Housing and Urban Development, 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 Stone Mountain Place Limited Partnership complied with laws and regulations, noncompliance with which would be material to a major HUD-assisted program.

The management of Stone Mountain Place Limited Partnership is responsible for establishing and maintaining effective internal control. 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 in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and on compliance, but not for the purposes of expressing an opinion on the effectiveness of Stone Mountain Place Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stone Mountain Place Limited Partnership's internal control over financial reporting and internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis misstatements or noncompliance with applicable requirements of a HUD-assisted program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or to administer HUD-assisted programs such that there is more than a remote likelihood that (a) a misstatement of the entity's financial statements, or (b) noncompliance with applicable requirements of a HUD-assisted program, that is more than inconsequential will not be prevented or detected. We consider the deficiency described in the accompanying schedule of findings and responses to be a control deficiency in internal control over financial reporting. The deficiency as described in the accompanying schedule of findings and responses as 08-01 is required to be reported under government auditing standards.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that (a) a material misstatement of the financial statements or (b) material noncompliance with applicable requirements of a HUD-assisted program, will not be prevented or detected by the entity's internal control.

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Facsimile:(915) 775-1849

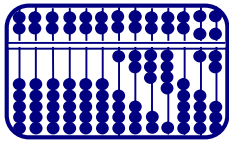
Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any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

Marcus, Fairall, Bristol + Co., LLP

May 1, 2009  
El Paso, Texas





MARCUS,  
FAIRALL,  
BRISTOL + CO., L.L.P.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC  
REQUIREMENTS APPLICABLE TO MAJOR HUD PROGRAMS**

To Mr. Hector Balderas,  
New Mexico State Auditor, and  
The Members of,  
Stone Mountain Place Limited Partnership

We have audited Stone Mountain Place 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, 2008. Compliance with those requirements is the responsibility of the management of Stone Mountain Place Limited Partnership. Our responsibility is to express an opinion on Stone Mountain Place 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 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 Stone Mountain Place 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 Stone Mountain Place Limited Partnership's compliance with those requirements.

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

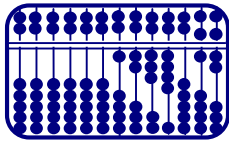
In our opinion, Stone Mountain Place Limited Partnership complied, in all material respects, with the requirements described above that are applicable to each of its major HUD-assisted programs for the year ended December 31, 2008.

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.

Marcus, Fairall, Bristol + Co., LLP

May 1, 2009  
El Paso, Texas

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6090 Surety Drive, Suite 100 • El Paso, TX 79905 • (915) 775-1040  
Facsimile:(915) 775-1849



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FAIRALL,  
BRISTOL + CO., L.L.P.

**INDEPENDENT AUDITORS' 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,  
Stone Mountain Place Limited Partnership

We have applied procedures to test Stone Mountain Place Limited Partnership's compliance with the Fair Housing and Non-Discrimination requirements applicable to its HUD-assisted programs, for the year ended December 31, 2008.

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 Inspector General. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on Stone Mountain Place 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.

Marcus, Fairall, Bristol + Co., LLP

May 1, 2009  
El Paso, Texas

## **Audit Findings**

**Stone Mountain Place Limited Partnership**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**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 5, 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.

**Stone Mountain Place Limited Partnership**  
**AUDITORS' COMMENTS ON AUDIT RESOLUTION**  
**MATTERS RELATING TO HUD PROGRAMS**  
**Year Ended December 31, 2008**

No matters were reported for the year ended December 31, 2007.

**Stone Mountain Place Limited Partnership**

PARTNER'S CERTIFICATION

December 31, 2008

We hereby certify that we have examined the accompanying financial statements and supplemental information of Stone Mountain Place Limited Partnership at December 31, 2008, and to the best of our knowledge and belief, the same are complete and accurate.

Date 6-16-09

By James D. Hassell

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

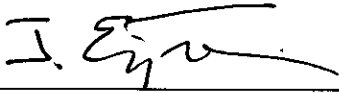
**Stone Mountain Place Limited Partnership**

**MANAGEMENT AGENT'S CERTIFICATION**

December 31, 2008

We hereby certify that we have examined the accompanying financial statements and supplemental information of Stone Mountain Place Limited Partnership at December 31, 2008, and to the best of our knowledge and belief, the same are complete and accurate.

Date 6-15-2009

By 

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

**Stone Mountain Place Limited Partnership**

INFORMATION ON AUDITOR

December 31, 2008

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 Inspector General.

1. Lead Auditor - Name and Licensing

Jack W. Fairall  
State of Texas License No. 12840  
State of New Mexico License No. 3777

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

Marcus, Fairall, Bristol + Co., LLP  
6090 Surety Drive, Suite 100  
El Paso, Texas 79905  
Phone 915-775-1040  
Federal I.D. No. 74-2708778



**Stone Mountain Place Limited Partnership**

**EXIT CONFERENCE**

**Year Ended December 31, 2008**

**EXIT CONFERENCE**

An exit conference was held on May 1, 2009, which was attended by the following:

**Housing Authority Administration**

Sharon Hansen                      Accountant

**Marcus, Fairall, Bristol + Co., L.L.P**

Jack Fairall                          Partner

**Management Agent**

Bobby Griffith                      CFO

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditors, Marcus, Fairall, Bristol, + Co., LLP. However, the contents of the financial statements remain the responsibility of management.