

Stone Mountain Place Limited Partnership

Financial Statements

Years Ended December 31, 2011 and 2010

And Supplementary Information

Year Ended December 31, 2011

Stone Mountain Place Limited Partnership

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Kenneth C. Boothe, P.C.

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Partners of

Stone Mountain Place Limited Partnership
Las Cruces, New Mexico

We have audited the accompanying balance sheets of Stone Mountain Place 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 Stone Mountain Place 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 17, 2012, on our consideration of Stone Mountain Place 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 17, 2012 on Stone Mountain Place 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.



Kenneth C. Boothe, P.C.

April 17, 2012
Big Spring, Texas

Stone Mountain Place 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	\$ 16,567	\$ 34,030
Accounts Receivable - Tenants	2,488	344
Accounts Receivable - PHA	4,290	2,343
Prepaid Expenses	16,525	15,924
Total Current Assets	<u>39,870</u>	<u>52,641</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	36,422	38,622
Real Estate Tax & Insurance	13,720	14,746
Other Escrows	2,908	2,930
Replacement Reserve	58,201	40,448
Operating Reserve	209,113	208,555
Total Restricted Deposits & Funded Reserves	<u>320,364</u>	<u>305,301</u>
Property & Equipment:		
Land	699,742	699,742
Buildings	7,978,914	7,975,464
Site Improvements	673,140	673,140
Furnishings	269,499	265,108
Accumulated Depreciation	(1,341,301)	(1,057,111)
Total Property & Equipment	<u>8,279,994</u>	<u>8,556,343</u>
Other Assets:		
Deferred Finance Cost, net of amortization	103,882	106,768
Total Other Assets	<u>103,882</u>	<u>106,768</u>
Total Assets	<u>\$ 8,744,110</u>	<u>\$ 9,021,053</u>

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

Stone Mountain Place 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	\$ 17,113	\$ 16,103
Accounts Payable	7,672	3,270
Accrued Interest	11,806	11,888
Accrued Expenses	11,886	11,649
Accrued - Property Taxes	7,947	19,336
Total Current Liabilities	<u>56,424</u>	<u>62,246</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	35,769	37,822
Prepaid Tenant Fees	2,897	1,526
Total Deposits & Prepaid Liabilities	<u>38,666</u>	<u>39,348</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	2,655,799	2,672,913
Deferred Development Fees	421,780	451,780
Asset Management Fee / Return to Owner	7,764	3,825
Total Long-Term Liabilities	<u>3,085,343</u>	<u>3,128,518</u>
Total Liabilities	<u>3,180,433</u>	<u>3,230,112</u>
Partners' Equity (Deficit)	<u>5,563,677</u>	<u>5,790,941</u>
Total Liabilities & Partners' Equity	<u>\$ 8,744,110</u>	<u>\$ 9,021,053</u>

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

Stone Mountain Place Limited Partnership
Statements of Operations
For the Years Ended December 31, 2011 and 2010

	12/31/2011	12/31/2010
Rental Income:		
Rental Income - Tenant Portion	\$ 385,855	\$ 406,022
Rental Income - PHA	120,399	86,594
Potential Rental Income	506,254	492,616
Lease Excess	28,863	22,559
Less: Vacancies	(12,440)	(10,044)
Less: Concessions	(12,805)	(2,621)
Total Rental Income	509,872	502,510
Other Rental Income:		
Miscellaneous Rental Income	201	2,757
Total Other Rental Income	201	2,757
Other Income:		
Interest Income	811	903
Laundry & Vending	153	215
Tenant Charges	17,196	12,242
Miscellaneous Income	0	1,277
Total Other Income	18,160	14,637
Total Income	528,233	519,904
Operating Expenses:		
Administrative	108,668	85,615
Utilities	38,758	34,172
Maintenance	84,293	67,353
Taxes & Insurance	78,162	88,001
Financial Expense	154,601	158,020
Total Cost of Operations	464,482	433,161
Net Income/(Loss) from Operations	63,751	86,743
Non-Operating Income & (Expenses):		
Administrative Fees	(3,939)	(3,825)
Depreciation Expense	(284,190)	(282,691)
Amortization Expense	(2,886)	(2,886)
Total Non-Operating Income & (Expenses)	(291,015)	(289,402)
Net Income/(Loss)	\$ (227,264)	\$ (202,659)

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

Stone Mountain Place Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2011 and 2010

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2009	\$ 5,993,600	\$ (63)	\$ 5,993,663
Net Income/(Loss): 12/31/2010	(202,659)	(20)	(202,639)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2010	\$ 5,790,941	\$ (83)	\$ 5,791,024
Net Income/(Loss): 12/31/2011	(227,264)	(23)	(227,241)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2011	<u>\$ 5,563,677</u>	<u>\$ (106)</u>	<u>\$ 5,563,783</u>

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

	12/31/2011	12/31/2010
Cash Flows From Operating Activities:		
Revenue:		
Rental Receipts	\$ 388,902	\$ 419,673
Rental Income - PHA	118,452	84,256
Other Income	18,159	13,360
Miscellaneous Income	0	1,277
Total Receipts	525,513	518,566
Expenses:		
Administrative	(108,597)	(85,778)
Utilities	(36,010)	(34,093)
Maintenance	(83,074)	(65,611)
Taxes & Insurance	(89,551)	(87,609)
Financial Expense	(154,683)	(158,097)
Asset Management Expense	0	(3,501)
Tenant Security Deposits	147	(800)
Total Disbursements	(471,768)	(435,489)
Net Cash from Operating Activities:	53,745	83,077
Cash Flows From Investing Activities:		
Property & Equipment	(7,841)	(23,979)
Real Estate Tax & Insurance	1,026	17,310
Other Escrows	22	(113)
Replacement Reserve	(17,753)	(4,416)
Operating Reserve	(558)	(659)
Net Cash from Investing Activities:	(25,104)	(11,857)
Cash Flows From Financing Activities:		
Principal Payments on Mortgage	(16,104)	(15,152)
Deferred Development Fees	(30,000)	(29,999)
Net Cash from Financing Activities:	(46,104)	(45,151)
Increase (Decrease) In Cash	(17,463)	26,069
Cash at Beginning of Period	34,030	7,961
Cash at End of Period	\$ 16,567	34,030

*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, 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)	\$ (227,264)	\$ (202,659)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	284,190	282,691
Amortization Expense	2,886	2,886
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	(2,144)	2,137
Accounts Receivable - PHA	(1,947)	(2,338)
Prepaid Expenses	(601)	2,681
Tenant Security Deposits	2,200	(2,651)
Increase (Decrease) In Liabilities		
Accounts Payable	4,402	260
Accrued Interest	(82)	(77)
Accrued Expenses	237	(1,283)
Accrued - Property Taxes	(11,389)	392
Tenant Security Deposits	(2,053)	1,851
Prepaid Tenant Fees	1,371	(1,135)
Asset Management Fee / Return to Owner	3,939	324
Net Cash from Operating Activities:	\$ 53,745	\$ 83,079
<u>Supplemental Disclosures:</u>		
Interest Paid	\$ 142,210	\$ 143,160

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

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE A - ORGANIZATION

Stone Mountain Place Limited Partnership was organized in August 4, 2005 as a Limited Partnership to develop, construct, own, maintain, and operate a 84-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Las Cruces, New Mexico, and is currently known as Stone Mountain Place Apartments. 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 (HACLIC) is 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.

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.

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

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	10-15
Furnishings	3-10

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.

Stone Mountain Place 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.

Amortization

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

Reclassifications

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

NOTE C - 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 as of December 31, 2011 and 2010:

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

Distributable cash flow is payable 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.

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS*(continued)*

Partner Contribution

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, 2011 and 2010, the Limited Partner had contributed a cumulative total of \$6,637,708. Future Limited Partner capital contributions are contingent upon the achievement of certain financing, operating, and reporting milestones, as defined in the Partnership Agreement.

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 to New Mexico Mortgage Finance Authority in the original amount of \$2,305,000, with an interest rate of 6.10%. The mortgage is payable in monthly installments of \$12,843 including interest through the maturity date. The loan will be secured by a first lien position on the Project. The unpaid principal of the loan is due May 2048. The accrued interest was \$11,457 and \$11,539 as of December 31, 2011 and 2010, respectively. Interest expensed on this loan was \$137,937 and \$138,892 as of December 31, 2011 and 2010, respectively.</p>	\$ 2,253,796	\$ 2,269,900

The Project also has a 45-year mortgage payable to City of Las Cruces in the original amount of \$419,116. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 1.00% per annum. Interest only payments shall be made monthly in the amount of \$349 for the first 15 years; in year sixteen the note will be payable in 360 monthly installments of \$1,348. Maturity of the loan occurs at the sale, refinance, or transfer of the property or on August 2052. The short-term accrued interest was \$349 and \$349 as of December 31, 2011 and 2010, respectively. Interest expensed on this loan was \$4,191 and \$4,191 as of December 31, 2011 and 2010, respectively.

	419,116	419,116
Total	2,672,912	2,689,016
Less: Current Portion	17,113	16,103
Long-Term Notes Payable	\$ 2,655,799	\$ 2,672,913

Stone Mountain Place 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	\$ 17,113	\$ 141,200
2013	18,187	140,126
2014	19,328	138,985
2015	20,540	137,772
2016	21,829	136,484
2017-2021	131,487	660,077
2022-2026	230,254	612,248
2027-2031	305,708	545,782
2032-2036	394,907	456,584
2037-2041	514,823	336,668
2042-2046	676,328	175,163
2047-2051	310,327	14,582
2052	12,081	50
Total	<u>\$ 2,672,912</u>	<u>\$ 3,495,721</u>

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 - RESERVE FUNDS

Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish and maintain a Replacement Reserve. The Partnership shall make monthly deposits into the Replacement Reserve fund as is required by the Lender of the Mortgage. The Replacement Reserve balance was \$58,201 and \$40,448 as of December 31, 2011 and 2010, respectively.

Operating Reserve

In accordance with the Partnership Agreement, the Partnership shall establish and maintain a Operating Reserve fund in an amount not less than \$205,000. The Operating Reserve balance was \$209,113 and \$208,555 as of December 31, 2011 and 2010, respectively.

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE F - COMMITMENTS AND CONTINGENCIES

Housing Tax Credits

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

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

Housing Finance Agency Risk-Sharing Program - Section 542(c)

The Project is financed and operated under Section 542(c) of the Housing and Community Development Act, as amended, administered by the New Mexico Mortgage Finance Authority (MFA). Under this program the Partnership provides housing to low and moderate income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods.

HOME Investment Partnerships Program

In addition, 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 G - 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 is equal to 6% of gross rental income. Property Management Fees expensed were \$31,182 and \$30,768 during 2011 and 2010, respectively. The amounts due to the Management Agent related to Management Fees were \$562 and \$609 as of December 31, 2011 and 2010, respectively.

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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

Asset Management Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the Limited Partner an Asset Management Fee in the annual, cumulative amount of \$3,500. 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 \$3,939 and \$3,825 were recognized during 2011 and 2010, respectively. The amounts due to the Limited Partner related to Asset Management Fees were \$7,764 and \$3,825 as of December 31, 2011 and 2010, respectively.

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 2011 and 2010, respectively. There were no amounts due to the General Partner related to Incentive Management Fees as of December 31, 2011 and 2010, 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, (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. This Development Fee has been capitalized into the basis of the building. The amounts due related to Development Fees were \$421,780 and \$451,780 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-one percent (51%) 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 \$153 and \$215 for the years ended December 31, 2011 and 2010, respectively.

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.

Stone Mountain Place Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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

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 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.

NOTE H - 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 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.

Stone Mountain Place Limited Partnership
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE I - ACCRUED LIABILITIES

The accrued liabilities on the balance sheet contain the following:

Accrued Payroll Expenses	\$ 1,113
Accrued Audit Fees	<u>10,773</u>
Total Accrued Liabilities	<u><u>\$ 11,886</u></u>

NOTE J - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through April 17, 2012 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

**Stone Mountain Place Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2011**

Stone Mountain Place Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2011

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2011	\$ 40,448
Total Monthly Deposit	25,200
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	252
Approved Withdrawals	<u>7,699</u>
Balance as of December 31, 2011	<u><u>\$ 58,201</u></u>

Deposits Suspended or Waived Indicator No

2. SCHEDULE OF OPERATING RESERVE

Balance as of January 1, 2011	\$ 208,555
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	558
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2011	<u><u>\$ 209,113</u></u>

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 1/1/2011	Additions	Deductions	Balance 12/31/2011
Land	\$ 699,742	\$ 0	\$ 0	\$ 699,742
Buildings	7,975,464	3,450	0	7,978,914
Site Improvements/Building Equipment	673,140	0	0	673,140
Furnishings	265,108	4,391	0	269,499
Totals	<u>\$ 9,613,454</u>	<u>\$ 7,841</u>	<u>\$ 0</u>	<u>\$ 9,621,295</u>
Accumulated Depreciation	<u>\$ 1,057,111</u>	<u>\$ 284,190</u>	<u>\$ 0</u>	<u>\$ 1,341,301</u>
Net Book Value	<u><u>\$ 8,556,343</u></u>			<u><u>\$ 8,279,994</u></u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2011</u>
Handicap door	3,450
Appliances	4,391
Totals:	<u><u>\$ 7,841</u></u>

Stone Mountain Place Limited Partnership
Computation of Surplus Cash, Distributions and Residual Receipts
Year Ending December 31, 2011

		<u>12/31/2011</u>
Cash:		
	Cash	52,989
	Total Cash	<u>\$ 52,989</u>
Current Obligations:		
	Accrued Mortgage Interest Payable	11,806
	Accounts Payable - 30 Days	7,672
	Accrued Expenses (not escrowed)	11,886
	Prepaid Revenue	2,897
	Tenant Security Deposits Liability	35,769
	Total Current Obligations	<u>70,030</u>
	Surplus Cash (Deficiency)	<u>\$ (17,041)</u>
Amount Available for Distribution During Next Fiscal Period:		
	Surplus Cash	<u>\$ 0</u>

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
Stone Mountain Place Limited Partnership
Las Cruces, New Mexico

We have audited the financial statements of Stone Mountain Place Limited Partnership as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 17, 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 17, 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 Stone Mountain Place 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.



Kenneth C. Boothe, P.C.

April 17, 2012
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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

To the Partners of
Stone Mountain Place Limited Partnership
Las Cruces, New Mexico

We have audited Stone Mountain Place 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, Stone Mountain Place 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 17, 2012
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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

To the Partners of
Stone Mountain Place Limited Partnership
Las Cruces, New Mexico

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, 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 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 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 17, 2012
Big Spring, Texas

Stone Mountain Place Limited Partnership

Schedule of Findings and Responses

December 31, 2011

Current Year Audit Findings: December 31, 2011

None Noted

**Stone Mountain Place Limited Partnership
Auditor's Comments on Audit Resolution
Matters Relating to HUD Programs
December 31, 2011**

Prior Year Audit Findings: December 31, 2010

None Noted

Stone Mountain Place Limited Partnership

Mortgagor's Certification

December 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplemental information of Stone Mountain Place 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 17, 2012
Stone Mountain Place Limited Partnership
930 East Boutz Road
Las Cruces
New Mexico
88001
Robbie Levey
Housing Authority of the City of Las Cruces

Stone Mountain Place Limited Partnership

Management Agent's Certification

December 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplemental information of Stone Mountain Place 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

Stone Mountain Place 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 17, 2012

Contacts: kenneth@boothevassar.com

Stone Mountain Place 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.