

Cimmaron II Apartments Limited Partnership
(A Development Stage Company)

Financial Statements
Years Ended December 31, 2010 and 2009

And Supplementary Information
Year Ended December 31, 2010

Cimmaron II Apartments 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

Cimmaron II Apartments Limited Partnership
Anthony, New Mexico

We have audited the accompanying balance sheets of Cimmaron II Apartments Limited Partnership, as of December 31, 2010 and 2009, 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 Cimmaron II Apartments Limited Partnership as of December 31, 2010 and 2009, and the results of its operations, changes in partners' equity, 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 May 2, 2011, on our consideration of Cimmaron II Apartments 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 May 2, 2011 on Cimmaron II Apartments 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 basic financial statements taken as a whole. The accompanying supplemental information shown on Page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Company. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Kenneth C. Boothe, P.C.

May 2, 2011
Big Spring, Texas

Cimmaron II Apartments Limited Partnership

(A Development Stage Company)

Balance Sheets

December 31, 2010 and 2009

ASSETS

	<u>12/31/2010</u>	<u>12/31/2009</u>
Current Assets:		
Cash and Cash Equivalents	\$ 12,127	\$ 1,418
Accounts Receivable - Tenants	525	5,703
Accounts Receivable - PHA	0	204
Prepaid Expenses	3,155	1,621
Total Current Assets	<u>15,807</u>	<u>8,946</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	2,000	3,782
Real Estate Tax & Insurance	50	0
Total Restricted Deposits & Funded Reserves	<u>2,050</u>	<u>3,782</u>
Property & Equipment:		
Land	362,003	353,604
Buildings	550,294	550,294
Site Improvements	850	850
Furnishings	5,210	5,210
Assets in Development Stage	7,976,110	231,609
Accumulated Depreciation	(31,235)	(16,690)
Total Property & Equipment	<u>8,863,232</u>	<u>1,124,877</u>
Total Assets	<u>\$ 8,881,089</u>	<u>\$ 1,137,605</u>

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

Cimmaron II Apartments Limited Partnership

(A Development Stage Company)

Balance Sheets

December 31, 2010 and 2009

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2010</u>	<u>12/31/2009</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 11,950	\$ 2,604
Accounts Payable Management Fees	2,568	5,838
Accrued Expenses	9,786	0
Accrued - Property Taxes	0	3,467
Notes Payable - Insurance	2,103	0
Loan to Purchase 24-Unit Complex	0	675,000
Accrued Liabilities - Construction	730,618	21,098
Construction Loan	296,059	459,495
Developer Expenses	25	5,844
Total Current Liabilities	<u>1,053,109</u>	<u>1,173,346</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	1,200	3,282
Prepaid Tenant Fees	0	498
Total Deposits & Prepaid Liabilities	<u>1,200</u>	<u>3,780</u>
Long-Term Liabilities:		
TCEP Funds	7,099,511	0
Deferred Development Fees	825,405	0
Total Long-Term Liabilities	<u>7,924,916</u>	<u>0</u>
Total Liabilities	<u>8,979,225</u>	<u>1,177,126</u>
Partners' Equity (Deficit)	<u>(98,136)</u>	<u>(39,521)</u>
Total Liabilities & Partners' Equity	<u>\$ 8,881,089</u>	<u>\$ 1,137,605</u>

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

Cimmaron II Apartments Limited Partnership

(A Development Stage Company)

Statements of Operations

For the Years Ended December 31, 2010 and 2009

	<u>12/31/2010</u>	<u>12/31/2009</u>
Rental Income:		
Rental Income - Tenant Portion	\$ 121,507	\$ 116,241
Rental Income - PHA	533	5,800
Potential Rental Income	<u>122,040</u>	<u>122,041</u>
Less: Vacancies	(80,372)	(36,359)
Less: Concessions	0	(60)
Total Rental Income	<u>41,668</u>	<u>85,622</u>
Other Income:		
Tenant Charges	<u>3,507</u>	<u>2,417</u>
Total Other Income	<u>3,507</u>	<u>2,417</u>
Total Income	<u>45,175</u>	<u>88,039</u>
Operating Expenses:		
Administrative	27,648	11,106
Utilities	14,018	15,108
Maintenance	3,927	11,112
Taxes & Insurance	12,709	13,486
Financial Expense	26,944	67,177
Total Cost of Operations	<u>85,246</u>	<u>117,989</u>
Net Income/(Loss) from Operations	<u>(40,071)</u>	<u>(29,950)</u>
Non-Operating Income & (Expenses):		
Depreciation Expense	<u>(14,544)</u>	<u>(14,398)</u>
Total Non-Operating Income & (Expenses)	<u>(14,544)</u>	<u>(14,398)</u>
Net Income/(Loss)	<u>\$ (54,615)</u>	<u>\$ (44,348)</u>

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

Cimmaron II Apartments Limited Partnership
(A Development Stage Company)
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2010 and 2009

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2008	\$ 4,827	\$ 48	\$ 4,779
Prior Year Correction: Capital Contribution	0	3,960	(3,960)
Net Income/(Loss): 12/31/2009	(44,348)	(443)	(43,905)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2009	\$ (39,521)	\$ 3,565	\$ (43,086)
Net Income/(Loss): 12/31/2010	(54,615)	(54,560)	(55)
Partners' Capital Contributions - Reversed from Prior Year	(4,000)	(3,960)	(40)
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2010	<u>\$ (98,136)</u>	<u>\$ (54,955)</u>	<u>\$ (43,181)</u>

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

Cimmaron II Apartments Limited Partnership

(A Development Stage Company)

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

Increase (Decrease) in Cash and Cash Equivalents

	<u>12/31/2010</u>	<u>12/31/2009</u>
Cash Flows From Operating Activities:		
Revenue:		
Rental Income - Tenant Portion	\$ 46,021	\$ 73,914
Rental Income - PHA	533	5,800
Other Income	3,507	2,417
Changes in Accounts Payable	0	7,366
Total Receipts	<u>50,061</u>	<u>89,497</u>
Expenses:		
Administrative	(11,421)	(11,219)
Utilities	(14,018)	(15,108)
Maintenance	(3,958)	(11,112)
Taxes & Insurance	(11,307)	(11,640)
Financial Expense	(28,308)	(67,063)
Tenant Security Deposits	(3,570)	(6,215)
Total Disbursements	<u>(72,582)</u>	<u>(122,357)</u>
Net Cash from Operating Activities:	<u>(22,521)</u>	<u>(32,860)</u>
Cash Flows From Investing Activities:		
Purchase Property & Equipment - Assets in Service	0	(6,060)
Land Costs	(8,399)	0
Investment in Assets in Development Stage	(7,744,501)	(88,756)
Net Deposits - Real Estate Tax & Insurance	(50)	6,197
Net Deposits - Other Escrows	0	10
Increase (Decrease) Developer Expense Liability	(5,819)	5,844
Accrued Liabilities - Construction	709,519	20,662
Net Cash from Investing Activities:	<u>(7,049,250)</u>	<u>(62,103)</u>
Cash Flows From Financing Activities:		
Incurred Deferred Development Fees	825,405	0
Paid Loan to Purchase 24-Unit Complex	(675,000)	0
TCEP Funds Proceeds	7,099,511	0
Construction Loan Change	(163,436)	85,401
GP Contributions	(3,960)	0
LP Contributions	(40)	0
Net Cash from Financing Activities:	<u>7,082,480</u>	<u>85,401</u>
Increase (Decrease) In Cash	10,709	(9,562)
Cash at Beginning of Period	<u>1,418</u>	<u>10,980</u>
Cash at End of Period	<u>\$ 12,127</u>	<u>\$ 1,418</u>

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

Cimmaron II Apartments Limited Partnership

(A Development Stage Company)

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

Increase (Decrease) in Cash and Cash Equivalents

	<u>12/31/2010</u>	<u>12/31/2009</u>
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (54,615)	\$ (44,348)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	14,544	14,398
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	5,178	(5,703)
Accounts Receivable - PHA	204	(204)
Tenant Security Deposits	1,782	(3,782)
Prepaid Expenses	(1,534)	(1,621)
Increase (Decrease) In Liabilities		
Accounts Payable	9,346	1,528
Accounts Payable Management Fees	(3,270)	5,838
Accrued Expenses	9,786	0
Prepaid Tenant Fees	(498)	0
Accrued - Property Taxes	(3,467)	3,467
Notes Payable - Insurance	2,103	0
Tenant Security Deposits	(2,082)	(2,433)
Net Cash from Operating Activities	<u>\$ (22,523)</u>	<u>\$ (32,860)</u>
<u>Supplemental Disclosures:</u>		
Interest Paid	<u>\$ 46,699</u>	<u>\$ 93,656</u>

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

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE A - ORGANIZATION

Cimmaron II Apartments Limited Partnership was organized in 2004 as a Limited Partnership to develop, construct, own, maintain, and operate an 84-unit rental housing project for mixed income tenants with both tax credit and market rate units. Twenty-four of the units were acquired through the purchase of an adjacent apartment complex and the remaining sixty units were under construction at year-end. The statement of operations pertains to the twenty-four units in operation. The Project is located in the city of Anthony, New Mexico, and is currently known as Cimmaron II 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 Cimmaron II Apartments are vested in the Partners. The Partnership has hired JL Gray Company, an affiliate of one of the Partners, to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Cash and Other Deposits

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

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account. This account was funded in an amount greater than the security deposit liability as of December 31, 2010 and 2009.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Partnership does not accrue interest on the tenant receivable balances. The Partnership has not established an allowance for doubtful accounts and does not use the 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.

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 2010 or 2009.

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.

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.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

NOTE C - PURCHASE OF THE VILLAGE APARTMENTS

The Partnership purchased a 24-unit multi-family complex on November 13, 2008, that is located in Anthony, New Mexico. The purchase price for the property was \$675,000. This purchase was disclosed to management subsequent to May 25, 2009, the date that the audit report was issued. The purchase was material, which required that the audit report be restated to include the purchase of the asset in the current financial statements and the related statement of operations. Depreciation expense for the year ended December 31, 2008 was \$2,293. The net income for that period was \$828.

NOTE D - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Cimmaron II Apartments Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2009:

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

Effective January 1, 2010, the Partners of Cimmaron II Apartments Limited Partnership are as follows:

General Partner:	
<i>Cimmaron Apartments LLC</i>	99.90 %
Limited Partner:	
<i>JLG Properties, LLC</i>	<u>0.10 %</u>
Total	<u>100.00 %</u>

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

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE E - LIABILITIES

	<u>12/31/2010</u>	<u>12/31/2009</u>
<p>The Project is financed with a 14-month note payable to Village Apartments-Anthony, LLC in the original amount of \$675,000, with an interest rate of 9%. The note is payable in monthly installments of \$5,063 including interest through the maturity date. The unpaid principal of the loan is due January 2010. Interest expensed on this note was \$25,988 and \$66,945 as of December 31, 2010 and 2009, respectively. On May 25 2010, the unpaid principal balance and all unpaid interest was paid in full.</p>	\$ 0	\$ 675,000
<p>On January 29, 2008, the Partnership executed a \$249,500 Loan Agreement with Citizens Bank of Las Cruces to finance the pre-development of the Partnership. The Partnership has acquired several renewals on the Loan in the form of a Variable Rate Nondisclosable Draw Down Line of Credit Loan that increased the loan amount to a final amount of \$475,000 and extended the maturity date. The variable interest rate was subject to change based on an independent index which was 4% per annum at November 14, 2009 and 6.5% per annum at July 29, 2009 based on a year of 360 days. Interest only payments were due monthly. The note was secured by the Project's property under a mortgage to the Lender. Interest recognized as development costs on this loan was \$51,429 and \$36,866 as of December 31, 2010 and 2009, respectively. On May 25 2010, the unpaid principal balance was included in the construction loan listed below.</p>	0	459,495
<p>On December 18, 2009, the Partnership executed a \$9,525,110 TCEP Mortgage Note to New Mexico Mortgage Finance Authority. The terms of the loan begin upon its execution and end 180 months after commencement of the Compliance Period. There are no interest or scheduled principal payments due with respect to this loan. The amount subject to recapture shall be reduced by 6.67% of the original loan amount for each compliant year. In the event there is no uncured Recapture Event of Default at the time of termination, this TCEP Mortgage Note shall be forgiven.</p>	9,525,110	0

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE E - LIABILITIES (continued)

12/31/2010 12/31/2009

On May 25, 2010 the Project signed a Construction Deed of Trust payable to Citizens Bank of Las Cruces. The maximum lien shall not exceed \$3,300,000 at any one time. The interest rate on this Note is subject to change based on the Wall Street Journal Prime Lending Rate. The current rate is 6% per annum. The Loan shall bear interest on each Advance from the date of the Advance in accordance with the terms of the Note. The loan is due in full immediately upon Lender's demand or pay in one payment of all outstanding principal plus all accrued unpaid interest on November 25, 2011.

		269,059	0
	Total	9,794,169	1,134,495
	Less: Current Portion	269,059	0
	Long-Term Notes Payable	<u>\$ 9,525,110</u>	<u>\$ 1,134,495</u>

Aggregate maturities of the loan: Due to the conditions of the TCEP agreement, the principal and interest allocation per year is not applicable to this loan. There are no other long-term debts as of December 31, 2010.

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.

Interest Paid - Cash Flow Disclosure Restatement

The cash flow supplemental disclosure of interest paid has been restated from the amount reported in the audit for the year ended December 31, 2009. In the prior year audit the disclosure included only interest that was related to the construction loan in the amount of \$26,711 which will be capitalized into the basis of the assets upon completion of construction. In addition to this interest, the property also paid interest in the amount of \$66,945 on the Village Apartments-Anthony, LLC loan which was reported as interest expense; however, it was not included in the interest paid disclosure. Therefore, the total interest paid was \$93,656 for the year ended December 31, 2009.

NOTE F - RESERVE FUNDS

Restricted Reserve Cash

In accordance with the provisions of the Partnership Agreement, the General Partner may establish restricted cash reserves sufficient to provide for any anticipated expenditures or liabilities of the Partnership reasonably known in amount and to maintain the Partnership in a sound financial and cash position. Such reserves shall be established by the General Partners in their absolute discretion, provided that such reserves are sufficient to ensure that any distributions of cash in allocation of net income and losses and other distributions do not in any way jeopardize or limit the business of the Partnership. There was no balance in the reserve account as of December 31, 2010 or 2009.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE G - COMMITMENTS AND CONTINGENCIES

Tax Credit Exchange Program

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

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

NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management Fee

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the twenty-four units in operation for the Project. The current year management fee is equal to 6% of gross rental collections. Property Management Fees expensed were \$2,485 and \$5,070 during 2010 and 2009, respectively. The amounts due to the Management Agent related to Management Fees were \$2,568 and \$5,838 as of December 31, 2010 and 2009, respectively.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

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

Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. For example, the properties do not have access to credit cards in order to directly pay necessary items such as seminars and motels. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. The reimbursement is considered both reasonable and immaterial. The amounts due to the Management Agent related to reimbursed expenses are considered negligible as of December 31, 2010 and 2009, respectively.

NOTE I - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

NOTE J - ACCRUED LIABILITIES

The accrued liabilities on the balance sheet contain the following:

Accrued Liabilities - Contractor/Crestline Building Corp	\$	730,618
Accrued Expenses - Audit Fees		9,786
Total Accrued Liabilities	\$	<u>740,404</u>

NOTE K - SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 2, 2011 which is the date the financial statements were available to be issued. The sixty units under development entered into substantial completion during April of 2011.

Cimmaron II Apartments Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2010

Cimmaron II Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2010

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Due to the development stage of the entity, the reserve for replacements account has not been funded.

2. SCHEDULE OF OPERATING RESERVE

Due to the development stage of the entity, the operating reserve account has not been funded.

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 1/1/2010	Additions	Deductions	Balance 12/31/2010
Land	\$ 353,604	\$ 8,399	\$ 0	\$ 362,003
Assets in Development Stage	231,609	7,744,501	0	7,976,110
Buildings	550,294	0	0	550,294
Site Improvements/Building Equipment	850	0	0	850
Furnishings	5,210	0	0	5,210
Totals	<u>\$ 1,141,567</u>	<u>\$ 7,752,900</u>	<u>\$ 0</u>	<u>\$ 8,894,467</u>
Accumulated Depreciation	<u>\$ 16,690</u>	<u>\$ 14,544</u>	<u>\$ 0</u>	<u>\$ 31,234</u>
Net Book Value	<u><u>\$ 1,124,877</u></u>			<u><u>\$ 8,863,233</u></u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2010</u>
Additional Land Purchases	8,399
Costs associated with development - land cost, construction cost and soft cost	<u>7,744,501</u>
Totals:	<u><u>\$ 7,752,900</u></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
Cimmaron II Apartments Limited Partnership
Anthony, New Mexico

We have audited the financial statements of Cimmaron II Apartments Limited Partnership as of and for the year ended December 31, 2010, and have issued our report thereon dated May 2, 2011. We have also audited the Partnership's compliance with requirements applicable to major U.S. Department of Housing and Urban Development (HUD)-assisted programs and have issued our report thereon dated May 2, 2011.

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 Cimmaron II Apartments 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. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Responses as item Finding 2010-01 Completion of Audit Report. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness in internal control over financial reporting or a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Cimmaron II Apartments Limited Partnership's responses to the significant deficiencies identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the audit committee, management, others within the entity, and HUD and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe, P.C.

May 2, 2011
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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

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

To the Partners of
Cimmaron II Apartments Limited Partnership
Anthony, New Mexico

We have audited Cimmaron II Apartments 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, 2010. 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, Cimmaron II Apartments 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, 2010.

This report is intended solely for the information and use of management, others within the entity, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe, P.C.

May 2, 2011
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
Cimmaron II Apartments Limited Partnership
Anthony, New Mexico

We have applied procedures to test Cimmaron II Apartments Limited Partnership's compliance with the Fair Housing and Non-Discrimination requirements applicable to its HUD-assisted programs for the year ended December 31, 2010.

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 Cimmaron II Apartments 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 the audit committee, management, others within the entity, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



Kenneth C. Boothe, P.C.

May 2, 2011
Big Spring, Texas

Cimmaron II Apartments Limited Partnership

Schedule of Findings and Responses

December 31, 2010

Current Year Audit Findings: December 31, 2010

Matters reported for the year ended December 31, 2010:

Finding 2010-01 Completion of Audit Report

Condition:	The audit report was not completed and forwarded to the New Mexico State Auditor in a timely manner. The report was delivered on May 25, 2011.
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, 2011.
Cause:	Due to the development stage of the entity, additional time was necessary 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 owners and management, along with the auditor, must implement procedures and reviews that would facilitate in the production of a timely and materially accurate audit.
Management Response:	Due to the development stage of the entity, many unusual and significant transactions have occurred. It is not uncommon for development stage entities to require additional time; however, since the property will no longer be in development stages in the following year, this issue is not expected to exist in the future.

Cimmaron II Apartments Limited Partnership

Auditor's Comments on Audit Resolution

Matters Relating to HUD Programs

December 31, 2010

Prior Year Audit Findings: December 31, 2009

Matters reported for the year ended December 31, 2009:

Finding 09-01 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 November 23, 2010. However, the State Auditor was notified as soon as the auditor became aware that circumstances existed that would make the audit report late.
- Recommendation:** The owners and management, along with the auditor, should implement procedures and reviews that would facilitate the production of a timely and materially accurate audit.
- Current Condition:** Due to the development stage of the entity, many unusual and significant transactions have occurred. It is not uncommon for development stage entities to require additional time; however, since the property will no longer be in development stages in the following year, this issue is not expected to exist in the future.

Finding 09-02 Failure to Record Major Purchase

- Condition:** Investment in a 24-unit multi-family unit was not included in financial statements of the prior year which was discovered during the current year audit.
- Recommendation:** The owners and management, along with the auditor, must implement procedures and reviews that would facilitate in the production of a timely and materially accurate audit.
- Current Condition:** There were no material items noted that management failed to include in the properties records. This issue was not repeated and is considered resolved.


Cimmaron II Apartments Limited Partnership

Mortgagor's Certification

December 31, 2010

We hereby certify that we have examined the accompanying financial statements and supplemental information of Cimmaron II Apartments Limited Partnership as of December 31, 2010, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 6-29-11
Thomas G. Hassell
Housing Authority of the City of Las Cruces

Auditee Information:

505-325-6515
May 2, 2011
Cimmaron II Apartments Limited Partnership
801 N. Fourth Street
Anthony
New Mexico
88021
Thomas G. Hassell
Housing Authority of the City of Las Cruces

Cimmaron II Apartments Limited Partnership

Management Agent's Certification

December 31, 2010

We hereby certify that we have examined the accompanying financial statements and supplemental information of Cimmaron II Apartments Limited Partnership as of December 31, 2010, and to the best of our knowledge and belief, the same are complete and accurate.

Signed: _____



Date: _____

6/29/11

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

Cimmaron II Apartments Limited Partnership

Information on Auditor

December 31, 2010

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: May 2, 2011

Contacts: kenneth@boothevassar.com

Cimmaron II Apartments Limited Partnership

Exit Conference

December 31, 2010

EXIT CONFERENCE

An exit conference was held on May 2, 2011, which was attended by the following:

Housing Authority Administration

Thomas Hassell	Executive Director
Sharon Hansen	Accountant

Kenneth C. Boothe, P.C.

Kenneth Boothe	Owner
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Management Agent

Bobby Griffith	Chief Financial Officer
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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.