

Cimmaron II Apartments Limited Partnership

Financial Statements

Years Ended December 31, 2011 and 2010

And Supplementary Information

Year Ended December 31, 2011

Cimmaron II Apartments Limited Partnership

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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, 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 Cimmaron II Apartments Limited Partnership as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2012, on our consideration of 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 April 25, 2012 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 financial statements as a whole. The accompanying supplemental information shown on Pages 18 - 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 25, 2012
Big Spring, Texas

Cimmaron II Apartments 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	\$ 37,593	\$ 12,127
Accounts Receivable - Tenants	4,983	525
Accounts Receivable - PHA	1,397	0
Prepaid Expenses	20,123	3,155
Total Current Assets	<u>64,096</u>	<u>15,807</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	44,256	2,000
Real Estate Tax & Insurance	52,943	50
Replacement Reserve	36,474	0
Operating & Operating Deficit Reserve	202,883	0
Developer Fee Escrow	275,135	0
Total Restricted Deposits & Funded Reserves	<u>611,691</u>	<u>2,050</u>
Property & Equipment:		
Land	677,882	362,003
Buildings	8,744,373	550,294
Site Improvements	713,281	850
Furnishings	414,547	5,210
Assets in Development Stage	0	7,976,111
Accumulated Depreciation	(116,131)	(31,235)
Total Property & Equipment	<u>10,433,952</u>	<u>8,863,233</u>
Other Assets:		
Deferred Finance Cost, net of amortization	58,107	0
Deferred Tax Credit Fees, net of amortization	10,658	0
Total Other Assets	<u>68,765</u>	<u>0</u>
Total Assets	<u>\$ 11,178,504</u>	<u>\$ 8,881,090</u>

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

Cimmaron II Apartments 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	\$ 6,655	\$ 0
Accounts Payable	13,090	11,951
Accounts Payable Management Fees	564	2,568
Accrued Expenses	11,484	9,786
Notes Payable - Insurance	0	2,103
Notes Payable	3,565	0
Accrued Liabilities - Construction	0	730,618
Construction Loan	0	296,059
Developer Expenses	0	25
Total Current Liabilities	<u>35,358</u>	<u>1,053,110</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	30,956	1,200
Prepaid Tenant Fees	992	0
Total Deposits & Prepaid Liabilities	<u>31,948</u>	<u>1,200</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	1,413,345	0
TCEP Funds	0	7,099,511
Deferred Development Fees	275,135	825,405
Total Long-Term Liabilities	<u>1,688,480</u>	<u>7,924,916</u>
Total Liabilities	<u>1,755,786</u>	<u>8,979,226</u>
Partners' Equity (Deficit)	<u>9,422,718</u>	<u>(98,136)</u>
Total Liabilities & Partners' Equity	<u>\$ 11,178,504</u>	<u>\$ 8,881,090</u>

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

Cimmaron II Apartments 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	\$ 369,720	\$ 121,507
Rental Income - PHA	16,190	533
Potential Rental Income	385,910	122,040
Lease Excess	3,351	0
Less: Vacancies	(62,084)	(80,372)
Less: Concessions	(4,389)	0
Total Rental Income	322,788	41,668
 Other Income:		
Tenant Charges	17,075	3,507
Miscellaneous Income	60,278	0
Total Other Income	77,353	3,507
 Total Income	400,141	45,175
 Operating Expenses:		
Administrative	106,178	27,648
Utilities	64,392	14,018
Maintenance	38,868	3,927
Taxes & Insurance	67,006	12,709
Financial Expense	40,230	26,944
Total Cost of Operations	316,674	85,246
 Net Income/(Loss) from Operations	83,467	(40,071)
 Non-Operating Income & (Expenses):		
Depreciation Expense	(84,896)	(14,544)
Amortization Expense	(1,027)	0
Organizational Costs	(1,800)	0
Total Non-Operating Income & (Expenses)	(87,723)	(14,544)
 Net Income/(Loss)	\$ (4,256)	\$ (54,615)

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

Cimmaron II Apartments Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2011 and 2010

	Total
Partners' Equity (Deficit), December 31, 2009	\$ (39,521)
Prior Year Correction: Capital Contribution	(4,000)
Net Income/(Loss): 12/31/2010	(54,615)
Partners' Capital Contributions	0
Partners' Distributions	0
Partners' Equity (Deficit), December 31, 2010	\$ (98,136)
Prior Year Correction: Net Income/(Loss) Allocation:	0
Net Income/(Loss): 12/31/2011	(4,256)
Partners' Capital Contributions	0
TCEP - Contributed Capital	9,525,110
Partners' Distributions	0
Partners' Equity (Deficit), December 31, 2011	\$ 9,422,718

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

Cimmaron II Apartments 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 Income - Tenant Portion	\$ 301,735	\$ 46,021
Rental Income - PHA	16,190	533
Other Income	17,075	3,507
Miscellaneous Income	60,278	0
Total Receipts	395,278	50,061
Expenses:		
Administrative	(132,593)	(14,691)
Utilities	(63,935)	(14,018)
Maintenance	(37,142)	(3,958)
Taxes & Insurance	(58,908)	(11,307)
Financial Expense	(42,333)	(28,308)
Organizational Costs	(1,800)	0
Tenant Security Deposits	(12,500)	(300)
Total Disbursements	(349,211)	(72,582)
Net Cash from Operating Activities:	46,067	(22,521)
Cash Flows From Investing Activities:		
Purchase Property & Equipment	0	(8,399)
Assets Placed in Service	(9,631,726)	0
Assets in Development Stage	7,976,111	(7,744,502)
Replacement Reserve	(36,474)	0
Real Estate Tax & Insurance	(52,893)	(50)
Operating & Operating Deficit Reserve	(202,883)	0
Developer Fee Escrow	(275,135)	0
Developer Expenses	(25)	(5,819)
Accrued Liabilities - Construction	(730,619)	709,520
Deferred Finance Cost Paid	(58,892)	0
Deferred Tax Credits Fees Paid	(10,900)	0
TCEP - Capital Contribution	9,525,110	0
Net Cash from Investing Activities:	6,501,674	(7,049,250)

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

Cimmaron II Apartments 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 Financing Activities:		
NMMFA 542 (c) Risk Share Proceeds	1,420,000	0
Deferred Development Fees	(550,270)	825,405
Paid Loan to Purchase 24-Unit Complex	0	(675,000)
TCEP Funds	(7,099,511)	7,099,511
Notes Payable	3,565	0
Construction Loan	(296,059)	(163,436)
Partners Contributions	0	(4,000)
Net Cash from Financing Activities:	(6,522,275)	7,082,480
Increase (Decrease) In Cash	25,466	10,709
Cash at Beginning of Period	12,127	1,418
Cash at End of Period	\$ 37,593	\$ 12,127

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

Cimmaron II Apartments 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)	\$ (4,256)	\$ (54,615)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	84,896	14,544
Amortization Expense	1,027	0
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	(4,458)	5,178
Accounts Receivable - PHA	(1,397)	204
Tenant Security Deposits	(42,256)	1,782
Prepaid Expenses	(16,968)	(1,534)
Increase (Decrease) In Liabilities		
Accounts Payable	1,140	9,346
Accounts Payable Management Fees	(2,004)	(3,270)
Accrued Expenses	1,698	9,786
Prepaid Tenant Fees	992	(498)
Notes Payable - Insurance	(2,103)	2,103
Tenant Security Deposits	29,756	(2,082)
Net Cash from Operating Activities	\$ 46,067	\$ (22,523)
Supplemental Disclosures:		
Interest Paid	\$ 38,391	\$ 46,699

The accompanying notes are an integral part of these financial statements

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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 entered into substantial completion during April of 2011. 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 Service 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 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 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.

Cimmaron II Apartments 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	20
Furnishings	7-10

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.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

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

Rental Income

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

Reclassifications

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

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

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

General Partner:

Cimmaron Apartments LLC to receive Net Income at 100.00%

Limited Partner:

JLG Properties, LLC to receive Net Loss at 100.00%

NOTE D - LONG-TERM DEBT

The Project is financed with a 480-month note payable to New Mexico Mortgage Finance Authority under the 542(c) FHA-Insured Multifamily Loan Program in the original amount of \$1,420,000, with an interest rate of 6.7%. The note is payable in monthly installments of \$8,517 including interest through the maturity date. The unpaid principal of the loan is due January 2052. Interest expensed on this note was \$4,493 and \$0 as of December 31, 2011 and 2010, respectively.

	<u>12/31/2011</u>	<u>12/31/2010</u>
	\$ 1,420,000	\$ 0
Total	<u>1,420,000</u>	<u>0</u>
Less: Current Portion	<u>6,655</u>	<u>0</u>
Long-Term Notes Payable	<u>\$ 1,413,345</u>	<u>\$ 0</u>

Cimmaron II Apartments 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	\$ 6,655	\$ 87,028
2013	7,740	94,459
2014	8,275	93,924
2015	8,847	93,353
2016	9,458	92,741
2017-2021	58,045	452,953
2022-2026	81,068	429,930
2027-2031	113,222	397,776
2032-2036	158,130	352,867
2037-2041	220,851	290,147
2042-2046	308,449	202,549
2047-2051	430,792	80,206
2052-2056	8,467	49
Total	<u>\$ 1,420,000</u>	<u>\$ 2,667,982</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 - TCEP FUNDS

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. Due to the fact that the repayment of the loan is considered less than remote, the liability was reclassified to a capital contribution as of December 31, 2011.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE F - RESERVE FUNDS

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were \$275,135 and \$0 as of December 31, 2011 and 2010, respectively.

Replacement Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Replacement Reserve. The Partnership shall make deposits into the Replacement Reserve fund of \$25,200 annually, commencing upon permanent financing. The Partnership made a deposit of \$36,474 upon acquiring permanent financing during December 2011. Replacement Reserve balance was \$36,474 and \$0 as of December 31, 2011 and 2010, respectively.

Operating and Operating Deficit Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership funded an Operating Deficit Reserve fund in the amount of \$202,883. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was \$202,883 and \$0 as of December 31, 2011 and 2010, respectively.

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:

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

NOTE G - COMMITMENTS AND CONTINGENCIES *(continued)*

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.

Regulatory Agreement Provisions

On December 14, 2011, 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 - 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 \$20,198 and \$2,485 during 2011 and 2010, respectively. The amounts due to the Management Agent related to Management Fees were \$564 and \$2,568 as of December 31, 2011 and 2010, respectively.

Cimmaron II Apartments Limited Partnership

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

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

Development Fee

The Partnership has incurred a Development Fee of \$825,405 due to JL Gray Company and the General Partner, rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2011, \$550,270 of this fee has been paid. The amounts due related to Development Fees were \$275,135 and \$825,405 as of 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.

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 Payroll Expenses	\$	1,698
Accrued Expenses - Audit Fees		9,786
Total Accrued Liabilities	\$	<u>11,484</u>

NOTE K - SUBSEQUENT EVENTS

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

**Cimmaron II Apartments Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2011**

Cimmaron II Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2011

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2011	\$ 0
Total Monthly Deposit	0
Other Deposits - Permanent Financing Establish Reserve	36,474
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	0
Approved Withdrawals	0
Balance as of December 31, 2011	<u>\$ 36,474</u>

Deposits Suspended or Waived Indicator No

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2011	\$ 0
Total Monthly Deposit	0
Other Deposits - Permanent Financing Establish Reserve	202,883
Interest Earned on Operating Reserve Account (Net of Service Fees)	0
Approved Withdrawals	0
Balance as of December 31, 2011	<u>\$ 202,883</u>

Cimmaron II Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2011

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 1/1/2011	Additions	Deductions	Balance 12/31/2011
Land	\$ 362,003	\$ 315,879	\$ 0	\$ 677,882
Assets in Development Stage	7,976,111	0	7,976,111	0
Buildings	550,294	8,194,079	0	8,744,373
Site Improvements/Building Equipment	850	712,431	0	713,281
Furnishings	5,210	409,337	0	414,547
Totals	<u>\$ 8,894,468</u>	<u>\$ 9,631,726</u>	<u>\$ 7,976,111</u>	<u>\$10,550,083</u>
Accumulated Depreciation	<u>\$ 31,235</u>	<u>\$ 84,896</u>	<u>\$ 0</u>	<u>\$ 116,131</u>
Net Book Value	<u><u>\$ 8,863,233</u></u>			<u><u>\$10,433,952</u></u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2011</u>
Land & Land Costs	315,879
New Construction - Building	8,194,079
Fencing, signs, landscaping	712,431
Appliances, furnishings, flooring, etc.	409,337
Totals:	<u><u>\$ 9,631,726</u></u>

Schedule of Deductions to Fixed Assets:

	<u>12/31/2011</u>
Reclassification of Construction in Progress to Assets Placed in Service	7,976,111
Totals:	<u><u>\$ 7,976,111</u></u>

Cimmaron II Apartments Limited Partnership
Computation of Surplus Cash, Distributions and Residual Receipts
Year Ending December 31, 2011

		<u>12/31/2011</u>
Cash:		
Cash		81,849
Total Cash		<u>\$ 81,849</u>
Current Obligations:		
Accounts Payable - 30 Days		13,654
Accrued Expenses (not escrowed)		11,484
Prepaid Revenue		992
Tenant Security Deposits Liability		30,956
Total Current Obligations		<u>57,086</u>
Surplus Cash (Deficiency)		<u>\$ 24,763</u>
Amount Available for Distribution During Next Fiscal Period:		
Surplus Cash		<u>\$ 24,763</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 years ended December 31, 2011 and 2010, and have issued our report thereon dated April 25, 2012. We have also audited the Partnership's compliance with requirements applicable to major U.S. Department of Housing and Urban Development (HUD)-assisted programs for the year ended December 31, 2011, and have issued our report thereon dated April 25, 2012.

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

The management of 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.

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



Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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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, 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, 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, 2011.

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



Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Kenneth C. Boothe, P.C.

Certified Public Accountant

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



Kenneth C. Boothe, P.C.

April 25, 2012
Big Spring, Texas

Cimmaron II Apartments Limited Partnership

Schedule of Findings and Responses

December 31, 2011

Current Year Audit Findings: December 31, 2011

None Noted

Cimmaron II Apartments Limited Partnership

Auditor's Comments on Audit Resolution

Matters Relating to HUD Programs

December 31, 2011

Prior Year Audit Findings: December 31, 2010

Matters reported for the year ended December 31, 2010:

Finding 2010-01 Completion of Audit Report

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

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

Current Condition: The prior year audit report was delivered on May 25, 2011 to the New Mexico State auditor.

Cimmaron II Apartments Limited Partnership

Mortgagor's Certification

December 31, 2011

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

Signatories:

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

Auditee Information:

505-325-6515
April 25, 2012
Cimmaron II Apartments Limited Partnership
801 N. Fourth Street
Anthony
New Mexico
88021
Robbie Levey
Housing Authority of the City of Las Cruces

Cimmaron II Apartments Limited Partnership

Management Agent's Certification

December 31, 2011

We hereby certify that we have examined the accompanying financial statements and supplemental information of Cimmaron II Apartments 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

Cimmaron II Apartments Limited Partnership

Information on Auditor

December 31, 2011

Auditor's Transmittal Letter

Audit Firm:

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

Lead Auditor:

Kenneth C. Boothe
Certified Public Accountant

Audit Firm Address:

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

Federal I.D. Number:

75-1607295

Auditor's Report Date:

April 25, 2012

Contacts:

kenneth@boothevassar.com

Cimmaron II Apartments 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.