Falcon Ridge Limited Partnership

Financial Statements

Years Ended December 31, 2012 and 2011

And Supplementary Information

Year Ended December 31, 2012

Falcon Ridge Limited Partnership

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INDEPENDENT AUDITOR'S REPORT

To the Partners of

Falcon Ridge Limited Partnership
Hatch, New Mexico
and
Hector H. Balderas, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Falcon Ridge Limited Partnership, which comprise the balance sheets, as of December 31, 2012 and 2011, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Falcon Ridge Limited Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Falcon Ridge Limited Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Falcon Ridge Limited Partnership as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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 as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our reports dated May 20, 2013, on our consideration of Falcon Ridge Limited Partnership's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Falcon Ridge Limited Partnership's internal control over financial reporting and compliance.

Boothe, Vassar & Company

Boothe, Vassar & Company

May 20, 2013
Big Spring, Texas

Falcon Ridge Limited Partnership

Balance Sheets

December 31, 2012 and 2011

ASSETS

	12/31/2012	12/31/2011
Current Assets:		
Cash and Cash Equivalents	$ 131,252	$ 53,295
Accounts Receivable - Tenants	743	1,868
Accounts Receivable - Rural Development	25,140	25,342
Accounts Receivable - Interest Subsidy	39,658	10,058
Prepaid Expenses	8,644	6,918
Total Current Assets	205,437	97,481
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	37,881	31,892
Real Estate Tax & Insurance	51,281	48,064
Other Escrows	9,782	39,960
Replacement Reserve	260,041	237,253
Operating & Operating Deficit Reserve	200,881	200,881
Lease Up Reserve	25,022	25,000
Developer Fee Escrow	276,837	276,837
Total Restricted Deposits & Funded Reserves	861,725	859,887
Property & Equipment:		
Land	106,160	106,160
Buildings	8,299,868	8,299,868
Site Improvements	593,392	588,759
Furnishings	293,363	293,363
Accumulated Depreciation	(576,974)	(310,649)
Total Property & Equipment	8,715,809	8,977,501
Other Assets:		
Deferred Finance Cost, net of amortization	315,430	340,189
Deferred Tax Credit Fees, net of amortization	62,889	67,821
Total Other Assets	378,319	408,010
Total Assets	$ 10,161,290	$ 10,342,879

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Balance Sheets

December 31, 2012 and 2011

LIABILITIES & PARTNERS' EQUITY

	12/31/2012	12/31/2011
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	$ 33,516	$ 30,272
Accounts Payable	6,569	5,371
Accrued Interest	20,589	15,684
Accrued Expenses	13,444	14,014
Accrued - Property Taxes	16,144	0
Total Current Liabilities	90,262	65,341
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	37,881	31,090
Prepaid Tenant Fees	651	549
Total Deposits & Prepaid Liabilities	38,532	31,639
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	3,493,670	3,527,186
Deferred Development Fees	276,836	276,836
Total Long-Term Liabilities	3,770,506	3,804,022
Total Liabilities	3,899,300	3,901,002
Partners' Equity (Deficit)		
Partners' Equity (Deficit)	6,268,249	6,448,136
Syndication Costs	(6,259)	(6,259)
Total Equity	6,261,990	6,441,877
Total Liabilities & Partners' Equity	$ 10,161,290	$ 10,342,879

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Statements of Operations

For the Years Ended December 31, 2012 and 2011

	12/31/2012	12/31/2011
Rental Income:		
Rental Income - Rental Assistance	$ 409,707	$ 357,279
Rental Income - Tenant Portion	128,373	185,801
Potential Rental Income	538,080	543,080
Less: Vacancies	(20,886)	(81,557)
Less: Concessions	(3,920)	(771)
Total Rental Income	513,274	460,752
Other Income:		
Interest Income	135	1,979
Laundry & Vending	3,849	1,971
Tenant Charges	7,152	4,848
Interest Subsidy Income	151,224	120,699
Miscellaneous Income	1,214	179
Total Other Income	163,574	129,676
Total Income	676,848	590,428
Operating Expenses:		
Administrative	104,818	116,294
Utilities	28,083	25,697
Maintenance	77,043	51,931
Taxes & Insurance	79,485	74,942
Financial Expense	255,791	259,978
Total Cost of Operations	545,220	528,842
Net Income/(Loss) from Operations	131,628	61,586
Non-Operating Income & (Expenses):		
Organizational Costs	(500)	0
Depreciation Expense	(266,325)	(266,271)
Amortization Expense	(29,690)	(29,934)
Total Non-Operating Income & (Expenses)	(296,515)	(296,205)
Net Income/(Loss)	(164,887)	(234,619)

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Statements of Changes in Partners' Equity (Deficit)

For the Years Ended December 31, 2012 and 2011

		Total
Partners' Equity (Deficit), December 31, 2010		$ (317,355)
Net Income/(Loss):	12/31/2011	(234,619)
Partners' Capital Contributions		24,036
TCEP - Contributed Capital		6,976,074
Partners' Distributions		0
Partners' Equity (Deficit), December 31, 2011		$ 6,448,136
Net Income/(Loss):	12/31/2012	(164,887)
Partners' Capital Contributions		0
Partners' Distributions		(15,000)
Partners' Equity (Deficit), December 31, 2012		$ 6,268,249

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows From Operating Activities:	**12/31/2012**	**12/31/2011**
Revenue:		
Rental Receipts	$ 104,795	$ 102,559
Rental Income - Rental Assistance	409,909	336,097
Other Income	133,974	129,676
Total Receipts	648,678	568,332
Expenses:		
Administrative	(108,065)	(112,640)
Utilities	(27,851)	(28,954)
Maintenance	(75,124)	(51,173)
Taxes & Insurance	(63,341)	(75,120)
Financial Expense	(250,886)	(260,104)
Tenant Security Deposits	802	(302)
Organizational Costs	(500)	0
Total Disbursements	(524,965)	(528,293)
Net Cash from Operating Activities:	123,713	40,039
Cash Flows From Investing Activities:		
Property & Equipment	(4,633)	0
Replacement Reserve	(22,788)	(584)
Real Estate Tax & Insurance	(3,217)	(48,064)
Other Escrows	30,176	(39,961)
Operating & Operating Deficit Reserve	0	(102)
Lease Up Reserve	(22)	(89)
Developer Fee Escrow	0	(276,837)
Net Cash from Investing Activities:	(484)	(365,637)
Cash Flows From Financing Activities:		
Construction Loan	0	(1,332,010)
Lancaster Pollard Loan Proceeds	0	1,332,000
TCEP Funds	0	(6,278,467)
Deferred Development Fees	0	(553,674)
Rural Development Loan Principal Payments	(30,272)	(17,730)
Contractor Retainage	0	(329,827)
Construction Payables	0	(190,240)
Partners' Capital Contributions	0	24,036
Partners' Distributions	(15,000)	0
TCEP Equity	0	6,976,074
Net Cash from Financing Activities:	(45,272)	(369,838)
Increase (Decrease) In Cash	77,957	(695,436)
Cash at Beginning of Period	53,295	748,731
Cash at End of Period	$ 131,252	$ 53,295

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

Increase (Decrease) in Cash and Cash Equivalents

	12/31/2012	12/31/2011
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	$ (164,887)	$ (234,619)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	266,325	266,271
Amortization Expense	29,690	29,934
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	1,125	(1,456)
Accounts Receivable - Rural Development	202	(21,182)
Accounts Receivable - Interest Subsidy	(29,600)	0
Prepaid Expenses	(1,726)	1,434
Tenant Security Deposits	(5,989)	(29,022)
Increase (Decrease) In Liabilities		
Accounts Payable	1,201	(3,051)
Accrued Interest	4,905	(126)
Accrued Expenses	(570)	2,593
Accrued - Property Taxes	16,144	0
Tenant Security Deposits	6,791	28,720
Prepaid Tenant Fees	102	541
Net Cash from Operating Activities	$ 123,713	$ 40,037
<u>Supplemental Disclosures:</u>		
Interest Paid	$ 91,956	$ 135,828

The accompanying notes are an integral part of these financial statements

NOTE A - ORGANIZATION

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

In August 2006, three properties known as Los Caballos I, II, & III were destroyed and rendered uninhabitable by a flood in Hatch, NM. The properties were originally funded by three different RD 515 loans. A new project in a different location, but also in Hatch, NM was to be built. On December 22, 2009, the transfer of the loans was made to the new entity, Falcon Ridge Apartments. The total of the loans assumed was $2,259,317. Interest was paid on the loan prior to assumption in the amount of $132,229. In addition, the remaining insurance proceeds in the amount of $1,778,290 received from the Los Caballos property insurance settlement were also transferred, along with the remaining development costs of $414,551 related to this transfer.

The management of the Partnership and the ongoing management of Falcon Ridge Apartments are vested in the Partners. The Partnership has hired JL Gray Company, an affiliate of the General and Limited Partners, to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

The Partnership is reported as a component unit of Mesilla Valley Public Housing Authority (MVPHA) because the MVPHA is the sole member of the General Partner of the Partnership. The Partnership has no component units.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

<u>Basis of Accounting</u>

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

<u>Cash and Cash Equivalents</u>

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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. Cash and cash equivalents in excess of FDIC limits were $217,445 and $118,248 at December 31, 2012 and 2011, respectively. Accounts held in escrow for developer fees and the operating deficit reserve are invested without any federal deposit insurance. The amounts held without insurance are $477,810 and $477,718 as of December 31, 2012 and 2011. 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, 2012 and 2011.

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.

Property and Equipment

Property and equipment are 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. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

	Estimated Life
Buildings	40
Site Improvements	20
Furnishings	10

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the moment by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2012 or 2011.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. As of December 31, 2012, the Partnership's tax years for 2009, 2010 and 2011 are subject to examination by the federal and state tax authorities. With few exceptions, as of December 31, 2012, the Partnership is no longer subject to examinations by tax authorities for years before 2009.

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.

Return to Owner

In accordance with the Loan Agreements(s), the maximum annual cash return to owner allowable by RD for the Partnership is $15,000, and is allocated to the Partners as formulated in the Partnership Agreement.

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 2011 financial statements have been reclassified to conform to the 2012 presentation.

Collateralization of Deposits

Even though the Partnership is a component unit of the Mesilla Valley Public Housing Authority (MVPHA), it is not subject to the requirement to secure collateralization on cash deposits.

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2012 and 2011:

General Partner:
Falcon Ridge LLC to receive Net Income at 100.00%.
Limited Partner:
JLG Properties, LLC to receive Net Loss at 100.00%.

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

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

There were no contributions from the Partners as of December 31, 2012. The General Partner made a contribution of $24,036 as of December 31, 2011.

NOTE D - LONG-TERM DEBT

	12/31/2012	12/31/2011
The Project is financed with a 40-year mortgage payable dated December, 2011, to Lancaster Pollard Mortgage Company in the original amount of $1,332,000, with an interest rate of 4.58%. The loan is under the USDA Section 538 Guaranteed Rural Rental Housing Program and has been awarded an interest credit by USDA to reduce the effective interest rate on the loan to 2.08% per annum. The mortgage is payable in monthly installments of $6,061 including interest through the maturity date. The unpaid principal of the loan is due December 1, 2051. The accrued interest was $5,042 and $0 as of December 31, 2012 and 2011, respectively. Interest expensed on this loan was $60,756 and $1,864 as of December 31, 2012 and 2011, respectively.	1,321,040	1,332,000
On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principal balance of the Rural Development Section 515 loans originally issued to Los Caballos I, Los Caballos II and Los Caballos III. The amount assumed and related interest and maturity dates were $726,506 at 9.00% matures February 1, 2037; $690,892 at 8.75% matures August 1, 2041; $839,902 at 7.75% matures July 1, 2043. The assumed loans are payable in monthly installments of $7,173, net of interest subsidy. The accrued interest was $15,547 and $15,684 as of December 31, 2012 and 2011, respectively. Interest expensed on these loans was $187,329 and $196,095 as of December 31, 2012 and 2011, respectively.	2,206,146	2,225,459
Total	3,527,186	3,557,459
Less: Current Portion	33,516	30,272
Long-Term Notes Payable	$ 3,493,670	$ 3,527,187

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

Aggregate maturities of the loans are approximated as follows:

	Principal	Interest*
December 31, 2013	$ 33,516	$ 245,998
2014	35,965	243,549
2015	38,607	240,907
2016	41,459	238,055
2017	44,538	234,976
2018-2022	278,249	1,205,514
2023-2027	402,439	1,103,457
2028-2032	586,866	946,847
2033-2037	794,085	708,890
2038-2042	695,622	472,439
2043-2047	310,449	364,685
2048-2052	265,391	290,941
Total	$ 3,527,186	$ 6,296,258

*The Rural Development loans assumed by the Partnership are Section 515. Interest Subsidy from Rural Development should reduce the interest paid to 1% over the term of the loan (See Interest Credit and Rental Assistance Agreement Footnote). The project also received interest subsidy from Rural Development Section 538 loan. Interest subsidy payments of $151,224 and $120,699 were recognized as other income during 2012 and 2011, respectively.

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

NOTE E - RESERVE FUNDS

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were $276,837 and $276,837 as of December 31, 2012 and 2011, respectively.

Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve at the time of the fourth installment to fund major repairs or replacements of the Project Property. The Partnership shall make deposits into the Replacement Reserve fund in the amount of $25 per year for each residential unit in the Project, totaling $1,800 annually. The Replacement Reserve balance was $260,041 and $237,253 as of December 31, 2012 and 2011, respectively.

NOTE E - RESERVE FUNDS *(continued)*

Operating & Operating Deficit Reserve

In accordance with the Partnership Agreement, the Partnership funded an Operating Reserve fund in the amount of $200,640. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was $200,881 and $200,881 as of December 31, 2012 and 2011, respectively.

Lease Up Reserve

On December 18, 2009 at the time of the loan closing, a Lease Up Reserve account was established in the amount of $25,000. The TCEP agreement states that the funds are required to be held by the New Mexico Mortgage Finance Authority (NMMFA) and only to be distributed by their approval. However, NMMFA did not retain these funds from the loan draws. When the project reaches stabilization, any remaining funds shall be applied first to pay any monies owed to NMMFA, then to satisfy and other reserve requirement of the project, then to the owners or any lender with a continuing loan on the project. The Lease Up Reserve balance was $25,022 and $25,000 as of December 31, 2012 and 2011, respectively.

Stabilization has been achieved when all of the following conditions have been met:

1. The project has achieved an occupancy of 93%;
2. The project has met the debt service coverage ratio for three consecutive months;
3. The owner has closed on and received permanent financing;
4. The owner has established and funded all required reserves; and
5. The owner had delivered to NMMFA satisfactory evidence that all low-income units have been occupied by qualifying tenants.

NOTE F - TCEP FUNDS

On December 18, 2009, the Partnership executed a $6,976,074 TCEP Mortgage Note to New Mexico Mortgage Finance Authority. The terms of the loan begin upon its execution and end 180 months after commencement of the Compliance Period. There are no interest or scheduled principal payments due with respect to this loan. The amount subject to recapture shall be reduced by 6.67% of the original loan amount for each compliant year. In the event there is no uncured Recapture Event of Default at the time of termination, this TCEP Mortgage Note shall be forgiven. Due to the fact that the repayment of the loan is considered less than remote, the liability was reclassified to a capital contribution as of December 31, 2011.

NOTE 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.

Interest Credit and Rental Assistance Agreement

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

Rental Assistance Agreement

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

Interest Credit Agreement

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

NOTE 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 Project. The current year management fee is equal to 5.5% of gross rental collections. Property Management Fees expensed were $38,134 and $35,558 during 2012 and 2011, respectively. The amounts due to the Management Agent related to Management Fees were $0 and $49 as of December 31, 2012 and 2011, respectively.

Development Fee

The Partnership has incurred a Development Fee of $1,107,346 due to JL Gray Company and the Mesilla Valley Public Housing Authority, 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, 2012, $830,510 of this fee has been paid. The amounts due related to Development Fees were $276,836 and $276,836 as of December 31, 2012 and 2011, respectively.

Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received rental income of $3,849 and $1,971 for the years ended December 31, 2012 and 2011, 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 amounts due to the Management Agent related to reimbursed expenses are considered negligible as of December 31, 2012 and 2011, respectively.

NOTE I - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

The Project's major source of revenue is from rental assistance received from Rural Development. Rural Development may terminate the interest subsidy or rental assistance agreement if it determines that no subsidy is necessary or if the project is determined to be in violation of Rural Development rules or regulations.

NOTE J - ACCRUED LIABILITIES

The accrued liabilities on the balance sheet as of December 31, 2012 contain the following:

Accrued Payroll Expenses	$ 1,317
Accrued Audit Fees	12,127
Total Accrued Liabilities	$ 13,444

NOTE K - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through May 20, 2013 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Falcon Ridge Limited Partnership

Supplemental Information Required by HUD

Year Ended December 31, 2012

Falcon Ridge Limited Partnership

Supplementary Information Required by HUD

Year Ending December 31, 2012

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2012	$ 237,253
Total Monthly Deposit	22,703
Other Deposits -	237,312
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	85
Approved Withdrawals	0
Other Withdrawals	237,312
Balance as of December 31, 2012	$ 260,041

Other Deposits
Transfer between bank accounts

Other Withdrawals
Transfer between bank accounts

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2012	$ 200,881
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	0
Approved Withdrawals	0
Balance as of December 31, 2012	$ 200,881

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Land	$ 106,160	$ 0	$ 0	$ 106,160
Buildings	8,299,868	0	0	8,299,868
Site Improvements/Building Equipment	588,759	4,633	0	593,392
Furnishings	293,363	0	0	293,363
Totals	$ 9,288,150	$ 4,633	$ 0	$ 9,292,783
Accumulated Depreciation	$ 310,649	$ 266,325	$ 0	$ 576,974
Net Book Value	$ 8,977,501			$ 8,715,809

Schedule of Additions to Fixed Assets:

	12/31/2012
Sidewalk	4,633
Totals:	$ 4,633

Falcon Ridge Limited Partnership

Computation of Surplus Cash, Distributions and Residual Receipts

Year Ending December 31, 2012

			12/31/2012
Cash:			
	Cash		169,133
	Accounts Receivable - Rural Development		25,140
	Total Cash	$	194,273
Current Obligations:			
	Accrued Mortgage Interest Payable		20,589
	Accounts Payable - 30 Days		6,569
	Accrued Expenses (not escrowed)		13,444
	Prepaid Revenue		651
	Tenant Security Deposits Liability		37,881
	Total Current Obligations		79,135
	Surplus Cash (Deficiency)	$	115,138
Amount Available for Distribution During Next Fiscal Period:			
	Surplus Cash	$	115,138

Boothe, Vassar & Company
Certified Public Accountants *www.boothevassar.com*
1001 East Farm Road 700 • Big Spring, Texas 79720 • (432) 263-1324 • FAX (432) 263-2124

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Partners of
Falcon Ridge Limited Partnership
Hatch, New Mexico
and
Hector H. Balderas, New Mexico State Auditor

We have audited, in accordance with the 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, the financial statements of Falcon Ridge Limited Partnership which comprise the balance sheet as of December 31, 2012, and related statements of income (loss), changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated May 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Falcon Ridge Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Falcon Ridge Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Falcon Ridge Limited Partnership's internal control.

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, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Partnership's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not be identified.

Compliance

As part of obtaining reasonable assurance about whether Falcon Ridge Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Partnership's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Partnership's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boothe, Vassar & Company

Boothe, Vassar & Company

May 20, 2013
Big Spring, Texas

Boothe, Vassar & Company
Certified Public Accountants *www.boothevassar.com*
1001 East Farm Road 700 • Big Spring, Texas 79720 • (432) 263-1324 • FAX (432) 263-2124

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS*

To the Partners of
Falcon Ridge Limited Partnership
Hatch, New Mexico
and
Hector H. Balderas, New Mexico State Auditor

Compliance

We have audited Falcon Ridge Limited Partnership's compliance with the specific program compliance 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; distribution to owners; equity skimming; and excess income described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have direct and material effect on each of Falcon Ridge Limited Partnership's major HUD-assisted programs for the year ended December 31, 2012. Falcon Ridge Limited Partnership's major HUD-assisted program(s) is 542(c) Multifamily Insurance Program.

Management's Responsibility for Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to Falcon Ridge Limited Partnership's HUD-assisted program(s).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Falcon Ridge Limited Partnership's major HUD-assisted programs based on our audit of the specific compliance requirements referred to above. 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 Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Falcon Ridge Limited Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination of Falcon Ridge Limited Partnership's compliance.

Opinion on Each Major HUD Program

In our opinion, Falcon Ridge Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2012.

Internal Control Over Compliance

Management of Falcon Ridge Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Falcon Ridge Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Falcon Ridge Limited Partnership's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Boothe, Vassar & Company

May 20, 2013
Big Spring, Texas

Falcon Ridge Limited Partnership

Schedule of Findings and Responses

December 31, 2012

Current Year Audit Findings: December 31, 2012

None Noted

Falcon Ridge Limited Partnership

Auditor's Comments on Audit Resolution

Matters Relating to HUD Programs

December 31, 2012

Prior Year Audit Findings: December 31, 2011

None Noted

Falcon Ridge Limited Partnership

Mortgagor's Certification

December 31, 2012

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2012, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed: Robbie R. Levey Date: 5/23/13

Name Robbie Levey

Title Executive Director
Mesilla Valley Public Housing Authority

Auditee Information:
505-325-6515
May 20, 2013
Falcon Ridge Limited Partnership
20 S. Chile Capital St.
Hatch, New Mexico 87937

Falcon Ridge Limited Partnership

Management Agent's Certification

December 31, 2012

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2012, and to the best of our knowledge and belief, the same are complete and accurate.

Signed: ______________________ Date: 5/28/13

Name: Bobby Griffith

Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.
Farmington, NM 87401

Federal I.D. Number: 85-0327246

Falcon Ridge Limited Partnership

Information on Auditor

December 31, 2012

Auditor's Transmittal Letter

Audit Firm:	
	Boothe, Vassar & Company State of New Mexico License No. 10014
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:	
	75-2335286
Auditor's Report Date:	
	May 20, 2013
Contacts:	
	kenneth@boothevassar.com

Falcon Ridge Limited Partnership

Exit Conference

December 31, 2012

EXIT CONFERENCE

An exit conference was held on May 23, 2013, which was attended by the following:

Housing Authority Administration

Robbie Levey	Executive Director
Christine Gonzalez	Executive Assistant
Sharon Hansen	Accountant

Boothe, Vassar & Company

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 Boothe, Vassar & Company. However, the contents of the financial statements remain the responsibility of management.