

Desert Palms Apartments Limited Partnership

**Financial Statements
And Supplementary Information**

Year Ended December 31, 2012

Desert Palms Apartments Limited Partnership

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Balance Sheet.....	3 - 4
Statement of Operations.....	5
Statement of Changes in Partners' Equity (Deficit).....	6
Statement of Cash Flows.....	7 - 8
Notes to Financial Statements	9 - 16
Supplemental Information	
Supplementary Information Required by HUD.....	18 - 19
Computation of Surplus Cash, Distributions and Residual Receipts.....	20
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 <i>Government Auditing Standards</i>	21 - 22
Independent Auditor's Report on Compliance For Each Major HUD Program and Report on Internal Control Over Compliance Required by the <i>Consolidated Audit Guide for Audits of HUD Programs</i>	23 - 24
Schedule of Findings and Responses	25
Auditor's Comments on Audit Resolution Matters Relating to HUD Programs	26
Mortgagor's Certification	27
Management Agent's Certification	28
Information on Auditor	29
Exit Conference	30

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INDEPENDENT AUDITOR'S REPORT

To the Partners of

Desert Palms Apartments Limited Partnership
Las Cruces, New Mexico
and
Hector H. Balderas, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statement of Desert Palms Apartments Limited Partnership, which comprise the balance sheet, as of December 31, 2012 , and the related statements of operations, changes in partners' equity (deficit), and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Desert Palms Apartments 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 Desert Palms Apartments 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

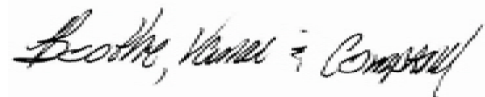
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desert Palms Apartments Limited Partnership as of December 31, 2012 , and the results of its operations and its cash flows for the year then ended in accordance with accounting 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 18 - 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 Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's internal control over financial reporting and compliance.



Boothe, Vassar & Company

May 20, 2013
Big Spring, Texas

Desert Palms Apartments Limited Partnership

Balance Sheet

December 31, 2012

ASSETS

	<u>12/31/2012</u>
Current Assets:	
Cash and Cash Equivalents	\$ 22,697
Accounts Receivable - Tenants	5,689
Prepaid Expenses	14,434
Total Current Assets	<u>42,820</u>
Restricted Deposits & Funded Reserves:	
Tenant Security Deposits	33,318
Real Estate Tax & Insurance	5,788
Other Escrows	2,102
Operating Deficit Reserve	15,418
Replacement Reserve	144,245
Operating Reserve	59,668
Total Restricted Deposits & Funded Reserves	<u>260,539</u>
Property & Equipment:	
Land	200,000
Buildings	3,336,784
Site Improvements	284,491
Furnishings	479,079
Maintenance Equipment	609
Accumulated Depreciation	(1,168,065)
Total Property & Equipment	<u>3,132,898</u>
Other Assets:	
Deferred Finance Cost	90,117
Amortization	(35,684)
Total Other Assets	<u>54,433</u>
Total Assets	<u>\$ 3,490,690</u>

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

Desert Palms Apartments Limited Partnership

Balance Sheet

December 31, 2012

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2012</u>
Liabilities:	
Current Liabilities:	
Current Maturities of Long-Term Debt	\$ 19,713
Accounts Payable	8,306
Accrued Interest	9,043
Accrued Expenses	26,412
Accrued - Property Taxes	7,201
Notes Payable - Insurance	3,983
Total Current Liabilities	<u>74,658</u>
Deposits & Prepaid Liabilities:	
Tenant Security Deposits	33,318
Prepaid Tenant Fees	3,548
Total Deposits & Prepaid Liabilities	<u>36,866</u>
Long-Term Liabilities:	
Long-Term Debt (net of current maturities)	1,930,975
Long-Term Accrued Interest	89,183
Deferred Development Fees	193,939
Asset Management Fee / Return to Owner	36,637
Total Long-Term Liabilities	<u>2,250,734</u>
Total Liabilities	<u>2,362,258</u>
Partners' Equity (Deficit)	<u>1,128,432</u>
Total Liabilities & Partners' Equity	<u>\$ 3,490,690</u>

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

Desert Palms Apartments Limited Partnership

Statement of Operations

For the Year Ended December 31, 2012

	<u>12/31/2012</u>
Rental Income:	
Rental Income - Tenant Portion	\$ 371,675
Rental Income - PHA	100,886
Potential Rental Income	<u>472,561</u>
Lease Excess	34,650
Less: Vacancies	(15,393)
Less: Concessions	(4,005)
Total Rental Income	<u>487,813</u>
Other Income:	
Interest Income	283
Laundry & Vending	943
Tenant Charges	24,217
Miscellaneous Income	12,897
Total Other Income	<u>38,340</u>
Total Income	<u>526,153</u>
Operating Expenses:	
Administrative	84,844
Utilities	40,631
Maintenance	115,370
Taxes & Insurance	57,466
Financial Expense	134,546
Total Cost of Operations	<u>432,857</u>
Net Income/(Loss) from Operations	<u>93,296</u>
Non-Operating Income & (Expenses):	
Investor Service Fee	(5,067)
Depreciation Expense	(137,071)
Amortization Expense	(2,209)
Total Non-Operating Income & (Expenses)	<u>(144,347)</u>
Net Income/(Loss)	<u>\$ (51,051)</u>

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

Desert Palms Apartments Limited Partnership
Statement of Changes in Partners' Equity (Deficit)
For the Year Ended December 31, 2012

	Total	General Partner Equity	Limited Partner Equity
Partners' Equity (Deficit), December 31, 2011	\$ 1,179,483	\$ 283,851	\$ 895,632
Net Income/(Loss): 12/31/2012	(51,051)	(5)	(51,046)
Partners' Capital Contributions	0	0	0
Partners' Distributions	0	0	0
Partners' Equity (Deficit), December 31, 2012	\$ 1,128,432	\$ 283,846	\$ 844,586

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

Desert Palms Apartments Limited Partnership
Statement of Cash Flows
For the Year Ended December 31, 2012
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2012
Cash Flows From Operating Activities:	
Revenue:	
Rental Receipts	\$ 386,013
Rental Income - PHA	100,886
Other Income	25,443
Miscellaneous Income	12,897
Total Receipts	525,239
Expenses:	
Administrative	(98,604)
Utilities	(43,894)
Maintenance	(120,610)
Taxes & Insurance	(57,360)
Financial Expense	(134,632)
Total Disbursements	(455,100)
Net Cash from Operating Activities:	70,139
Cash Flows From Investing Activities:	
Property & Equipment	(51,367)
Real Estate Tax & Insurance	1,115
Other Escrows	33
Replacement Reserve	(18,961)
Operating Reserve	(53)
Operating Deficit Reserve	(24)
Net Cash from Investing Activities:	(69,257)
Cash Flows From Financing Activities:	
Principal Payments on Mortgage	(18,478)
Long-Term Accrued Interest	16,423
Net Cash from Financing Activities:	(2,055)
Increase (Decrease) In Cash	(1,173)
Cash at Beginning of Period	23,870
Cash at End of Period	\$ 22,697

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

Desert Palms Apartments Limited Partnership
Statement of Cash Flows
For the Year Ended December 31, 2012
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2012
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:	
Net Income (Loss)	\$ (51,051)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Depreciation Expense	137,071
Amortization Expense	2,209
(Increase) Decrease In Assets	
Accounts Receivable - Tenants	(1,021)
Prepaid Expenses	(662)
Tenant Security Deposits	(1,025)
Increase (Decrease) In Liabilities	
Accounts Payable	(32,334)
Accrued Interest	(86)
Accrued Expenses	10,733
Accrued - Property Taxes	106
Tenant Security Deposits	1,025
Prepaid Tenant Fees	107
Asset Management Fee / Return to Owner	5,067
Net Cash from Operating Activities:	\$ 70,139
<u>Supplemental Disclosures:</u>	
Interest Paid	\$ 109,021

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

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

NOTE A - ORGANIZATION

Desert Palms Apartments Limited Partnership was organized in 2003 as a Limited Partnership to develop, construct, own, maintain, and operate a 101-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Las Cruces, New Mexico, and is currently known as Desert Palms 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 Desert Palms Apartments are vested in the Partners. The Partnership has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

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

The Partnership is reported as a component unit of Mesilla Valley Public Housing Authority (MVPHA), previously Housing Authority of the City of Las Cruces, because MVPHA is a 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.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

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, 2012.

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 statement 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	15
Furnishings	3-7
Maintenance Equipment	5

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.

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.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

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.

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Desert Palms Apartments Limited Partnership and their respective profit and loss percentages are as follows for the period from January 25, 2010 to December 31, 2012:

General Partner:	
<i>Desert Palms Apartments LLC</i>	0.01 %
Limited Partner:	
<i>Freddie Mac Equity Plus II, ESIC</i>	<u>99.99 %</u>
Total	<u>100.00 %</u>

NOTE D - LONG-TERM DEBT

The Project is financed with a 35-year mortgage payable to New Mexico Mortgage Finance Authority in the original amount of \$1,705,000, with an interest rate of 6.48%. The mortgage is payable in monthly installments of \$10,277 through October 1, 2041. The accrued interest was \$8,683. Interest expensed on this loan was \$104,750 as of December 31, 2012.

12/31/2012

\$ 1,607,944

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

NOTE D - LONG-TERM DEBT (continued)

12/31/2012

The Project also has a mortgage payable to City of Las Cruces in the original amount of \$342,744. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 4.94% compounded annually. Monthly interest only payments of 1% are to be paid for the first fifteen years. After the end of year fifteen the principal and accrued interest will become due and payable in 179 monthly installments of \$4,820. Maturity of the loan occurs at the sale, refinance, and transfer of the property or on September 2034. The short-term accrued interest was \$360. The long-term accrued interest was \$89,183 as of December 31, 2012. Interest expensed on this loan was \$20,608 as of December 31, 2012.

	342,744
Total	<u>1,950,688</u>
Less: Current Portion	<u>19,713</u>
Long-Term Notes Payable	<u><u>\$ 1,930,975</u></u>

Aggregate maturities of the notes are approximated as follows:

	<u>Principal</u>	<u>Interest</u>
December 31, 2013	\$ 19,713	\$ 107,952
2014	21,029	106,807
2015	22,433	105,581
2016	23,930	104,268
2017	25,528	102,862
2018-2022	180,513	482,856
2023-2027	329,948	401,698
2028-2032	411,938	319,707
2033-2037	525,202	206,443
2038-2042	<u>507,710</u>	<u>55,135</u>
Total	<u><u>\$ 2,067,944</u></u>	<u><u>\$ 1,993,309</u></u>

Long-term accrued interest on the HOME loan in the amount of \$117,256 becomes principal and is amortized when principal payments begin December of 2021.

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.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

NOTE E - RESERVE FUNDS

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 of \$29,000 annually commencing with the completion of the Project. The Replacement Reserve balance was \$144,245 as of December 31, 2012.

Operating Reserve

The General Partner is required to establish and maintain an Operating Reserve on the date of the fourth capital contribution in the amount of \$75,000. The Operating Reserve balance was \$59,668 as of December 31, 2012. The Partnership was also required to establish a separate Operating Deficit Reserve with New Mexico Mortgage Finance Authority. The Operating Deficit Reserve balance was \$15,418 as of December 31, 2012. The Operating Reserve and Operating Deficit Reserve were reported together in prior years.

NOTE F - COMMITMENTS AND CONTINGENCIES

Housing Tax Credits

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

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

Long-term Contract

The Partnership entered into a service agreement and a compensation agreement with Comcast of California XIV LLC (Comcast) on March 13, 2012. The service agreement is for a term of 15 years, and then automatically renews biannually unless either party provides at least 60 days to notice not to renew at the end of the term. Per the compensation agreement, Comcast agreed to pay the Partnership a one-time fee of \$12,625 as consideration for entering into a long-term service agreement. The total fee was received by the partnership upon execution of the agreements and is included in miscellaneous income for the year ended December 31, 2012.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

NOTE F - COMMITMENTS AND CONTINGENCIES *(continued)*

Regulatory Agreement Provisions

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

HOME Investment Partnerships Program

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

NOTE G - 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 6% of gross rental collections. Property Management Fees expensed were \$26,290 during 2012. The amounts included in accounts payable that are due to the Management Agent related to Management Fees were \$47 as of December 31, 2012. The Management Agent also advanced funds to the property during the year due to cash flow issues. The amount included in accrued liabilities that is due to the Management Agent related to this advance was \$4,000 as of December 31, 2012.

Owner Distribution - Investor Services Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the Limited Partner an Investor Services Fee in the amount of \$4,000 beginning in 2004. The fee shall increase at a rate of 3% per year thereafter. The Investor Services Fee shall be payable from the available cash flows. Any unpaid fees may accrue for payment in subsequent years. Investor Services Fees of \$5,067 were recognized during 2012. The amounts due to the Limited Partner related to Investor Services Fees were \$36,637 as of December 31, 2012.

Owner Distribution - Partnership Administrative Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the General Partner a Partnership Administrative Fee in the annual amount of \$25,000. The fee shall increase at a rate of 3% per year thereafter. The Partnership Administration Fee shall be payable from the available cash flows. Any unpaid fees may accrue for payment in subsequent years. There were no Partnership Administrative Fees accrued during 2012.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

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

Development Fee

The Partnership has incurred a Development Fee of \$203,230 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, 2012, \$9,290 of this fee has been paid. The amounts due related to Development Fees were \$193,939 as of December 31, 2012.

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 \$943 for the year ended December 31, 2012.

Reimbursed Expenses

The Management Agent is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. For example, the properties do not have access to credit cards in order to directly pay necessary items such as seminars and motels. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. The amount due to the Management Agent related to reimbursed expenses is considered negligible as of December 31, 2012.

Operating Deficit Loans

Pursuant to the Partnership Agreement, the General Partner has guaranteed to fund all deficits through the later of Permanent Loan Closing and achievement of a Debt Service Coverage Ratio of 1:15:1 for 90 days, as defined. Subsequent to Permanent Loan Closing or achievement of the Debt Service Coverage Ratio, funding up to an additional \$275,000 of operating deficits is guaranteed. The requirement to fund additional operating deficits will terminate on the date the following occurs:

1. The Project has operated at Break-even three consecutive calendar years following the stabilization date of the Project;
2. The Project has met the required Debt Service Coverage for three years;
3. The balance in the Operating Reserve equals or exceeds the Operating Reserve amount.

The General Partner obligations shall be Guaranteed by the Guarantor (JL Gray Company) as defined in the Guaranty Agreement.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2012

NOTE H - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Desert Palms 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 I - ACCRUED LIABILITIES

The accrued liabilities on the balance sheet contain the following:

Accrued Payroll Expenses	\$ 5,716
Accrued Audit Fees	<u>20,696</u>
Total Accrued Liabilities	<u><u>\$ 26,412</u></u>

NOTE J - 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.

**Desert Palms Apartments Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2012**

Desert Palms Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2012

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2012	\$ 125,284
Deposits	29,000
Other Deposits -	1,000
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	196
Approved Withdrawals	11,235
Balance as of December 31, 2012	<u>\$ 144,245</u>
 Deposits Suspended or Waived Indicator	 No
 Other Deposits Excess Reserve Funding	

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2012	\$ 75,009
Deposits	0
Other Deposits -	59,615
Interest Earned on Operating Reserve Account (Net of Service Fees)	77
Other Withdrawals	59,615
Balance as of December 31, 2012	<u>\$ 75,086</u>

Desert Palms Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2012

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
Land	\$ 200,000	\$ 0	\$ 0	\$ 200,000
Buildings	3,336,784	0	0	3,336,784
Site Improvements/Building Equipment	277,128	7,363	0	284,491
Furnishings	435,075	44,004	0	479,079
Maintenance Equipment	609	0	0	609
Totals	<u>\$ 4,249,596</u>	<u>\$ 51,367</u>	<u>\$ 0</u>	<u>\$ 4,300,963</u>
Accumulated Depreciation	<u>\$ 1,030,994</u>	<u>\$ 137,071</u>	<u>\$ 0</u>	<u>\$ 1,168,065</u>
Net Book Value	<u><u>\$ 3,218,602</u></u>			<u><u>\$ 3,132,898</u></u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2012</u>
Handicap ramp, Playground	7,363
Carpet	14,859
Appliances	13,074
Water Heaters	1,866
Furniture	2,997
Air Conditioner	11,208
Totals:	<u><u>\$ 51,367</u></u>

Desert Palms Apartments Limited Partnership
Computation of Surplus Cash, Distributions and Residual Receipts
Year Ending December 31, 2012

		<u>12/31/2012</u>
Cash:		
	Cash	56,015
	Total Cash	<u>\$ 56,015</u>
Current Obligations:		
	Accrued Mortgage Interest Payable	9,043
	Accounts Payable - 30 Days	8,306
	Loans and Notes Payable (due w/in 30 days)	996
	Accrued Expenses (not escrowed)	26,412
	Prepaid Revenue	3,548
	Tenant Security Deposits Liability	33,318
	Total Current Obligations	<u>81,623</u>
	Surplus Cash (Deficiency)	<u>\$ (25,608)</u>
Amount Available for Distribution During Next Fiscal Period:		
	Surplus Cash	<u>\$ 0</u>

Boothe, Vassar & Company

Certified Public Accountants

www.boothevassar.com

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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
Desert Palms Apartments Limited Partnership
Las Cruces, 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 Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Desert Palms Apartments 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.

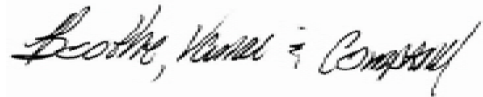
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance

As part of obtaining reasonable assurance about whether Desert Palms Apartments 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

May 20, 2013
Big Spring, Texas

Boothe, Vassar & Company

Certified Public Accountants

www.boothevassar.com

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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
Desert Palms Apartments Limited Partnership
Las Cruces, New Mexico
and
Hector H. Balderas, New Mexico State Auditor

Compliance

We have audited Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's major HUD-assisted programs for the year ended December 31, 2012. Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's HUD-assisted program(s).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's compliance.

Opinion on Each Major HUD Program

In our opinion, Desert Palms Apartments 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

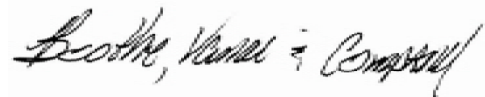
Management of Desert Palms Apartments Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Desert Palms Apartments Limited Partnership's 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 Desert Palms Apartments 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

Desert Palms Apartments Limited Partnership

Schedule of Findings and Responses

December 31, 2012

Current Year Audit Findings: December 31, 2012

None Noted

Desert Palms Apartments 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

Desert Palms Apartments Limited Partnership

Mortgagor's Certification

December 31, 2012

We hereby certify that we have examined the accompanying financial statements and supplemental information of Desert Palms Apartments 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
Desert Palms Apartments Limited Partnership
2405 W. Picacho
Las Cruces, New Mexico 88007

Desert Palms Apartments Limited Partnership

Management Agent's Certification

December 31, 2012

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

Desert Palms Apartments 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

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