



Issue Date July 6, 2007

Audit Report Number 2007-FW-1012

TO: Raynold Richardson
Director, Multifamily Housing Program Center, 6EHM

Dane M. Narode,
Acting Associate General Counsel for Enforcement, Office of General Counsel, CEP

Henry S. Czauski
Acting Director, Departmental Enforcement Center, CV

FROM: Theresa A. Carroll
Acting Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Fallbrook Apartments', Houston, Texas, Owner and/or Management Agent Made
Unauthorized Distributions of the Project's Funds

HIGHLIGHTS

What We Audited and Why

We audited Fallbrook Apartments' owner and previous management agent to determine whether they complied with the project's regulatory agreement and U.S. Department of Housing and Urban Development (HUD) regulations. Specifically, we wanted to determine whether the owner and/or previous management agent (1) improperly advanced and distributed the project's funds when the project was in a non-surplus-cash position, (2) supported disbursements with invoices or other supporting documentation, (3) submitted the 2005 and 2006 annual audited financial statements as required, and (4) fully funded tenant security deposits.

We selected Fallbrook Apartments for review in accordance with our strategic plan and regional goals. In addition, the 2004 audited financial statements of the project indicated potential unauthorized distributions.

What We Found

The owner and/or previous management agent made unauthorized distributions of the project's funds, totaling \$367,205, when the project was in a non-surplus-cash position and could not adequately support six disbursements totaling \$31,625. However, the previous management agent did not fully pay itself \$67,943 in management fees, and the owner repaid a total of \$150,000 to the project's operating bank account while we were conducting the audit, which reduced the amount of funds owed to the project. Also, the owner did not submit the 2005 and 2006 annual audited financial statements as required. The owner fully funded the tenant security deposit account in March 2006 when the current management agent took over.

What We Recommend

We recommend the director of HUD's Multifamily Housing Program Center require the owner to (1) repay the project \$149,262 for unauthorized distributions and put the \$149,262 and the \$150,000 in repaid funds in a restricted escrow account to ensure the owner uses these funds only for eligible project expenses, (2) provide support for \$31,625 in unsupported costs or repay the project, and (3) submit the 2005 and 2006 annual audited financial statements. The acting associate general counsel for enforcement of HUD's Office of Counsel should pursue double damages remedies against the responsible parties. Further, the acting director of HUD's Departmental Enforcement Center should take administrative sanctions and pursue civil money penalties against the owner for repeatedly violating the project's regulatory agreement.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided our discussion draft report to the owner on June 13, 2007, and held an exit conference on June 26, 2007. The owner provided written comments on June 29, 2007, and generally disagreed. We stand by our finding. Further, HUD's Office of Multifamily Housing agreed with our position and indicated they will seek recovery of the funds after final report issuance. We made a minor clarification in the background section of the report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Fallbrook Apartments is a 280-unit project located at 201 Plaza Verde Drive in Houston, Texas. Houston Fallbrook Associates, Ltd. (owner), owns the project. The partnership consists of a general partner, Millennium Development Corporation (1 percent); limited partner, Raymond G. Tiedje (73.95 percent); and eight other limited partners (25.05 percent). Raymond G. Tiedje is the president of the general partner and the president of the previous management agent, Americas Management.

In September 1999, the owner refinanced the apartment project with more than \$4.2 million in financing provided by Davis-Penn Mortgage Company and insured by the U.S. Department of Housing and Urban Development's (HUD) Federal Housing Administration under Section 223(f) of the National Housing Act. The project has not been in a surplus-cash position since HUD insured the mortgage. Currently, the project is delinquent on its mortgage.

Originally, in August 1999, HUD approved Americas Management, LLC, an identity-of-interest company, as the management agent for the project. Americas Management maintains its office and records at 1700 Good Day Drive in Missouri City, Texas. Americas Management served as management agent until March 2006, when the owner hired Creative Property Management as the management agent. Creative Property Management maintains its office and records at 8323 Southwest Freeway, Suite 330, in Houston, Texas.

In November 2000, HUD sanctioned Mr. Tiedje, the president of the managing general partner for Streamside Place Apartments, another HUD-insured project, by flagging him in the previous participation system. HUD sanctioned Mr. Tiedje because the general partner failed to submit the project's annual audited financial statements in a timely manner, encumbered the project without HUD approval, took funds out of the project's account when the project was in a non-surplus-cash position, and defaulted on the mortgage note.

Our objective was to determine whether the Fallbrook Apartments' owner and previous management agent complied with the regulatory agreement and HUD regulations. Specifically, we wanted to determine whether the owner and/or previous management agent (1) improperly advanced and distributed the project's funds when the project was in a non-surplus-cash position, (2) supported disbursements with invoices or other supporting documentation, (3) submitted the 2005 and 2006 annual audited financial statements as required, and (4) fully funded tenant security deposits.

RESULTS OF AUDIT

Finding: The Owner and/or Management Agent Made Unauthorized Distributions of the Project's Funds

The owner and/or previous management agent made \$367,205 in unauthorized distributions of the project's funds and could not adequately support six disbursements totaling \$31,625. However, the previous management agent did not fully pay itself \$67,943 in management fees, and the owner repaid a total of \$150,000 to the project's operating bank account during the audit, which reduced the amount of funds owed to the project. In addition, the owner did not submit the annual audited financial statements as required. The owner made unauthorized distributions and failed to submit financial statements because he disregarded the project's regulatory agreement. The previous management agent also lacked effective procedures and controls over the supporting disbursement records. As a result, fewer project funds were available for mortgage payments, causing the project to be delinquent on the mortgage and unnecessarily increasing the risk to HUD. In addition, HUD did not receive financial statements that would allow it to adequately monitor the project.

The Owner Made \$367,205 in Unauthorized Distributions

The owner and/or previous management agent made unauthorized distributions of the project's funds totaling \$367,205 from January 1, 2002, to March 31, 2006, when the project was in a non-surplus-cash position. The unauthorized distributions included

- Unpaid negative surplus cash of \$87,205 in 2004,
- An unauthorized distribution of \$150,000 in 2004, and
- An unauthorized distribution of \$130,000 in 2005.

The owner did not pay the outstanding negative surplus cash balance in 2002 as HUD's Departmental Enforcement Center required. HUD's Departmental Enforcement Center stated that the owner needed to pay off the negative surplus cash and fund the tenant security deposit account to clear HUD's 2001 report findings. Therefore, the owner should pay the negative surplus cash of \$87,205 as of December 31, 2004, the most current audited financial statement.

The owner transferred \$150,000 to the project's operating account to repay the remaining balance of \$123,595 in unauthorized advances to the general partner and underfunded tenant security deposit in December 2004, after HUD's

Departmental Enforcement Center advised the owner that it intended to pursue double damages remedies under the equity skimming statutes for the misuse of project funds. HUD's Departmental Enforcement Center closed the findings covering the 2002 and 2003 audited financial statements after the owner wire transferred \$150,000 into the project's operating bank account. However, the owner withdrew the same amount by wire transfer on the same date that he notified HUD of the transfer of funds into the account to clear the findings.

The owner made an additional unauthorized distribution of \$130,000 from the project's reserve for replacement funds. HUD released the funds from the reserve for replacement account based on the owner's statement that he had cleared HUD's findings.

The amounts owed to the project need to be reduced by unpaid management agent fees and amounts repaid by the owner during the audit. The previous management agent did not receive its management fee for the period September 2005 to February 2006. In addition, the previous management agent only charged the project \$5,000 per month in management fees. Management fees should be based on the project's income. According to the management certification, the previous management agent was allowed to receive 6 percent of the project's rental income. Therefore, the previous management agent is entitled to receive an additional amount of \$67,943, as it did not collect the full amount due to it, and the ineligible amount owed to the project is reduced to \$299,262 (\$367,205 less \$67,943).

In addition, during the audit, the owner repaid the project \$150,000, including \$100,000 on October 11, 2006, and \$50,000 on February 20, 2007. However, to ensure the owner uses the \$150,000 and the other ineligible amounts we are questioning only for eligible purposes, we recommend that these amounts be placed in a restricted escrow account.

The Owner Could Not Adequately Support Six Payments

The owner and/or previous management agent could not adequately support six disbursements totaling \$31,625. The disbursements were for reimbursements to the management agent for health, life insurance, workers compensation, and a payment to one contractor. The payments lacked supporting information, such as policies, invoices, or other documentation, to support that the costs were allocated equitably among various projects. The owner was able to override any controls or procedures used to ensure that disbursements complied with the regulatory agreement and HUD regulations.

However, the owner corrected the above internal control weakness by hiring a new management agent in March 2006.

The Owner Did Not Submit Annual Audited Financial Statements as Required

The owner did not submit the annual audited financial statements as required. The owner did not submit the 2005 and 2006 audited financial statements for fiscal years ending December 31, 2005, and December 21, 2006, that were due March 31, 2006, and March 31, 2007, respectively. As a result, HUD lacks financial information necessary to monitor the project.

Conclusion

The owner's and previous management agent's unauthorized distributions and unsupported disbursements reduced the amount of the project's operating funds available for mortgage payments and unnecessarily increased the risk of mortgage default. The project was delinquent on its mortgage payments, although HUD approved two withdrawals from reserves totaling \$103,964 during December 2006 and February 2007 for mortgage payments to avoid assignment by the lender. The owner and previous management agent were aware that the distributions violated the regulatory agreement because HUD had required repayment of past unauthorized distributions and threatened to pursue double damages remedies under the equity skimming statutes for the misuse of project funds. The deposits into and wire transfers out of the project's account clearly show the owner's and/or previous management agent's understanding and disregard of the regulatory agreement.

Recommendations

We recommend the director of HUD's Multifamily Program Center

1A. Recover the \$149,262 in unauthorized distributions and deposit this amount, as well as the \$150,000 the owner repaid during the audit for unauthorized distributions, into the project's reserve for replacement or a restricted capital account, which requires HUD approval for release of the funds.

1B. Require the owner to either furnish supporting documentation or repay the project \$31,625 for unsupported expenses from nonproject funds.

1C. Require the owner to submit the 2005 and 2006 annual audited financial statements.

We recommend that the acting associate general counsel for enforcement of HUD's Office of Counsel in coordination with HUD's director of the Fort Worth Multifamily Housing Hub and the HUD's Office of Inspector General

1D. Pursue double damages remedies against the responsible parties for the ineligible and the applicable portion of the unsupported disbursements that were used in violation of the project's regulatory agreement.

We also recommend the acting director of HUD's Departmental Enforcement Center

1E. Pursue civil money penalties and administrative sanctions, as appropriate, against the owner, previous management agent, and/or their principals for their part in the regulatory violations cited in this report.

SCOPE AND METHODOLOGY

We conducted the audit at the offices of the previous management agent and the local HUD office in Houston, Texas. Our review period was from January 1, 2002, to March 31, 2006. We expanded the scope of the audit as necessary. During the audit, we performed the following steps:

- Reviewed background information, the regulatory agreement, and criteria that control the insured multifamily housing project.
- Reviewed various reports, databases, and documents to determine existing conditions at Fallbrook Apartments. The data included available independent public accountant reports for fiscal years 2002, 2003, and 2004; information contained in HUD's Real Estate Management System; and documents maintained by the multifamily project manager assigned to monitor the project.
- Verified the integrity of the conversion by performing various tests on the project data that we converted into an electronic format.
- Physically inspected the common areas in the apartment complex to determine the project's overall physical condition.
- Reviewed disbursements and deposits in the accounting records and their supporting documentation to determine whether they appeared appropriate. We reviewed 100 percent of all 37 payments to and from the owner or related parties and management fees. We also reviewed a sample of other disbursements and their supporting documentation. Using nonstatistical methods, we selected 25 disbursements from our review of bank statements, canceled checks, general ledgers, and check registers based on the results of the survey review of 32 disbursements. These 25 payments were reimbursements to the management agent for health, life insurance, and workers compensation, and disbursements to construction contractors that equaled \$500 or greater. The conclusions reached relate only to the sample items tested and cannot be projected to the universe or population of 3,821 disbursements.
- Conducted interviews with staff of the previous management agent, the current management agent, the owner, and HUD Multifamily and Departmental Enforcement Center personnel.
- Reviewed Fallbrook Apartments' audited financial statements for the years ending 1999 through 2001, HUD's closing files, and HUD's Departmental Enforcement Center's archived files for information relating to the loans from the owner's affiliate.
- Obtained and reviewed Streamside Place's project files from HUD's archives to review documentation relating to the 2530 flag of Mr. Tiedje.

- Reviewed the project's tenant security deposit bank account, general ledgers, and/or detailed tenant security deposit liability to determine whether the tenant security deposit was fully funded.

We performed the audit during October and November 2006 and February and March 2007. We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Based on our review, we did not find any items that we believe are current significant weaknesses as the new management agent has resolved the control weaknesses identified.

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>
1A	299,262	
1B		31,625

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

HOUSTON FALLBROOK ASSOCIATAES LP
7373 E. DOUBLETREE #225
SCOTTSDALE, ARIZONA 85258

June 28, 2007

Frank E. Baca
Regional Inspector General for Audit
819 Taylor St. Room 13A09
Fort Worth, Texas 76102

Fax: 817-978-9316 and
E-mail:fbaca@hudoig.gov

RE: Fallbrook Apartments, Houston Texas

This letter is written in response to your letter of June 13, 2007 and attachments thereto, and the conference held on June 26, 2007 with Ms. T. Carroll, and Mr. Hoang.

Comment 1

I first would like to clarify the "History" of this property. It was not purchased in September, 1999 when the HUD loan was made. Rather, it was purchased in 1990, rehabbed in 1998 via City of Houston Housing Dept., and refinanced in late 1999 at which time a very disgruntled partner was bought out, simultaneous with the HUD closing. This property is located in the SW quadrant of Interstate 45 North and Sam Houston Toll Road, in the Greenspoint area of Houston. The violence and general condition of the neighborhood makes this a very difficult property, surrounded by 3 multi family properties which have continued to deteriorate over time.

Comment 2

Although we take exception with the recent audit report which suggests we inject additional funds, our accountant information since the inception of the HUD loan reflects a lesser amount, (see Ex #1) and does not take into consideration other important factors including real estate tax protests, overhead compensation, travel costs, etc for which the general partner would be entitled over the past 8 years. The real estate tax savings alone is well over \$116,000. Nonetheless, the loan is currently behind in payments and we sincerely wish to continue to cooperate to bring this asset into full compliance as soon as possible.

There are basically three issues addressed in your recent audit to which I respond.

1. Unauthorized distributions
2. non support of payments for employee benefits and compensation, and
3. Annual audited financial statements for 2005 and now 2006.

Comment 3

I believe the primary impetuous for pursuit against this partnership and myself as a principal stems from our indirect and passive involvement in a tax credit project known as Streamside Apartments, wherein a California syndicator of tax credits violated the terms and conditions of that HUD loan, without my control or knowledge of the violation, for which I have been sited personally within the walls of HUD. Additionally, a blemish has been placed on my character and credibility by HUD listing same on international web sites. I have repeatedly stated my case to perhaps 10 HUD officials. In addition, written and verbal endorsements with respect to this matter have been provided by the loan originator/servicer. Yet, each session with HUD brings this sanction against me to the surface and adversely supersedes any outstanding issues. As a result of our perceived cooperation with respect to Fallbrook I anticipate to be fully exonerated relative to the foregoing.

1 .Unauthorized Distributions

When the HUD loan was closed in September 1999 an amount of \$329,000 was provided by an affiliate, not the HUD loan, to buy out a disgruntled partner involved in Fallbrook. (See Ex. "A" of 2000 and 2001 audit report). These funds were provided over time in the loan application process to close the HUD loan points, fees, etc., as well as a swing in interest rates, to buy down the interest at time of closing. This \$329,000 has been on a non-accrual since that time at 8% per annum, representing to date well over \$150,000 accrued and unpaid interest, some of which could have been paid out when cash reserves were favorable in the early years of the HUD loan. The HUD loan was approved based on refinance underwriting criteria and, to my knowledge, other than approximately \$450,000 of escrow holdback, any additional funds could be disbursed at closing. Notwithstanding this assumption, at closing there was a differential between the affiliates of approximately \$31,000 which grew to \$142,643 (471,642 less 329,000 – see Ex A&B) by 12/31/01, not considering any accrued interest due one of the affiliates of perhaps as much as \$100,000.00 (329,000 X 8% X 4 yrs – '98,'99,'00,'01). This has become an ongoing issue.

Comment 4

Following the 2001 audit, as well as 2002, the issue of unfunded security deposits then became an issue, which now led to a restriction on any release of almost \$450,000 of our capital reserve replacements held by the servicer on which there was negative interest factor of over 5% per annum. (Previous to the HUD loan we had never been required to provide this account as we were able to use it in our operation.) We set up a security deposit account in 2003 and began to grow it as new leases were put on the books in hopes that we would get relief on the replacement escrow(s), regardless of the differential between affiliates. This was accomplished in October 2004 pursuant to my letter of Nov. 2, 2004 to Mr. L. Cooper, along with a copy of the bank statement. (See Ex C-1 and C-2) Unfortunately, the differential remained an issue and the property was using all its resources for operations and "make ready" units, as the local HUD project manager still restricted our receipt of our reserve replacement funds. Had the reserve replacement funds been advanced, or operating funds not used to keep up the property prior to my \$150,000 injection to resolve the differential in December 2004, we would have already

Comment 4

satisfied the cash reserve criteria for the simultaneous distribution of a like amount, which subsequently became yet another issue.

Comment 5

The injection of \$150,000 in December 2004, along with a like distribution, was a suggestion brought about by HUD personnel in 2004 to effectively correct this technical default. As a point of clarification, I have been making reference to advice coming from HUD in Atlanta, Georgia. After perusing through my files today, I believe the party in question was not from Georgia, but rather Georgia Lewis, SPM. (See Ex D and D-1) If Georgia is still on staff I would welcome discussions with her. You will also note my letter of December 2, 2004 to Mr. Cooper, wherein I state in my last paragraph: "It has been suggested that we merely replace checks for distribution and payments of the differential sited in the audit report. If we continue to be denied the capital replacement funds we will plan to correct the matter by exchange of checks by year-end." (See Ex. E) Since we were still unable to obtain reimbursement funds, the \$150,000 injection was then made with notification to all parties. (See Ex. F)

In any event, if the significant requested capital replacement reserves had been funded back into operations, the distribution would have qualified. Even though the injection of \$150,000 technically cured this matter, it then took almost 3 months to obtain the approximate \$135,000 of replacement reserves.

Comment 6

2. Non-support of payments for employee benefits and compensation

These were payments to affiliate Americas Management Co. for reimbursements for Fallbrook employee costs. This is standard with any management company and no payments, reimbursements, expenditures, or benefits were paid out to any partner or principal in the Fallbrook Partnership.

3. Annual audited financial statements for 2005 and now 2006

In early 2006 a meeting was held with Davis-Penn Mortgage wherein I stated concern about Fallbrooks' 68% occupancy rate, 3 lawsuits against the property related to violence (including one murder and one stabbing), as well as approximately 35 units provided to Katrina victims, which only added further problems. Americas Management was managed solely by women who had become afraid to enter the property. As a result, a subsequent meeting was held at HUD to discuss these issues with Davis-Penn officials, Joyce Young, and a HUD director who subsequently was killed in an auto accident. (I am unable to remember his name) At that meeting it was recommended and decided to turn the management over to Creative Management Co. in Houston by March 2006... As a result of the management change in mid-year it has been difficult to reconcile general ledgers due to a multiple of factors, primarily the lack of funds to pay the auditor, previous bookkeeper, and payables, as well as the change of management and accounting.

Comment 7

Since March 2006 this property has sustained a cash loss of over \$300,000. The General Partner injected \$100,000 in Nov 2006, another \$50,000 in Feb. 2007, has paid the auditor fees for 2004 and 2005, has paid the bookkeeping fees for the accounting in 2005, and other payables in order to move the audit forward as the property has not had sufficient funds. I submit herewith a recent e-mail from the auditor pertaining to the 2005 audit and hope that it is completed in the next 30 days. (See Ex. G) Once submitted, the 2006 audit should follow on an immediate basis since the general ledgers and financial information is held by Creative Management for 2006 and can be submitted immediately. There should be no surprises in the 2006 audit report as Americas Management and the General Partner have had no authorization with respect to the operating account(s) of Fallbrook.

In closing, we are now approximately 85% occupied and collected; however, the heavy cost of security, increasing real estate taxes and insurance, and increased operating costs will still make this a very difficult property to operate, especially with the location and neighborhood. The property is currently behind in HUD payments of almost 60 days. If we were able to obtain replacement reserves (currently over \$200,000) we could bring the loan current and hopefully, with the increased occupancy, keep it current.

The General Partner was able to get a real estate tax reduction in 2006, but the new assessed value will increase taxes in '07 by \$77,000 if we are not successful in our protest. A fee of almost 25,000 for the 2006 protest was recently settled directly by the General Partner to obtain continued representation by the consultant for 2007.

We remain open to further and immediate discussions with all parties to resolve these matters as quickly as possible. Your assistance with respect to this matter is anticipated and appreciated.

Sincerely yours,



Houston Fallbrook Associates LP
By Raymond G. Tiedje, President of the General Partner

Cc: Davis-Penn Mortgage
Creative Management, Inc.
Eric Mettenbrink, esq – Hirsch & Westheimer, PC
Americas Management LLC
Frank Hoang – fax:817-978-9316
Theresa Carroll – tearroll@hudoig.gov

Millennium Development Corp.
Account QuickReport
All Transactions

Type	Date	Num	Name	Memo	Amount	Balance
2102 - Due To H. Fallbrook Assoc. Ltd						
Check	12/31/00			Account Opening Balance	361,642.95	361,642.95
Deposit	05/07/01		Houston Fallbrook Assoc., Ltd.	advance	37,000.00	398,642.95
Check	06/08/01	1278	Houston Fallbrook Assoc., Ltd.	repay advance	-37,000.00	361,642.95
Deposit	06/21/01		Houston Fallbrook Assoc., Ltd.	Deposit	15,000.00	376,642.95
Deposit	07/23/01		Houston Fallbrook Assoc., Ltd.	advance	10,000.00	386,642.95
Deposit	09/04/01		Houston Fallbrook Assoc., Ltd.	advance	30,000.00	416,642.95
Deposit	09/13/01		Houston Fallbrook Assoc., Ltd.	advance	6,500.00	423,142.95
Deposit	12/11/01		Houston Fallbrook Assoc., Ltd.	advance	12,000.00	435,142.95
General Journal	12/31/01			reclass due from CC on FB books	7,000.00	442,142.95
General Journal	12/31/01			transfer from FCC books at 12/31/01	29,500.00	471,642.95
Deposit	07/30/02		Houston Fallbrook Assoc., Ltd.	Deposit	15,000.00	486,642.95
Check	12/20/04	WT	Houston Fallbrook Assoc., Ltd.		-150,000.00	336,642.95
Deposit	12/23/04		Houston Fallbrook Assoc., Ltd.	operating advance	25,000.00	361,642.95
Check	01/05/05	3034	Houston Fallbrook Assoc., Ltd.	repay advance	-25,000.00	336,642.95
Deposit	05/27/05		Houston Fallbrook Assoc., Ltd.	Deposit	75,000.00	411,642.95
Check	06/02/05	3211	Houston Fallbrook Assoc., Ltd.	operating advance	-75,000.00	336,642.95
Deposit	06/29/05		Houston Fallbrook Assoc., Ltd.	Deposit	75,000.00	411,642.95
Check	07/22/05	3268	Houston Fallbrook Assoc., Ltd.	return of advance	-75,000.00	336,642.95
Check	10/11/06	3823	Houston Fallbrook Assoc., Ltd.	operating advance	-100,000.00	236,642.95
Check	01/07/07	3943	Houston Fallbrook Assoc., Ltd.	operating advance	-4,000.00	232,642.95
Check	02/21/07	3962	Houston Fallbrook Assoc., Ltd.	operating advance	-50,000.00	182,642.95
Total 2102 - Due To H. Fallbrook Assoc. Ltd					182,642.95	182,642.95
TOTAL					182,642.95	182,642.95

Due To Fallbrook

Tax Paid 4/19/07 = 7,827.94
 - 68,000.00 less
116,815.00 Due AMC LSK

Intercompany Adjustments
 Carefree Cores +
 Frimwood

To: RGT

CD

Ex #1

Fallbrook Apartments
HUD Project No. 114-11181
Notes to Financial Statements (continued)
December 31, 2001 and 2000

7. **Risk Management**

The Project is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Various insurance policies have been purchased to cover the risks described above. The insurance policies require minimal deductible amounts which the Project pays in the event of any loss. The project also has purchased a workers' compensation policy. Settled claims resulting from losses have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. **Related Party Transactions**

The Project regularly participates in transactions with affiliates of the general partner of the Partnership. All related party transactions in which the Project engaged during 2001 were with affiliates of the general partner.

Accounts Receivable-Affiliates

The total Accounts Receivable-Affiliates balance of \$417,146 at December 31, 2000 consists of the balances due from Americas Management, Millennium Development, PHI Homes, and Friendswood Country Club of \$35,000, \$361,643, \$1,003, and \$19,500, respectively. In 2001, the balance of \$471,643 is due solely from Millennium Development. Each balance is explained below under its respective heading.

Alvin Oak Hollow Associates

In 1998, Alvin Oak Hollow advanced the Project \$309,000 to close the HUD loan. The balance remained \$309,000 at December 31, 2000. Alvin Oak Hollow also advanced the Project an additional \$20,000 in 2001, increasing the total note payable to \$329,000. The Project separated the note into a non-interest bearing portion and an 8% interest bearing portion, which carry balances of \$191,500 and \$137,500, respectively, at December 31, 2001.

Americas Management

During 2001, the Project incurred expenses of \$301,632 with its management company, Americas Management. Of the expenses, \$280,538 were reimbursed to Americas Management, and \$21,094 of unreimbursed insurance payments remain payable to Americas Management as of December 31, 2001. At December 31, 2000, the Project owed Americas Management \$12,781 for unreimbursed insurance. In addition, Americas Management owed the Project \$35,000 at December 31, 2000.

Ex "A"

Fallbrook Apartments
HUD Project No. 114-11181
Notes to Financial Statements (continued)
December 31, 2001 and 2000

8. Related Party Transactions-(continued)

Millennium Development

During 2001, the Project advanced \$133,500 to Millennium Development, of which \$37,500 was paid back in 2001. The balance due from Millennium as of December 31, 2001 is \$471,643, which includes liabilities assumed by Millennium of \$29,500 from Friendswood Country Club and \$7,000 from Carefree Corners, both of which are also affiliates. The balance due from Millennium at December 31, 2000 was \$361,643.

Park Lake

In June 2001, the Project repaid an advance of \$15,000 to Park Lake. The Project also purchased fixed assets in the amount of \$1,500 from Park Lake during 2001.

Pearland Westside

In 2000, the Project was advanced funds in the amount of \$3,000 from Pearland Westside. During 2001, the Project repaid the advance, resulting in a zero balance at December 31, 2001.

PHI Homes

In 2000, the Project advanced \$1,003 to PHI Homes. The Project received repayment from PHI Homes during 2001, resulting in a zero balance at December 31, 2001.

Ex "B"



HOUSTON FALLBROOK ASSOCIATES, LTD.
7373 E. Doubletree Ranch Road, #225
Scottsdale, Arizona 85258
Phone: 480.607.0735
Fax: 480.607.0835

November 2, 2004

L. P. Cooper, Jr.
U.S. Dept. of Housing & Urban Development
Fritz G. Lanham Federal Building, #13A47
819 Taylor Street, Fort Worth, Texas 76102

Via Facsimile
817.978.9504

4/11/11/11/11/11

RE: Project No.: 114-11181
REMS No.: 800210591

Dear Mr. Cooper:

Responding to your Certified Letter dated October 25, 2004 regarding the Notice of Regulatory Agreement Default, I have attached hereto a Summary Statement from Washington Mutual Bank showing evidence of an existing Tenant Security Deposit Account. This Security Deposit Account was opened in January 2003. You will note the balance in the account as of September 30, 2004 is \$62,853.18, approximately \$15,000 over and above the \$48,968 mentioned in your letter of June 30, 2004. This matter was addressed in the Annual Audit performed by Child, Sullivan & Company and a copy is attached for your files.

Regarding the receivable of \$123,595, the management company has started the process of clearing this Note from the books and we are hopeful that this matter will be cured by year's end.

These two items should clear the issues mentioned in your letter of October 25, 2004. Please contact me should you have any additional questions.

Sincerely,

MILLENNIUM DEVELOPMENT CORP.
General Partner

Raymond G. Tiedje
President

Attachments

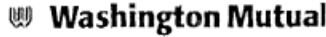
Ex C-1

Oct 27 04 06:26p

Americas Management

2812618215

p.1



10/27/2004
STATEMENT YEAR
INFORMATION
[Signature]

STATEMENT OF ACCOUNT

RECEIVED
10/12/2004

THE FEE FOR EACH OVERDRAWN TRANSACTION,
WHETHER PAID OR RETURNED, IS \$30.00.

TO REACH CUSTOMER SERVICE, PLEASE CALL
TELEPHONE BANKING AT 1-800-374-6646.

78,239

EM-E-B5

HOUSTON FALLBROOK ASSOCIATES LTD
TENANT SECURITY DEPOSIT
C/D AMERICAS MANAGEMENT
1700 GOOD DAY DR
MISSOURI CITY TX 77459-1625

STATEMENT PERIOD:
FROM 09-01-04
THRU 09-30-04

2

EFFECTIVE AUGUST 25, 2004 THE NAME OF THE MN TAXPAY SERVICE WILL BE CHANGING TO
TAX PAYMENT SOLUTIONS. THERE WILL BE NO CHANGES TO THE FEATURES OF THIS SERVICE.
PLEASE ASK US ABOUT THIS CONVENIENT TELEPHONE SERVICE FOR MAKING TAX PAYMENTS.

BUSINESS ANALYSIS CKG

WASHINGTON MUTUAL BANK, FA

FDIC INSURED

HOUSTON FALLBROOK ASSOCIATES LTD
TENANT SECURITY DEPOSIT

ACCOUNT NUMBER: 392-082809-9

Your overdraft limit, as of the statement end
date, was \$1,000.00. This may be changed at any
time without notice. Overdrafts are subject to
a per transaction charge. See reverse for more
information.

STATEMENT SUMMARY

Beginning Balance	61,915.18
Deposits	1,250.00
Electronic & Miscellaneous Deposits	0.00
Card Purchases / ATM Withdrawals	0.00
Electronic & Miscellaneous Withdrawals	0.00
Checks	310.00
Service Fees	0.00
Ending Balance	62,055.18

DEPOSITS

Date	Amount	Description
09-15	150.00	CUSTOMER DEPOSIT
09-15	1,100.00	CUSTOMER DEPOSIT
	41,250.00	2 Items

CHECKS

* Indicates check out of sequence

Check Number	Amount	Date	Check Number	Amount	Date
1011	200.00	09-08	1015*	110.00	09-29
	310.00				2 Paid Items

Ex C-2



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

*Rec'd
7-22-04*

JUN 30 2004

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Houston Fallbrook Associates, Ltd.
ATTN: Raymond G. Tiedje, President
8338 E. Doubletree Ranch Rd., Suite 225
Scottsdale, AZ 85258

Dear Mr. Tiedje:

SUBJECT: Notice of Regulatory Agreement Default
Fallbrook Apts.
Houston, TX
Project No.: 114-11181
REMS No.: 800210591

On November 20, 2003, the Department of Housing and Urban Development (HUD) notified Houston Fallbrook Associates, Ltd., that it was in violation of the Regulatory agreement for failure to repay a receivable in the amount of \$123,595 and failure to fully fund tenant security deposits in the amount of \$48,968. In the Regulatory Agreement Violation letter, Houston Fallbrook Associates, Ltd., was notified that it had 30 days to correct the deficiencies to the satisfaction of the Secretary of Housing and Urban Development.

As of today, the Department of Enforcement Center (DEC) has not received any correspondence regarding the Regulatory Violation letter. Accordingly, the Secretary now finds Houston Fallbrook Associates, Ltd., to be in default of the Regulatory Agreement. HUD will proceed to take any appropriate remedies as provided in Paragraph 11 of the Regulatory Agreement including legal action for double damages pursuant to 12 U.S.C. 1715z-4a, and acceleration of the outstanding principal indebtedness and foreclosure.

Sincerely,

Beverly J. Miller
Director
Office of Asset Management

*7-22-04
Rebecca -
we need FB Re-instatement
info ASAP.*

Ex D

cc:

Joyce Young, Project Manager
Marybet Payne-McGuigan, SPM
Raynold Richardson, Director
Houston Program Center

→ Georgia Lewis, SPM
Fort Worth Multifamily HUB

Ex D-1

HOUSTON FALLBROOK ASSOCIATES, LTD.
7373 E. Doubletree Ranch Road, #225
Scottsdale, Arizona 85258
Phone: 480.607.0735
Fax: 480.607.0835

December 2, 2004

L. P. Cooper, Jr.
U.S. Dept. of Housing & Urban Development
Fritz G. Lanham Federal Building, #13A47
819 Taylor Street, Fort Worth, Texas 76102

Via Facsimile
817.978.9504

RE: Project No.: 114-11181
REMS No.: 800210591

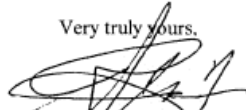
Dear Mr. Cooper:

Attached is a copy of the memo received today from the Management Company. We continue to be denied access to our replacement reserve account.

I want to again reiterate that we have not paid any distributions from Fallbrook Apartments. Instead we have consistently paid for capital improvements and replacements from operations to maintain the property during this period of time that we have been denied the funds from our capital replacement account, which now has a balance in excess of \$400,000.00. We think we have been prudent in our responsibility to the lender as well as our investors/partners.

It has been suggested that we merely replace checks for distribution and payments of the differential sited in the audit report. If we continue to be denied the capital replacement funds we will plan to correct the matter by exchange of checks by year-end. Subsequently, we should then be able to withdraw our funds from replacements reserve.

Very truly yours,


Raymond G. Tiedje



12/2/04

Please provide this copy
to Carolyn Lewis

Thank you

Ex "E"





Millennium Development Corp.

File

December 21, 2004

Carolyn Lewis
Dept. of Housing and Urban Development

FAX: 817-978-9539

RE: Fallbrook Apartments – Houston, TX

This is to advise that Millennium Development Corporation wire transferred \$150,000 to the Fallbrook Apartment account in Houston, Texas on December 21, 2004, thereby curing the remaining technical default referred to in previous audit report as filed by our accounting firm of Child, VanWagoner, & Associates of Kayasvill, Utah.

I have enclosed various documents which verify the transfer and deposit of the funds into the Fallbrook Account. This should now satisfy all of your requirements.

In your absence we were told that the previous default issue regarding the funding of security deposits was still outstanding. This was cured some time ago. Should you need confirmation prior to year-end, please advise. Otherwise, the accountants will no doubt eliminate that matter as well. Currently the security deposit account exceeds the applicable amount necessary to cover the security deposits.

We now await your "close out letter" which you stated would be sent to us immediately upon funding the above \$150,000, thereby allowing us to get clearance with the Houston office of HUD for the subsequent acceptance of the request for reimbursement from our capital improvement replacement escrow, which has been held up due to the above. Please provide a copy of the "close out letter" directly to the Houston office as well to enhance the reimbursement process.

Thank you for your assistance.

Very truly yours,


Raymond G. Tiedje

Ev F

Cc: Americas Management, Missouri City, Texas
Scott Farnes, Child, VanWagoner & Asso. Fax:801-927-1344
Sakeen Adams and David Turner 817-978-9504 – Fax.
Joyce Young – HUD – 713-718-3244 - Fax

7373 E. Doubletree Ranch Road, #225 • Scottsdale, AZ 85258 • Tel. (480) 607-0735 • Fax (480) 607-0835
1499 Potomac • Houston, TX 77057 • Tel. (713) 782-1349 • Fax (713) 782-4246

Ray Tiedje

From: Scott Farnes [scott@cpaone.net]
Sent: Monday, June 25, 2007 9:43 AM
To: rt@millenniumdevcorp.com
Cc: Joe Hadley
Subject: Fallbrook financials

A quick update on the audit of Fallbrook per your request. We are currently conducting the financial audit to comply with HUD requirements for Fallbrook. The audit process is taking us longer than we anticipated since the general ledger is on a monthly basis and the audit is for the calendar year ending 12/31/05, thus it takes longer to conduct some of our audit procedures. We have an audit staff person and a manager working full time to provide you with the necessary reports to meet HUD regulations. We are anticipating a draft of the audit for your review within the next 10 working days, as long as we have all the necessary supporting documents and the continued support by your staff.

If you have any questions or concerns please let me know.

Scott Farnes

Child, Van Wagoner, & Bradshaw, PLLC
1284 W. Flint Meadow Dr. St. D
Kaysville, UT 84037
(801)927-1337 Office
(801)927-1344 Fax

EX G



Providing property tax solutions since 1986

RETC

2425 West Loop South # 200
P.O. Box 58434
Houston, TX 77258
phone 713.651.0607
fax 713.513.5588
toll free 888.752.6161
email houstoninfo@retcgroup.com

May 16, 2007

*****MIXED AADC 750

Houston Fallbrook Asso Ltd
7373 E Doubletree Ranch Rd Suite 225
Scottsdale, AZ. 85258-2145

Re: Property at: 201 Plaza Verde Dr Suite 280
Harris County Account Number: 1094670000002
Reference Number: ME75885

Dear Property Owner:

The Harris County Appraisal District has just increased your property taxes by \$77,073.87.

2006 Assessed Value	2007 Proposed Value	Est. Tax Increase	Percent Increase
\$3,400,000	\$5,969,129	\$77,073.87	75.6%

The Appraisal District uses a computer generated **MASS APPRAISAL** method. Mass Appraisal **DOES NOT** have the ability to consider factors that affect the Market Value of *your* property such as income, expenses, vacancy, property condition and sales. Under the equal & uniform provision of the Property Tax Code, our preliminary analysis indicates that you will overpay your property taxes in 2007 unless *you take action*.

Since 1986 RETC has:

- Represented in excess of \$11.7 billion in property values
- Created savings for all types of real estate and business personal property
- Saved millions of property tax dollars for its clients

There is no fee unless we save you actual tax dollars. We work on a percentage of the tax savings achieved. This means that there is no risk for you or your business.

We are dedicated to creating optimum tax savings for *you*. Allow us the opportunity to save *you* time and money this year.

Take action by utilizing the services we provide.

DEADLINE FOR FILING IS MAY 31ST - call us at 713-651-0607 or e-mail us at houstoninfo@retcgroup.com

Regards,

V. K. Gupta
Senior Property Tax Consultant

Ex H

Stephanie Boone
Director of Operations

FAX TO 713-513-5588

Contact Name: _____ Phone Number: _____

Fax Number: _____ E-mail Address: _____

OIG Evaluation of Auditee Comments

- Comment 1** We changed the background section of the report from the “owner acquired” to the “owner refinanced”.
- Comment 2** The owner disagreed with the unauthorized distribution amount and stated the amount is less. In addition, he stated OIG did not consider expenses such as real estate tax protests, overhead compensation, and travel costs that have not been reimbursed. We disagree. The schedule provided by his accountant is incorrect as it does not include the unauthorized distributions discussed in this report. Further, the owner’s personal expenses and advances can be repaid, but only when the project has surplus cash, which it does not.
- Comment 3** The owner indicates that the problems have arisen because of an affiliate loan of \$329,000 to the project, not including the accrued interest of about \$100,000 by December 31, 2001 or over \$150,000 by June 29, 2007. We agree that a loan of \$329,000 was recorded in the project’s books; however, the loan was not approved by HUD and, according to the project’s 1999 audited financial statements, it was a non-interest bearing loan. In addition, even though the loan and interest should have been paid from surplus cash, in 2002, the owner paid off the loan and accrued interest, totaling \$363,048, by offsetting it against the improper advances the owner had made to the general partner when the project was in a non-surplus cash position. HUD’s Departmental Enforcement Center did not question the offset, but did state that the owner needed to pay off the negative surplus cash. As detailed in the finding, the owner’s repayment of \$150,000 to settle the issue was almost immediately followed by an unauthorized distribution.
- Comment 4** The owner indicates that HUD refused to release reserve for replacement funds which prohibited the property from having cash reserves available to make a distribution. We disagree with the owner’s reasoning, which is contrary to HUD requirements. Reserve for replacement funds are generally used to help defray the costs of replacing a project’s capital items. Operating and make ready costs identified by the owner are generally ineligible for draws from this fund. Further, HUD was refusing to release funds from this account because the owner had unresolved findings. Additionally, in August 2006, the balance in the reserves for replacement account, approximately \$260,000, was not sufficient for exterior and interior repairs identified by the new management agent and HUD.
- Comment 5** The owner indicates that the deposit and distribution of \$150,000 was suggested by HUD personnel. However, he has been unable to provide any proof that HUD approved such a transaction, which would have been in violation of the regulatory agreement. Instead, written correspondence from HUD in 2002 and 2003 indicates that HUD informed the owner that HUD’s approval was not obtained for the unauthorized distributions and the funds needed to be repaid to the project.

Comment 6 The owner stated that disbursements were for the reimbursements for employee costs, and were not paid out to any partner or principal in the Fallbrook Partnership. However, HUD requires that all disbursements from the project's operating account must be supported, and the owner did not provide support.

Comment 7 The owner did not dispute the finding, but explained he did not submit the 2005 and 2006 audited financial statements as required due to the lack of funds and the change of the management agent and accounting. However, the project might have had sufficient funds if the owner had not made unauthorized distributions.

Appendix C

FEDERAL REQUIREMENTS

Regulatory Agreement

The following pertinent paragraphs are from the executed regulatory agreement.

Paragraph 6(e):

The owner shall not without the prior written approval of the Secretary [of HUD] make, or receive and retain, any distribution of assets or any income of any kind of the project except surplus cash and except on the following conditions: 1) all distributions shall be made only as of and after the end of a semiannual or annual fiscal period, and only as permitted by law of the applicable jurisdiction; 2) no distribution shall be made from borrowed funds, prior to the completion of the project or when there is any default under this Agreement or under the note or mortgage; 3) any distribution of any funds of the project, which the party receiving such funds is not entitled to retain hereunder, shall be held in trust separate and apart from any other funds; and 4) there shall have been compliance with all outstanding notices of requirements for proper maintenance of the project.

Paragraph 9(c):

The mortgaged property, equipment, buildings, plans, offices, apparatus, devices, books, contracts, records, documents, and other papers relating thereto shall at all times be maintained in reasonable condition for proper audit and subject to examination and inspection at any reasonable time by the Secretary or his duly authorized agents. Owners shall keep copies of all written contracts or other instruments which affect the mortgaged property, all or any of which may be subject to inspection and examination by the Secretary or his duly authorized agents.

Paragraph 9(e):

Within sixty (60) days following the end of each fiscal year the Secretary shall be furnished with a complete annual financial report based on an examination of the books and records of mortgagor prepared in accordance with the requirements of the Secretary, prepared and certified to by an officer or responsible Owner and, when required by the Secretary, prepared and certified to by a Certified Public Accountant, or other person acceptable to the Secretary.

Paragraph 13(g):

“Distribution” means any withdrawal or taking of cash or any assets of the project, including the segregation of cash or assets for subsequent withdrawal with the limitation of Paragraph

6(e) hereof, and excluding payment for reasonable expenses incident to the operation and maintenance of the project.

HUD Handbook 4370.2, REV-1, CHG-1

Paragraph 2-6, Section E:

All disbursements from the Regular Operating Account (including checks, wire transfers and computer generated disbursements) must be supported by approved invoices/bills or other supporting documentation. The request for project funds should only be used to make mortgage payments, make required deposits to the Reserve for Replacements, pay reasonable expenses necessary for the operation and maintenance of the project, pay distributions of surplus cash permitted and repay owner advances authorized by HUD.

Paragraph 2-10, Section A:

Surplus cash distributions may not be paid from borrowed funds, prior to the completion of the project or when a project is in default or under a forbearance agreement. If the owner takes distributions when the project is in default or when the project is in a non-surplus-cash position, the owner is subject to criminal and/or civil penalties.