PETITIONER INFORMATION

AMREP Southwest Inc. is a New Mexico corporation. The nature of the business of AMREP Southwest Inc. is the acquisition and development of residential, commercial, and industrial real estate. AMREP Southwest Inc. has extensive experience in residential development, construction, finance and business planning, operations and execution. AMREP Southwest Inc. has been the principal developer of the City of Rio Rancho since the City's incorporation in 1981.

I. Description of Professional Experience

AMREP Southwest Inc.

AMREP Southwest, Inc. was incorporated in the state of New Mexico in 1961 and has become the principal developer of the City of Rio Rancho. AMREP Southwest, Inc. develops residential lots and sites for commercial and industrial use. AMREP Southwest, Inc. has, to date, developed or are in plans to develop the Lomas Encantadas, Enchanted Hills, Hawk Site, Northern Meadows, Paseo Gateway, North Hills, Northern Skies, Panorama Heights West, The Renaissance, The Ridges, River's Edge I, II, and II, Rockaway Heights, Rolling Hills, Southern Park, Southern Park West, Star Heights II, Star Heights South, Villa Verde Villas, Vista Hills, and Western Hills subdivisions. AMREP Southwest, Inc. has directed and overseen development of master plans, planned development communities, and off-site and on-site improvements benefiting thousands of homeowners in Rio Rancho. AMREP Southwest, Inc.'s professional experience has demonstrated successful financial structuring, scope management, and control of commercial and residential development specific to the concerns and lives of the citizens of Rio Rancho.

HUITT-ZOLLARS

Huitt-Zollars has been providing professional civil engineering services throughout New Mexico and the world since 1975. Nineteen offices nationwide, two offices in New Mexico, two international offices, consistent repeat business, a growing portfolio of work and recognition via numerous awards and honors attest to the company's reputation.

Huitt-Zollars' commitment to quality engineering has been recognized numerous times within New Mexico. Examples of such recognition are the Fort Stanton Administration and

Museum Building - 2010 Heritage Preservation Award winner in the Architectural Heritage Category; 2009 Award of Excellence from the National Association for Industrial and Office Parks, Master Planned Community; Hangar 1000 Renovation at Kirtland Air Force Base – Air Force Material Command Interior Design Award (2007); and Huitt-Zollars' Quality Management System – Pinon Recognition Award for excellence in customer service, Quality New Mexico (1999).

David Taussig & Associates, Inc.

David Taussig & Associates, Inc. (DTA) is a public finance and urban economics consulting firm with offices in Newport Beach, Riverside, and San Francisco, California, and Plano, Texas. Specializing in municipal and infrastructure financial and development economics, DTA has provided consulting services to public and private sector clients throughout New Mexico, as well as in Arizona, California, Colorado, Hawaii, Illinois, Maryland, Montana, Nevada, Tennessee, Texas, Utah, and Virginia. Consequently, it is experienced with a wide variety of public improvements and service financing mechanisms, including Assessment District, Business Improvement District, Community Facilities Districts, Public Improvement Districts, Special Service Areas, and Tax Increment Financing Districts.

Since its establishment in 1985, DTA has provided services to meet a variety of client needs. DTA recognizes that each client and project is unique. As a result, DTA employs the latest research techniques and computerized models in providing project and policy analysis to its clients. In fact, DTA has pioneered the use of many analytical methods and modeling approaches that are currently state-of-the-art and reflect the firm's considerable experience and expertise in municipal finance and land development.

David Pearson, MAI

David Pearson, MAI, is recognized as the leading expert in the valuation and analysis of master-planned communities in the Metropolitan Albuquerque area and throughout New Mexico. Mr. Pearson has prepared numerous valuations, absorption studies, and market studies relating to the formation of public improvement districts ("PID") in Albuquerque and Rio Rancho. His past PID assignments include Ventana West, Cabezon, Montecito Estates, The Trails, and Volterra, and other proposed communities that were not ripe for development due to market conditions. In addition to his PID-related background, Mr. Pearson prepares valuations on a range of commercial properties for equity investors, governmental agencies, estates, and mortgage lenders.

David Pearson earned a Master of Science degree in Real Estate from Florida International University in Miami, Florida in 1981 and a Bachelor of Science degree in Public Administration from the University of Arizona in Tuscon, Arizona in 1974. In 1984, Mr. Pearson was awarded the MAI designation from the American Institute of Real Estate Appraisers, now called the Appraisal Institute.

II. Description of Financial Capacity to Undertake Development

The Petitioner anticipates using conventional financing or other capital means to provide 100% of the initial capital required for the public infrastructure serving the Lomas Encantadas/Enchanted Hills Public Improvement District. The Petitioner is not currently engaged in any material litigation.

The following is Petitioner's financial statement for the proceeding three fiscal years.

AMREP Southwest Inc. and Subsidiaries

Consolidated Financial Statements
April 30, 2015

Contents

McGladrey

Independent Auditor's Report

To the Shareholder
AMREP Southwest Inc.
Rio Rancho, New Mexico

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AMREP Southwest Inc. (an indirect, wholly-owned subsidiary of AMREP Corporation) and subsidiaries (Company) which comprise the consolidated balance sheets as of April 30, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholder's equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMREP Southwest Inc. and subsidiaries as of April 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Des Moines, Iowa
August 28, 2015

AMREP Southwest Inc. and Subsidiaries

Consolidated Balance Sheets
April 30, 2015 and 2014

Assets		2015		2014
Cash	$	2,488,000	$	1,155,000
Receivables		1,000		-
Real estate inventory		66,321,000		71,289,000
Investment assets, net		12,419,000		12,990,000
Property, plant and equipment, net		63,000		84,000
Deferred income taxes, net		-		494,000
Other assets		570,000		581,000
Total assets	$	81,862,000	$	86,593,000
Liabilities and Shareholder's Equity				
Liabilities:				
Accounts payable and accrued expenses	$	1,178,000	$	1,464,000
Due to affiliated companies, net		1,224,000		803,000
		2,402,000		2,267,000
Notes payable:				
To related party – due beyond one year		14,003,000		15,141,000
To Parent:				
Due upon demand		4,000,000		4,000,000
Due beyond one year		15,270,000		15,270,000
		33,273,000		34,411,000
Deferred income taxes		740,000		-
Deferred revenue (Note 13)		758,000		-
Accrued pension cost due to Parent (Note 12)		-		3,419,000
Total liabilities		37,173,000		40,097,000
Commitments and Contingencies (Notes 9 and 12)				
Shareholder's Equity:				
Common stock, $100 par value; 100 shares authorized; 40 shares issued and outstanding		4,000		4,000
Capital contributed in excess of par value		10,546,000		10,546,000
Retained earnings		34,139,000		37,467,000
Accumulated other comprehensive loss, net		-		(1,521,000)
Total shareholder's equity		44,689,000		46,496,000
Total liabilities and shareholder's equity	$	81,862,000	$	86,593,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended April 30, 2015 and 2014

	Year ended April 30,	
	2015	2014
Revenues:		
Land sales	$ 5,883,000	$ 3,634,000
Interest and other	483,000	366,000
	6,366,000	4,000,000
Cost and expenses:		
Cost of sales – land sales	4,329,000	2,784,000
Operating expenses:		
Selling and commissions	252,000	238,000
Real estate taxes and other	1,389,000	1,658,000
General and administrative	760,000	1,455,000
Impairment of assets	1,809,000	686,000
Interest expense – related party	1,266,000	1,356,000
Interest expense – Parent	1,464,000	1,384,000
Management fee charged by Parent	380,000	380,000
	11,649,000	9,941,000
Loss before income taxes	(5,283,000)	(5,941,000)
Benefit for income taxes	(1,955,000)	(2,103,000)
Net loss	$ (3,328,000)	$ (3,838,000)

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Years Ended April 30, 2015 and 2014

	Year ended April 30,	
	2015	2014
Net loss	$ (3,328,000)	$ (3,838,000)
Other comprehensive income, net of tax:		
Minimum pension liability	(489,000)	496,000
Total comprehensive loss	$ (3,817,000)	$ (3,342,000)

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Shareholder's Equity
Years Ended April 30, 2015 and 2014

	Common Stock	Capital Contributed in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total
Balance - April 30, 2013	$ 4,000	$ 10,546,000	$ 41,305,000	$ (2,017,000)	$ 49,838,000
Net loss	-	-	(3,838,000)	-	(3,838,000)
Other comprehensive income	-	-	-	496,000	496,000
Balance - April 30, 2014	4,000	10,546,000	37,467,000	(1,521,000)	46,496,000
Net loss	-	-	(3,328,000)	-	(3,328,000)
Other comprehensive loss	-	-	-	(489,000)	(489,000)
Net effect of transfer of pension liability to Parent	-	-	-	2,010,000	2,010,000
Balance - April 30, 2015	$ 4,000	$ 10,546,000	$ 34,139,000	$ -	$ 44,689,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended April 30, 2015 and 2014

	Year ended April 30, 2015	Year ended April 30, 2014
Cash flows from operating activities:		
Net loss	$ (3,328,000)	$ (3,838,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Impairment of assets	1,809,000	686,000
Depreciation and amortization	91,000	80,000
Pension accrual	128,000	241,000
Changes in assets and liabilities:		
Receivables	(1,000)	37,000
Due to/from affiliated companies, net	84,000	(7,000)
Real estate inventory and investment assets	3,660,000	2,573,000
Other assets	11,000	26,000
Accounts payable and accrued expenses	(286,000)	26,000
Deferred income taxes	(455,000)	(540,000)
Deferred revenue	758,000	-
Net cash provided by (used in) operating activities	2,471,000	(716,000)
Cash flows used in investing activities:		
Capital expenditures – property, plant and equipment	-	(42,000)
Net cash used in investing activities	-	(42,000)
Cash flows from financing activities:		
Proceeds from debt financing	-	2,610,000
Repayments of debt financing	(1,138,000)	(866,000)
Net cash provided by (used in) financing activities	(1,138,000)	1,744,000
Net increase in cash	1,333,000	986,000
Cash, beginning of year	1,155,000	169,000
Cash, end of year	$ 2,488,000	$ 1,155,000
Supplemental cash flow information:		
Income taxes paid (refunded), net	$ (4,000)	$ 1,000
Interest paid	$ 1,542,000	$ 1,631,000
Non-cash transaction, transfer of pension liability to Parent		
Deferred income taxes	$ 1,689,000	$ -
Accumulated other comprehensive loss, net	2,010,000	-
Accrued pension liability due to Parent	(4,518,000)	-
Due to affiliated companies, net	$ 819,000	$ -

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

1. Summary of Significant Accounting and Financial Reporting Policies

Organization and principles of consolidation

The consolidated financial statements include the accounts of AMREP Southwest Inc. and its subsidiaries ("AMREP Southwest" or the "Company"). AMREP Southwest is a land developer with principal operations in New Mexico. The consolidated balance sheets are presented in an unclassified format since the Company operates in the real estate industry and its operating cycle is greater than one year.

The Company is a wholly-owned subsidiary of American Republic Investment Co. ("ARIC"), a wholly-owned subsidiary of AMREP Corporation ("AMREP"). As such, the Company is an indirect, wholly-owned subsidiary of AMREP, a publicly held corporation. AMREP and ARIC are described herein as the "Parent" or, individually or collectively with their other subsidiaries, as "Affiliates". All significant intercompany accounts and transactions have been eliminated in consolidation.

Fiscal year

The Company's fiscal year ends on April 30. All references to 2015 and 2014 mean the fiscal years ended April 30, 2015 and 2014, unless the context otherwise indicates.

Revenue recognition

Land sales are recognized when all elements of ASC 360-20 are met, including when the parties are bound by the terms of the contract, all consideration (including adequate cash) has been exchanged, title and other attributes of ownership have been conveyed to the buyer by means of a closing and the Company is not obligated to perform further significant development of the specific property sold. Profit is recorded either in its entirety or on the installment method depending upon, among other things, the ability to estimate the collectability of the unpaid sales price. In the event the buyer defaults on an obligation with respect to real estate inventory which has been sold, the property may be repossessed ("take-back lots"). When repossessed, take-back lots are taken into inventory at fair market value less estimated costs to sell. Fair market value is supported by current third party appraisals.

Cost of land sales includes all direct acquisition costs and other costs specifically identified with the property, including pre-acquisition costs and capitalized real estate taxes and interest, and an allocation of certain common development costs associated with the entire project. Common development costs include the installation of utilities and roads, and may be based upon estimates of cost to complete. The allocation of costs is based on the relative sales value of the property. Estimates and cost allocations are reviewed on a regular basis until a project is substantially completed, and are revised and reallocated as necessary on the basis of current estimates.

Real estate inventory

The Company accounts for its real estate inventories in accordance with ASC 360-10. The cost basis of the land and improvements includes all direct acquisition costs including development costs, certain amenities, capitalized interest, capitalized real estate taxes and other costs. Interest and real estate taxes are not capitalized unless active development is underway. Land and improvements on land held for future development or sale are stated at accumulated cost and tested for recoverability as described below under "Impairment of long-lived assets". Take-back lots (as discussed above under "Revenue recognition") are initially recorded at fair market value less estimated costs to sell, establishing a new cost basis, and are subsequently measured at the lower of cost or fair market value less estimated costs to sell.

1. **Summary of Significant Accounting and Financial Reporting Policies (continued)**

Real estate inventory is evaluated and reviewed for impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Provisions for impairment are recorded when undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of the assets. The amount of impairment would be equal to the difference between the carrying value of an asset and its fair value.

For real estate projects under development, an estimate of future cash flows on an undiscounted basis is determined using estimated future expenditures necessary to complete such projects and using management's best estimates about sales prices and holding periods. The estimation process involved in determining if assets have been impaired and in the determination of estimated future cash flows is inherently uncertain because it requires estimates of future revenues and costs, as well as future events and conditions. If the excess of undiscounted cash flows over the carrying value of a project is small, there is a greater risk of future impairment and any resulting impairment charges could be material. Due to the subjective nature of the estimates and assumptions used in determining future cash flows, actual results could differ materially from current estimates and the Company may be required to recognize additional impairment charges in the future.

Investment assets

Investment assets primarily consist of investment land, which represents vacant, undeveloped land not held for development or sale in the normal course of business, and is stated at the lower of cost or fair market value less estimated costs to sell.

Property, plant and equipment

Items capitalized as part of property, plant and equipment are recorded at cost. Expenditures for maintenance and repair and minor renewals are charged to expense as incurred, while those expenditures that improve or extend the useful life of existing assets are capitalized. Upon the sale or other disposition of assets, their cost and the related accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in operations.

Depreciation and amortization of property, plant and equipment are provided principally by the straight-line method at various rates calculated to amortize the book values of the respective assets over their estimated useful lives, which generally are 10 years or less for furniture and fixtures (including equipment) and 25 to 40 years for buildings and improvements.

Impairment of long-lived assets

The Company accounts for long-lived assets, including certain real estate, investment assets, property, plant and equipment, and other assets, in accordance with ASC 360-10. Asset impairment determinations are based upon the intended use of assets, expected future cash flows and estimates of fair value of assets. Testing of operating asset groups includes an estimate of future cash flows on an undiscounted basis using estimated revenue streams, operating margins and administrative expenses. Similar to real estate inventory, the estimation process involved in determining if assets have been impaired and in the determination of estimated future cash flows is inherently uncertain because it requires estimates of future revenues and costs, as well as future events and conditions.

1. **Summary of Significant Accounting and Financial Reporting Policies (continued)**

Deferred revenues

The Company accounts for revenues related to certain leased property related to its oil and gas rights on a deferred basis. Income is recognized on a straight line basis over the life of the lease term.

Income taxes

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured by using currently enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse. The Company provides a valuation allowance against net deferred tax assets unless, based upon the available evidence, it is more likely than not that the deferred tax assets will be realized.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Total comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss) that, for the Company, consists solely of the minimum pension liability net of the related deferred income tax effect, and which had a zero balance at April 30, 2015 (refer to Note 12).

Management's estimates and assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates that affect the financial statements include, but are not limited to, (i) real estate cost of sales calculations, which are based on land development budgets and estimates of costs to complete; (ii) cash flow, asset groupings and valuation assumptions in performing asset impairment tests of long-lived assets (including real estate inventories) and assets held for sale; (iii) actuarially determined benefit obligation and other pension plan accounting and disclosures; (iv) risk assessment of uncertain tax positions; and (v) the determination of the recoverability of net deferred tax assets. The Company bases its significant estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results could differ from these estimates.

Recent accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*. This guidance defines how companies report revenues from contracts with customers and also requires enhanced disclosures. In July 2015, the FASB voted to defer the effective date by one year, with early adoption on the original effective date permitted. The Company will be required to adopt the standard as of May 1, 2018 and early adoption is permitted as of May 1, 2017. The Company has not determined the transition approach that will be utilized or estimated the impact of adopting the new accounting standard.

Subsequent events

The Company has considered subsequent events through August 28, 2015, the date the financial statements were available for issuance, in preparing the financial statements and notes thereto.

2. Real Estate Inventory

Real estate inventory consists of land and improvements held for sale or development. Accumulated capitalized interest costs included in real estate inventory at April 30, 2015 and 2014 totaled $3,957,000 and $3,959,000. There were no interest costs capitalized during 2015 and 2014. Accumulated capitalized real estate taxes included in real estate inventory at April 30, 2015 and 2014 totaled $1,746,000 and $1,759,000. There were no real estate taxes capitalized during 2015 and 2014. Previously capitalized interest costs and real estate taxes charged to real estate cost of sales were $15,000 and $7,000 during 2015 and 2014.

A substantial majority of the Company's real estate assets are located in or adjacent to Rio Rancho, New Mexico. As a result of this geographic concentration, the Company has been and will be affected by changes in economic conditions in that region.

The Company currently has approximately 234 developed lots available for sale in Rio Rancho. The development of additional lots for sale in Rio Rancho will require significant additional financing or other sources of funding, which may not be available. Development activities performed in connection with real estate sales include obtaining necessary governmental approvals, acquiring access to water supplies, installing utilities and necessary storm drains and building or improving roads.

3. Investment Assets

Investment assets consist of:

	April 30, 2015	April 30, 2014
Land held for long-term investment	$ 9,733,000	$ 10,234,000
Commercial investment property	3,106,000	3,106,000
Less accumulated depreciation	(420,000)	(350,000)
	2,686,000	2,756,000
	$ 12,419,000	$ 12,990,000

Land held for long-term investment represents property located in areas that are not planned to be developed in the near term and thus has not been offered for sale. As of April 30, 2015, the Company held approximately 12,000 acres of land in New Mexico classified as land held for long-term investment.

Commercial investment property primarily represents a 61,000 square foot facility in Palm Coast, Florida that is leased to an affiliate of AMREP. Depreciation of investment assets totaled $70,000 in 2015 and $69,000 in 2014.

4. Property, Plant and Equipment

Property, plant and equipment consist of:

	April 30, 2015	April 30, 2014
Furniture, equipment and software	$ 427,000	$ 427,000
Less accumulated depreciation	(364,000)	(343,000)
	$ 63,000	$ 84,000

Depreciation of property, plant and equipment charged to operations amounted to $21,000 in 2015 and $11,000 in 2014.

5. Other Assets

Other assets totaled $570,000 and $581,000 as of April 30, 2015 and 2014, respectively, and consists mostly of a cash reserve amount funded for future interest payments, see Note 6. There was no amortization related to other assets in 2015 and 2014.

6. Notes Payable

Notes payable consist of:

	April 30,	
	2015	2014
Due to related party	$ 14,003,000	$ 15,141,000
Due to Parent	19,270,000	19,270,000
	$ 33,273,000	$ 34,411,000

Fiscal year maturities of principal on notes payable at April 30, 2015 were as follows: 2016 - $4,000,000 (upon demand); 2017 – none; 2018 - $29,273,000.

Due to related party

AMREP Southwest has a loan from a company owned by Nicholas G. Karabots, a significant shareholder of AMREP and in which another director of AMREP has a 20% participation (the "Kappa Loan"). The loan had an outstanding principal amount of $14,003,000 at April 30, 2015, is scheduled to mature on December 1, 2017, bears interest payable monthly at 8.5% per annum, is secured by a mortgage on certain real property of AMREP Southwest in Rio Rancho and by a pledge of the stock of its subsidiary, Outer Rim Investments, Inc., which owns approximately 12,000 acres, for the most part scattered lots, in Sandoval County, New Mexico and which are not currently being offered for sale, requires that a cash reserve of at least $500,000 be maintained with the lender to fund interest payments and is subject to a number of restrictive covenants including a requirement that AMREP Southwest maintain a minimum tangible net worth and a restriction on AMREP Southwest making distributions and other payments to its parent company beyond a stated management fee. The total book value of the real property collateralizing the loan was approximately $63,786,000 as of April 30, 2015. A sale transaction by AMREP Southwest of certain mortgaged land requires the approval of the lender. Otherwise, the lender is required to release the lien of its mortgage on any land being sold at market price by AMREP Southwest in the ordinary course to an unrelated party on terms AMREP Southwest believes to be commercially reasonable. The loan may be prepaid at any time without premium or penalty except that if the pre-payment is in connection with the disposition of AMREP Southwest or substantially all of its assets there is a prepayment premium, which declines by 1% each year from the initial date of the loan and is currently 3% of the amount prepaid. No payments of principal are required until maturity, except that 25% of the net proceeds, as defined, from any sales of real property by AMREP Southwest are required to be applied to the payment of the loan. No new borrowings are permitted under this loan. Interest expense related to this loan totaled $1,258,000 and $1,348,000 for 2015 and 2014, respectively. Principal payments of $1,139,000 and $866,000 were made on the Kappa Loan in 2015 and 2014, respectively. At April 30, 2015, AMREP Southwest was in compliance with the covenants of the loan.

Due to Parent

As of April 30, 2015, the Company had a loan from ARIC that totaled $15,270,000. The loan is subordinated to the Kappa Loan and matures December 31, 2017. The loan bears interest at 8% per annum payable at maturity and is secured by a second mortgage on the real property securing the Kappa

6. Notes Payable (continued)

Loan. The note may be prepaid in whole or in part at any time without penalty or premium. Terms of the Kappa Loan prohibit payment of interest on this subordinated loan. The Company had unpaid interest on the note payable to its Parent that totaled $3,146,000 and $1,962,000 at April 30, 2015 and 2014, respectively.

A subsidiary of AMREP Southwest had a $4,000,000 loan from ARIC at both April 30, 2015 and 2014. The loan bears interest at 7% per annum payable monthly, is due 30 days after demand and is secured by a first mortgage on a commercial office building in Palm Coast, Florida that is owned by the subsidiary and leased to another AMREP subsidiary. The loan may be prepaid in whole or in part at any time without penalty or premium.

7. Income Taxes

The Company is included in the consolidated federal income tax return of AMREP. Under an informal tax sharing arrangement, income taxes are allocated to the Company based on its income or loss it contributed to the consolidated return. AMREP may direct a subsidiary to employ a tax planning strategy to benefit the consolidated group of companies. The income tax provision (benefit) recorded in the accompanying consolidated statements of operations consist of:

	2015	2014
Current	$ (2,251,000)	$ (1,314,000)
Deferred	296,000	(789,000)
	$ (1,955,000)	$ (2,103,000)

The components of the net deferred income tax asset (liability) are as follows:

	2015	2014
Deferred income tax assets:		
State tax loss carryforwards	$ 137,000	$ 423,000
Accrued pension costs	-	1,271,000
Charitable contribution carryover	-	9,000
Federal net operating loss carryforward	-	1,200,000
Real estate basis differences	4,296,000	3,309,000
Vacation accrual	4,000	9,000
Other	362,000	49,000
Total deferred income tax assets	4,799,000	6,270,000
Deferred income tax liabilities:		
Depreciable assets	(1,004,000)	(1,030,000)
Deferred gains on investment assets	(4,423,000)	(4,423,000)
Total deferred income tax liabilities	(5,427,000)	(5,453,000)
Valuation allowance for realization of state tax loss carryforwards	(112,000)	(323,000)
Net deferred income tax assets (liabilities)	$ (740,000)	$ 494,000

7. Income Taxes (continued)

A valuation allowance is provided when it is considered more likely than not that certain deferred tax assets will not be realized. The valuation allowance relates to net operating loss carryforwards in states where the Company either has no current operations or its operations are not considered likely to use the net operating loss carryforward prior to its expected expiration date. The current year decrease in the allowance relates to net operating loss carryforwards as of April 30, 2014 that are now considered likely to be realized. Net operating loss carryforwards expire between 2021 and 2036.

The following table reconciles taxes computed at the U.S. federal statutory income tax rate to the Company's actual tax provision (benefit):

	2015	2014
Computed tax provision (benefit) at statutory rate	$ (1,849,000)	$ (2,079,000)
Increase (reduction) in tax resulting from:		
State income taxes, net of federal income tax effect	(70,000)	(154,000)
Utilization and expiration of state NOL's	286,000	(15,000)
Change in valuation allowance	(211,000)	113,000
Other	(111,000)	32,000
Actual tax provision (benefit)	$ (1,955,000)	$ (2,103,000)

At April 30, 2014, the Company's share of AMREP's consolidated federal net operating loss carryforward was approximately $3,500,000 due to the Company's results of operations and contribution carryforwards being re-characterized as net operating losses. This federal net operating loss is expected to be used by AMREP with the filing of its 2015 federal tax return. The utilization of the Company's federal net operating loss utilized by AMREP's consolidated group is included in the Company's current income tax benefit.

AMREP, and therefore the Company, is subject to U.S. federal income taxes, and also to various state and local income taxes. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply.

During 2014, AMREP, and therefore the Company, reached a settlement with the Internal Revenue Service (the "IRS") with respect to the examination of AMREP's fiscal year 2012 and 2011 federal income tax returns. AMREP did not have to pay any additional federal taxes as a result of the IRS's examination of the two years due to AMREP's existing net operating losses, which were reduced by approximately $2,400,000.

The Company is not currently under examination by any tax authorities with respect to its income tax returns. Other than the U.S. federal tax return, the tax years through the fiscal year ended April 30, 2011 in nearly all jurisdictions are no longer subject to examination due to the expiration of the statute of limitations.

ASC 740-10 clarifies the accounting for uncertain tax positions, prescribing a minimum recognition threshold a tax position is required to meet before being recognized, and providing guidance on the de-recognition, measurement, classification and disclosure relating to income taxes. The following table summarizes the beginning and ending gross amount of unrecognized tax benefits:

7. Income Taxes (continued)

		2015		2014
Gross unrecognized tax benefits, beginning of year	$	58,000	$	58,000
Gross increase:				
Additions based on tax positions related to current year		-		-
Additions based on tax positions of prior years		-		-
Gross decrease:				
Reductions based on tax positions of prior years		-		-
Reductions based on the lapse of the applicable statute of limitations		-		-
Gross unrecognized tax benefits, end of year	$	58,000	$	58,000

The total tax effect of gross unrecognized tax benefits at April 30, 2015 and 2014 was $58,000 as of each date which, if recognized, would have an impact on the effective tax rate. The Company believes it is reasonably possible that the liability for unrecognized tax benefits will not change in the next twelve months.

The Company has elected to include interest and penalties in its income tax expense. There was no interest payable recognized or amounts accrued for penalties in the accompanying consolidated balance sheets at April 30, 2015 and 2014.

8. Fair Value of Financial Instruments

The FASB's accounting guidance defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The FASB's guidance classifies the inputs to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs for the asset or liability are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value on a non-recurring basis

Certain assets and liabilities are measured at fair value on a non-recurring basis; that is the asset or liability is not measured at fair value on an ongoing basis but is subject to fair value adjustment in certain circumstances (for example, when there is evidence of impairment). The following presents assets by

8. Fair Value of Financial Instruments (continued)

balance sheet caption and by the level within the fair value hierarchy (as described above) as of April 30, 2015 and 2014, for which a non-recurring change in fair value has been recorded during the years then ended (in thousands):

	Level 1	Level 2	Level 3	Impairment Loss Recorded
2015:				
Real estate inventory	$ -	$ -	$ 2,048	$ 1,504
Investment assets	$ -	$ -	$ 1,439	$ 305
2014:				
Real estate inventory	$ -	$ -	$ 1,285	$ 406
Investment assets	$ -	$ -	$ 787	$ 280

During 2015 and 2014, certain real estate inventory and investment assets were adjusted to their fair values, less estimated costs to sell, resulting in impairment charges of $1,809,000 and $686,000. The impairment charges were included in results of operations for each period. For additional detail on the impairment charges, valuation techniques and reasons for the measurements, see Note 9.

The Financial Instruments Topic of the FASB Accounting Standards Codification requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. The Topic excludes all nonfinancial instruments from its disclosure requirements. Fair value is determined under the hierarchy discussed above. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions are used in estimating fair value disclosure for financial instruments: the carrying amounts of cash, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments; and other receivables or debt that bear variable interest rates indexed to prime or LIBOR also approximates fair value as it re-prices when market interest rates change. These financial assets and liabilities are categorized as Level 1 within the fair value hierarchy described above.

The Company did not have any long-term, fixed-rate mortgage receivables at April 30, 2015 and 2014. The estimated fair value of the Company's long-term, fixed-rate notes payable was $31,387,000 and $32,382,000 versus carrying amounts of $33,273,000 and $34,411,000 at April 30, 2015 and 2014, respectively. These financial assets and liabilities are categorized as Level 2 within the fair value hierarchy described above.

9. Impairment of Assets

During 2015 and 2014, the Company recorded impairment charges as a result of current appraisals that showed deterioration in the fair market values of certain properties from the prior year and the impairment charges were included in results of operations for the applicable year. During 2015, certain real estate with carrying amounts of $5,296,000 was written down to its fair value of $3,515,000, less estimated selling costs, resulting in an impairment charge of $1,809,000. During 2014, certain real estate with carrying amounts of $2,758,000 was written down to its fair value of $2,082,000, less estimated selling costs, resulting in an impairment charge of $686,000. In both years, the impairment charges were

9. Impairment of Assets (continued)

primarily related to take-back lots reacquired in prior years that initially were recorded at fair market value less estimated costs to sell and are subsequently measured at the lower of cost or fair market value less estimated costs to sell.

10. Major Customers

During 2015, four customers had land purchases that totaled $5,660,000, or 96% of the land sales revenue. During 2014, three customers had land purchases that totaled $3,530,000, or 97% of the land sales revenue. As of April 30, 2015, the Company had no outstanding receivables related to these revenues.

11. Commitments and Contingencies

Pension benefits

The Company participates in AMREP's defined benefit pension plan ("pension plan") for which accumulated benefits were frozen and future service credits were curtailed as of March 1, 2004. As part of a controlled group of companies, AMREP and each of its subsidiaries, including the Company, are jointly and severally liable for obligations of the pension plan. See Note 12 for further information.

Non-cancelable leases

The Company is obligated under long-term non-cancelable leases for property and equipment. Rental expense was $93,000 for both 2015 and 2014. The total minimum rental commitments subsequent to April 30, 2015 are due as follows: 2016 - $95,000, 2017 - $23,000 and none thereafter.

Lot exchanges

In connection with certain individual home site sales made prior to 1977 at Rio Rancho, New Mexico, if water, electric and telephone utilities have not reached the lot site when a purchaser is ready to build a home, AMREP Southwest is obligated to exchange a lot in an area then serviced by such utilities for the lot of the purchaser, without cost to the purchaser. AMREP Southwest has not incurred significant costs related to the exchange of lots.

Future development

At April 30, 2015, AMREP Southwest has posted bonds to support its future development commitments in Rio Rancho of approximately $1,945,000.

12. Transactions with Affiliated Companies

Amounts due to affiliated companies consist of:

	April 30, 2015	April 30, 2014
Due to affiliated companies, net	$ 1,224,000	$ 803,000
Notes payable to Parent (see Note 6)	19,270,000	19,270,000
	$ 20,494,000	$ 20,073,000

12. Transactions with Affiliated Companies (continued)

Benefit plans

The Company participates in AMREP's multiemployer pension plan. As part of a controlled group of companies, AMREP and each of its subsidiaries, including the Company, are jointly and severally liable for obligations of the pension plan. As part of a re-allocation of inter-company corporate obligations, AMREP agreed to move, for accounting purposes, the previously recorded pension liability and related accounts on the Company's balance sheet to AMREP's balance sheet as of April 30, 2015. As a result of this, the Company's pension plan liability ($4,518,000), the related deferred taxes ($1,689,000) and accumulated other comprehensive loss ($2,010,000) were reduced to zero and the amounts were transferred to AMREP's trial balance. The Company's net liability to the Parent of $819,000 related to this accounting was re-characterized as a non-pension related inter-company obligation and is included in Due to affiliated companies, net shown above. The reduction of the accumulated other comprehensive loss account was deemed as a capital contribution for accounting purposes. Prior to the transfer of the Company's pension plan liability to AMREP as of April 30, 2015, for 2015 the Company recorded pension expense of $201,000, as well as other comprehensive loss of $489,000 to account for the net effect of changes to the unfunded pension liability. For 2014, the Company recorded pension expense of $240,000 and other comprehensive income of $496,000.

The funded status of AMREP's pension plan is equal to the plan's actuarially determined benefit obligations less the fair value of plan assets recognized in AMREP's balance sheet. As of April 30, 2015 the pension plan was underfunded by $11,259,000.

AMREP has made all required minimum funding contributions to the Plan through August 28, 2015, which the Company did not contribute to in either 2015 or 2014.

The Company participates in a traditional 401(k) plan sponsored by its Parent, the AMREP Savings and Salary Deferral Plan, in which participating employees contribute salary deductions. The Company may make discretionary matching contributions to the 401(k) plan, subject to the approval of its Board of Directors. The Company did not provide matching contributions to the 401(k) plan in 2015 or 2014.

Income Taxes

The Company shares the effects of certain tax benefits with its Parent and Affiliates, including the benefits of net operating losses and deferred taxes. "Due from (to) affiliated companies, net" in the accompanying balance sheets includes an intercompany tax receivables of $2,718,000 at April 30, 2015 and $908,000 at April 30, 2014.

Other

A subsidiary of the Company owns a commercial office building in Palm Coast, Florida and leases the building to a subsidiary of AMREP. Rental income totaled $292,000 and $284,000 for the years ended April 30, 2015 and 2014, respectively.

Management fees of $380,000 were charged to the Company for both the years ended April 30, 2015 and 2014, which represented corporate costs incurred by AMREP and allocated to the Company. At April 30, 2014 there were unpaid management fees of $2,206,000. During fiscal 2015, the unpaid management fees as of December 31, 2014 were eliminated by offsetting such liability with other receivables from affiliated companies with no effect on operating income or stockholder's equity. The Company paid AMREP the management fees for the months January through April 2015, which totaled $127,000.

13. Deferred Revenue

During the second quarter of 2015, AMREP Southwest and one of its subsidiaries (collectively, "ASW") entered into an Oil and Gas Lease and the Addendum thereto (collectively, the "Lease") with Thrust Energy, Inc. and Cebolla Roja, LLC (collectively, the "Lessee"). Pursuant to the Lease, ASW leased to Lessee all minerals and mineral rights owned by ASW or for which ASW has executive rights in and under approximately 55,000 surface acres of land in Sandoval County, New Mexico (the "Leased Premises") for the purpose of exploring for, developing, producing and marketing oil and gas. As partial consideration for entering into the Lease, the Lessee paid approximately $1,010,000 to ASW. The Lease will be in force for an initial term of four years and for as long thereafter as oil or gas is produced and marketed in paying quantities from the Leased Premises or for additional limited periods of time if Lessee undertakes certain operations or makes certain de minimis shut-in royalty payments. In addition, Lessee may extend the initial term of the Lease for an additional four years by paying ASW another payment of approximately $1,010,000. The Lease does not require Lessee to drill any oil or gas wells.

Lessee has agreed to pay ASW a royalty on oil and gas produced from the Leased Premises of 1/7th of the gross proceeds received by Lessee from the sale of such oil and gas to an unaffiliated third party of Lessee or 1/7th of the market value of the oil and gas if sold to an affiliate of Lessee. ASW's royalty will be charged with 1/7th of any expenses to place the oil and gas, if any, in marketable condition after it is brought to the surface. Amounts payable under the Lease will not be reduced by any payments made to other holders of mineral rights or other production royalty payment interests in the Leased Premises, other than payments pursuant to rights granted by ASW in deeds transferring portions of the Leased

Premises to third parties, primarily in the 1960s and 1970s. ASW and Lessee may assign, in whole or in part, their interests in the Lease. The oil and gas from ASW's mineral rights will not be pooled or unitized with any other oil and gas except as required by law. Lessee has assumed all risks and liabilities in connection with Lessee's activities under the Lease and agreed to indemnify ASW with respect thereto. No royalties were received by ASW during 2015.

In addition, in September 2014, AMREP Southwest entered into a Consent Agreement (the "Consent Agreement") with the mortgage holder on certain portions of the Leased Premises, pursuant to which the mortgage holder provided its consent to AMREP Southwest entering into the Lease and agreed to enter into a subordination, non-disturbance and attornment agreement with Lessee. Pursuant to the Consent Agreement, AMREP Southwest agreed to pay the mortgage holder (a) 25% of any royalty payments received by AMREP Southwest under the Lease with respect to oil and gas produced from the Leased Premises, which will be credited against any outstanding loan amounts due to the mortgage holder from AMREP Southwest, and such payments will cease upon payment in full of such outstanding loan amounts and (b) a separate consent fee of $100,000, which will not be credited against the outstanding loan amounts due to the mortgage holder from AMREP Southwest.

Revenue from this transaction is being recorded over the lease term and approximately $152,000 was recognized during 2015, which is included in Interest and other revenues in the accompanying financial statements. At April 30, 2015, there remained $758,000 of deferred revenue.

AMREP Southwest Inc. and Subsidiaries

Consolidated Financial Statements
April 30, 2013

Contents

McGladrey

Independent Auditor's Report

To the Shareholder
AMREP Southwest Inc.
Rio Rancho, New Mexico

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AMREP Southwest Inc. (an indirect, wholly-owned subsidiary of AMREP Corporation) and subsidiaries (Company) which comprise the consolidated balance sheets as of April 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholder's equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMREP Southwest Inc. and subsidiaries as of April 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Des Moines, Iowa
August 28, 2013

AMREP Southwest Inc. and Subsidiaries

Consolidated Balance Sheets
April 30, 2013 and 2012

Assets		2013		2012
Cash	$	169,000	$	494,000
Receivables		37,000		55,000
Due from affiliated companies, net		-		570,000
Real estate inventory		73,906,000		75,401,000
Investment assets, net		13,702,000		14,158,000
Property, plant and equipment, net		52,000		63,000
Deferred income taxes, net		258,000		-
Other assets		607,000		558,000
Total assets	$	88,731,000	$	91,299,000

Liabilities and Shareholder's Equity				
Liabilities:				
Accounts payable and accrued expenses	$	1,438,000	$	1,821,000
Due to affiliated companies, net		810,000		-
Notes payable:				
To related party – due beyond one year		16,007,000		-
To Parent:				
Due upon demand		4,000,000		4,000,000
Due beyond one year		12,660,000		8,980,000
To bank – due within one year		-		16,839,000
		32,667,000		29,819,000
Deferred income taxes, net		-		1,881,000
Accrued pension cost		3,978,000		3,824,000
Total liabilities		38,893,000		37,345,000
Commitments and Contingencies (Notes 9 and 13)				
Shareholder's Equity:				
Common stock, $100 par value; 100 shares authorized; 40 shares issued and outstanding		4,000		4,000
Capital contributed in excess of par value		10,546,000		10,546,000
Retained earnings		41,305,000		45,575,000
Accumulated other comprehensive loss, net		(2,017,000)		(2,171,000)
Total shareholder's equity		49,838,000		53,954,000
Total liabilities and shareholder's equity	$	88,731,000	$	91,299,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Operations

Years Ended April 30, 2013 and 2012

	Year ended April 30, 2013	Year ended April 30, 2012
Revenues:		
Land sales	$ 833,000	$ 1,889,000
Interest and other	334,000	282,000
	1,167,000	2,171,000
Cost and expenses:		
Cost of sales – land sales (including indirect costs)	913,000	616,000
Operating expenses:		
Selling and commissions	227,000	257,000
Real estate taxes and other	1,339,000	1,697,000
General and administrative	1,002,000	917,000
Impairment of assets	1,511,000	570,000
Interest expense – related party	890,000	-
Interest expense – Parent	1,138,000	736,000
Interest expense – bank	196,000	951,000
Management fee charged by Parent	696,000	696,000
	7,912,000	6,440,000
Loss before income taxes	(6,745,000)	(4,269,000)
Benefit for income taxes	(2,475,000)	(1,864,000)
Net loss	$ (4,270,000)	$ (2,405,000)

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Years Ended April 30, 2013 and 2012

	Year ended April 30, 2013	Year ended April 30, 2012
Net income (loss)	$ (4,270,000)	$ (2,405,000)
Other comprehensive income (loss), net of tax:		
Minimum pension liability	154,000	(455,000)
Total comprehensive income (loss)	$ (4,116,000)	$ (2,860,000)

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Shareholder's Equity

Years Ended April 30, 2013 and 2012

	Common Stock	Capital Contributed in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total
Balance - April 30, 2011	$ 4,000	$ 10,546,000	$ 47,980,000	$ (1,716,000)	$ 56,814,000
Net loss	-	-	(2,405,000)	-	(2,405,000)
Other comprehensive loss	-	-	-	(455,000)	(455,000)
Balance - April 30, 2012	4,000	10,546,000	45,575,000	(2,171,000)	53,954,000
Net loss	-	-	(4,270,000)	-	(4,270,000)
Other comprehensive income	-	-	-	154,000	154,000
Balance - April 30, 2013	$ 4,000	$ 10,546,000	$ 41,305,000	$ (2,017,000)	$ 49,838,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AMREP Southwest Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended April 30, 2013 and 2012

	Year ended April 30, 2013	Year ended April 30, 2012
Cash flows from operating activities:		
Net loss	$ (4,270,000)	$ (2,405,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment of assets	1,511,000	570,000
Depreciation and amortization	81,000	81,000
Pension accrual	402,000	307,000
Changes in assets and liabilities:		
Receivables	18,000	84,000
Due to/from affiliated companies, net	1,380,000	756,000
Real estate inventory	370,000	(396,000)
Other assets	(49,000)	177,000
Accounts payable and accrued expenses	(383,000)	(72,000)
Deferred income taxes	(2,233,000)	(1,824,000)
Net cash used in operating activities	(3,173,000)	(2,722,000)
Cash flows from financing activities:		
Proceeds from debt financing	3,680,000	5,480,000
Repayments of debt financing	(832,000)	(2,500,000)
Net cash provided by financing activities	2,848,000	2,980,000
Increase (decrease) in cash and cash equivalents	(325,000)	258,000
Cash and cash equivalents, beginning of year	494,000	236,000
Cash and cash equivalents, end of year	$ 169,000	$ 494,000
Supplemental cash flow information:		
Income taxes paid (refunded), net	$ 838,000	$ 5,000
Interest paid	$ 1,306,000	$ 1,681,000
Supplemental disclosure of non-cash activities:		
Transfer to investment assets from receivables	$ -	$ 451,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

1. Summary of Significant Accounting and Financial Reporting Policies

Organization and principles of consolidation

The consolidated financial statements include the accounts of AMREP Southwest Inc. and its subsidiaries ("AMREP Southwest" or the "Company"). AMREP Southwest is a regional land developer with principal operations in New Mexico. The consolidated balance sheets are presented in an unclassified format since the Company operates in the real estate industry and its operating cycle is greater than one year.

The Company is a wholly-owned subsidiary of American Republic Investment Co. ("ARIC"), a wholly-owned subsidiary of AMREP Corporation ("AMREP"). As such, the Company is an indirect, wholly-owned subsidiary of AMREP, a publicly held corporation. AMREP and ARIC are described herein as the "Parent" or, individually or collectively with their other subsidiaries, as "Affiliates". All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain 2012 balances in the accompanying financial statements have been reclassified to conform to the current year presentation with no effect on the net loss or shareholder's equity.

Fiscal year

The Company's fiscal year ends on April 30. All references to 2013 and 2012 mean the fiscal years ended April 30, 2013 and 2012, unless the context otherwise indicates.

Revenue recognition

Land sales are recognized when all elements of the Accounting Standards Codification ("ASC") 360-20 are met, including when the parties are bound by the terms of the contract, all consideration (including adequate cash) has been exchanged, title and other attributes of ownership have been conveyed to the buyer by means of a closing and the Company is not obligated to perform further significant development of the specific property sold. Profit is recorded either in its entirety or on the installment method depending upon, among other things, the ability to estimate the collectability of the unpaid sales price. In the event the buyer defaults on an obligation with respect to real estate inventory which has been sold, the property may be repossessed ("take-back lots"). When repossessed, take-back lots are taken into inventory at fair market value less estimated costs to sell. Fair market value is supported by current third party appraisals.

Cost of land sales includes all direct acquisition costs and other costs specifically identified with the property, including pre-acquisition costs and capitalized real estate taxes and interest, and an allocation of certain common development costs (such as roads, sewers and amenities) associated with the entire project. Common development costs include the installation of utilities and roads, and may be based upon estimates of cost to complete. The allocation of costs is based on the relative fair value of the property before development. Estimates and cost allocations are reviewed on a regular basis until a project is substantially completed, and are revised and reallocated as necessary on the basis of current estimates.

Receivables

Receivables are carried at original invoice or closing statement amounts less estimates made for doubtful accounts receivable. Management determines the allowances for doubtful accounts by reviewing and identifying troubled accounts and by using historical experience applied to an aging of accounts. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than ninety days. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

1. Summary of Significant Accounting and Financial Reporting Policies (continued)

Real estate inventory

The Company accounts for its real estate inventories in accordance with ASC 360-10. Land and improvements on land held for future development or sale are stated at the lower of accumulated cost (except where inventory is repossessed as discussed above under "Revenue recognition"), which includes the development cost, certain amenities, capitalized interest and capitalized real estate taxes, or fair market value less estimated costs to sell.

Investment assets

Investment assets primarily consist of investment land, which represents vacant, undeveloped land not held for development or sale in the normal course of business, and is stated at the lower of cost or fair market value less estimated costs to sell.

Property, plant and equipment

Items capitalized as part of property, plant and equipment are recorded at cost. Expenditures for maintenance and repair and minor renewals are charged to expense as incurred, while those expenditures that improve or extend the useful life of existing assets are capitalized. Upon the sale or other disposition of assets, their cost and the related accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in operations.

Depreciation and amortization of property, plant and equipment are provided principally by the straight-line method at various rates calculated to amortize the book values of the respective assets over their estimated useful lives, which generally are 10 years or less for furniture and fixtures (including equipment) and 25 to 40 years for buildings and improvements.

Impairment of long-lived assets

ASC 360-10 requires that long-lived assets, including real estate inventory, investment assets and property, plant and equipment, be evaluated and reviewed for impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Provisions for impairment are recorded when undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of the assets. The amount of impairment would be equal to the difference between the carrying value of an asset and its fair value.

For real estate projects under development, an estimate of future cash flows on an undiscounted basis is determined using estimated future expenditures necessary to complete such projects and using management's best estimates about sales prices and holding periods. The estimation process involved in determining if assets have been impaired and in the determination of estimated future cash flows is inherently uncertain because it requires estimates of future revenues and costs, as well as future events and conditions. If the excess of undiscounted cash flows over the carrying value of a project is small, there is a greater risk of future impairment and any resulting impairment charges could be material. Due to the subjective nature of the estimates and assumptions used in determining future cash flows, the continued weakness in the real estate market and the uncertainty in the banking and credit markets, actual results could differ materially from current estimates.

During 2013 and 2012, the Company recorded impairment charges of $1,511,000 and $570,000 related to certain real estate principally consisting of take-back lots and lots repurchased in Rio Rancho, New Mexico. See Note 11 for additional details.

1. Summary of Significant Accounting and Financial Reporting Policies (continued)

Income taxes

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured by using currently enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse. The Company provides a valuation allowance against net deferred tax assets unless, based upon the available evidence, it is more likely than not that the deferred tax assets will be realized.

Pension plan

The Company recognizes the over-funded or under-funded status of its defined benefit retirement plan as an asset or liability as of the date of its year-end statement of financial position and changes in that funded status in the year in which the changes occur through comprehensive income.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss) that, for the Company, consists solely of the minimum pension liability net of the related deferred income tax effect.

Management's estimates and assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates that affect the financial statements include, but are not limited to, (i) allowances for doubtful accounts; (ii) real estate cost of sales calculations, which are based on land development budgets and estimates of costs to complete; (iii) cash flow and valuation assumptions in performing asset impairment tests of long-lived assets and assets held for sale; (iv) actuarially determined benefit obligations and other pension plan accounting and disclosures; (v) risk assessment of uncertain tax positions; (vi) the determination of the recoverability of net deferred tax assets; and (vii) legal contingencies. The Company bases its significant estimates on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results could differ from these estimates.

Recent accounting pronouncements

The Company has evaluated all the recent accounting pronouncements through the date the financial statements were issued and believes that none of them will have a material effect on the Company's financial statements.

Subsequent events

The Company has considered subsequent events through August 28, 2013, the date the financial statements were available for issuance, in preparing the financial statements and notes thereto.

2. Receivables

Receivables consist of amounts due from a real estate developer and are collateralized by the related land. The Company generally extends credit to companies in the real estate industry that may be affected by changes in economic or other external conditions. The Company's policy is to manage its exposure to credit risk through credit approvals and limits and, where appropriate, to be secured by collateral. The Company also provides an allowance for doubtful accounts for potential losses. The real estate mortgage note receivable from land sales at April 30, 2013 that totals $35,000 bears interest at 8.50% and is due in fiscal 2014.

3. Real Estate Inventory

Real estate inventory consists of land and improvements held for sale or development. Accumulated capitalized interest costs included in real estate inventory totaled $3,959,000 at April 30, 2013 and $3,961,000 at April 30, 2012. There were no interest costs capitalized during 2013 and 2012. Accumulated capitalized real estate taxes included in real estate inventory totaled $1,766,000 at April 30, 2013 and $1,772,000 at April 30, 2012. There were no real estate taxes capitalized during 2013 and 2012. Previously capitalized interest costs and real estate taxes charged to real estate cost of sales were $8,000 and $36,000 in 2013 and 2012.

A substantial majority of the Company's real estate assets are located in or adjacent to Rio Rancho, New Mexico. The Company currently has approximately 450 developed lots available for sale in Rio Rancho. Development activities performed in connection with real estate sales include obtaining necessary governmental approvals, acquiring access to water supplies, installing utilities and necessary storm drains and building or improving roads. As a result of this geographic concentration, the Company has been affected by changes in economic conditions in that region.

4. Investment Assets

Investment assets consist of:

	April 30, 2013	April 30, 2012
Land held for long-term investment	$ 10,552,000	$ 10,769,000
Commercial investment property	3,106,000	3,106,000
Other	753,000	753,000
Less accumulated depreciation and reserves	(709,000)	(470,000)
	3,150,000	3,389,000
	$ 13,702,000	$ 14,158,000

Land held for long-term investment represents property located in areas that are not planned to be developed in the near term and thus has not been offered for sale. As of April 30, 2013, the Company held approximately 12,450 acres of land in New Mexico classified as land held for long-term investment. Commercial investment property primarily represents a 61,000 square foot facility in Palm Coast, Florida that is leased to an affiliate of the Parent. Other includes a building in Rio Rancho, New Mexico under contract for sale. Depreciation is no longer taken on the building and an impairment reserve of $169,000 was recorded as a charge to operations during the quarter ended July 31, 2012. Depreciation of investment assets totaled $70,000 in both 2013 and 2012.

4. Investment Assets (continued)

During 2012, the Company accepted deeds in lieu of foreclosure related to delinquent mortgage notes receivable on previously sold investment assets ("take-back lots") totaling $451,000, which included accrued interest, and recorded the fair value of the take-back lots received less estimated costs to sell as investment assets. During 2013, a change to operations was recorded to adjust the recorded value of these take-back lots to a current appraised value (See Note 11). The Company did not accept any deeds in lieu of foreclosure for investment assets in 2013.

5. Property, Plant and Equipment

Property, plant and equipment consist of:

	April 30, 2013	April 30, 2012
Furniture and equipment	$ 384,000	$ 384,000
Less accumulated depreciation	(332,000)	(321,000)
	$ 52,000	$ 63,000

Depreciation of property, plant and equipment charged to operations amounted to $11,000 in both 2013 and 2012.

6. Other Assets

Other assets consist of prepaid expenses and other deferred charges that totaled $607,000 and $558,000 as of April 30, 2013 and 2012, respectively, and consists mostly of a cash reserve amount funded for future interest payments, see Note 7. There was no amortization related to other assets in 2013 and 2012.

7. Notes Payable

Notes payable consist of:

	April 30, 2013	April 30, 2012
Due to related party	$ 16,007,000	$ -
Due to Parent	16,660,000	12,980,000
Due to bank	-	16,839,000
	$ 32,667,000	$ 29,819,000

Fiscal year maturities of principal on notes payable at April 30, 2013 were as follows: 2014 - $4,000,000 (upon demend); 2015 - 2017 – none; 2018 - $28,667,000.

7. Notes Payable (continued)

Due to related party

AMREP Southwest had a bank loan scheduled to mature on September 1, 2012 that, at August 13, 2012, had an outstanding principal balance of $16,214,000. The loan bore fluctuating interest at the annual rate of reserve adjusted 30-day LIBOR plus 3.5%, but not less than 5%, and required that a cash reserve of at least $500,000 be maintained with the lender to fund interest payments. The loan was secured by a mortgage on certain real property of AMREP Southwest in Rio Rancho, New Mexico and required that the appraised value of the collateral be at least 2.5 times the outstanding principal of the loan. The loan was subject to a number of restrictive covenants including a requirement that AMREP Southwest maintain a minimum tangible net worth and a restriction on AMREP Southwest making distributions and other payments to its parent or the Company beyond a stated management fee.

On August 13, 2012, a company (the "New Lender") owned by Nicholas G. Karabots, a significant shareholder of AMREP who was then Vice Chairman of AMREP's board of directors and its executive committee, purchased the bank loan and agreed to extend its maturity to December 1, 2012 on substantially its existing terms to accord the parties time to negotiate a longer extension or for AMREP Southwest to identify a possible alternate financing source. In August 2012, another director of AMREP purchased a 20% participation in the loan from the New Lender.

AMREP Southwest and the New Lender entered into an agreement effective December 1, 2012 amending the terms of the loan (the "New Lender Loan"). Under the terms of the loan as now in effect, it matures on December 1, 2017, bears interest monthly at 8.5% per annum and is secured by its original collateral and by additional collateral (the "newly mortgaged land") comprised of the balance of the real property owned by AMREP Southwest in Rio Rancho, New Mexico and by a pledge of the stock of its subsidiary, Outer Rim Investments, Inc., which owns approximately 12,000 acres, for the most part scattered lots, in Sandoval County, New Mexico and which are not currently being offered for sale. The total book value of the real property collateralizing the loan was approximately $71,963,000 as of April 30, 2013. A sale transaction by AMREP Southwest of the newly mortgaged land for more than $50,000 or of any AMREP Southwest-owned land other than land zoned and designated as a residential classification for more than $100,000 requires the approval of the New Lender. Otherwise, the New Lender is required to release the lien of its mortgage on any land being sold by AMREP Southwest in the ordinary course to an unrelated party on terms AMREP Southwest believes to be commercially reasonable and at a price AMREP Southwest believes to be not less than the land's fair market value or, in the case of the newly mortgaged land, its wholesale value, upon receipt of AMREP Southwest's certification to such effect. The loan may be prepaid at any time without premium or penalty except that if the prepayment is in connection with the disposition of AMREP Southwest or substantially all of its assets there is a prepayment premium, initially 5% of the amount prepaid, with the percentage declining by 1% each year. No payments of principal are required until maturity, except that 25% of the net proceeds, as defined, from any sales of real property by AMREP Southwest are required to be applied to the payment of the loan. No new borrowings are permitted under this facility. The requirement to maintain the reserve for interest and the restrictive covenants that applied prior to the amendment for the most part continue to apply, including a covenant restricting AMREP Southwest from making distributions and other payments to AMREP beyond a stated management fee, except that there is no longer a requirement regarding the ratio of the appraised value of the collateral to the amount of the loan. At April 30, 2013, the outstanding principal of the loan was $16,007,000 and there was $49,000 of related accrued interest.

7. Notes Payable (continued)

Due to Parent

As of April 30, 2013, the Company had a loan from ARIC that totaled $12,660,000. The loan is subordinated to the New Lender Loan and matures December 31, 2017. The loan bears interest at 8% per annum payable at maturity and is secured by a second mortgage on the real property securing the New Lender Loan. The note may be prepaid in whole or in part at any time without penalty or premium. Subsequent to April 30, 2013, the Company received $960,000 in additional loans from ARIC, having the same interest rate and maturity as the initial loan and which are also subordinated to the New Lender Loan and secured by the second mortgage. Terms of the New Lender Loan prohibit payment of interest on this subordinated loan. The Company had unpaid interest on the note payable to its Parent that totaled $858,000 at April 30, 2013.

A subsidiary of AMREP Southwest had a $4,000,000 loan from ARIC at both April 30, 2013 and 2012. The loan bears interest at 7% per annum payable monthly, is due 30 days after demand and is secured by a first mortgage on a commercial office building in Palm Coast, Florida that is owned by the subsidiary and leased to another AMREP subsidiary. The loan may be prepaid in whole or in part at any time without penalty or premium.

8. Income Taxes

The Company is included in the consolidated federal income tax return of AMREP. Under an informal tax sharing arrangement, income taxes are allocated to the Company based on its income or loss it contributed to the consolidated return. Benefits of losses in one company are allocated to that company. The Parent may direct a subsidiary to employ a tax planning strategy to benefit the consolidated group of companies. The income tax provision (benefit) recorded in the accompanying consolidated statements of operations consist of:

	2013	2012
Current	$ (553,000)	$ (592,000)
Deferred	(1,922,000)	(1,272,000)
	$ (2,475,000)	$ (1,864,000)

8. Income Taxes (continued)

The components of the net deferred income tax liability are as follows:

	2013	2012
Deferred income tax assets:		
State tax loss carryforwards	$ 407,000	$ 474,000
Accrued pension costs	1,484,000	1,425,000
Charitable contribution carryover	10,000	10,000
Federal net operating loss carryforward	1,517,000	1,173,000
Real estate basis differences	2,523,000	1,045,000
Vacation accrual	10,000	12,000
Total deferred income tax assets	5,951,000	4,139,000
Deferred income tax liabilities:		
Depreciable assets	(1,008,000)	(1,038,000)
Deferred gains on investment assets	(4,428,000)	(4,679,000)
Other	(47,000)	(4,000)
Total deferred income tax liabilities	(5,483,000)	(5,721,000)
Valuation allowance for realization of state tax loss carryforwards	(210,000)	(299,000)
Net deferred income tax assets (liabilities)	$ 258,000	$ (1,881,000)

A valuation allowance is provided when it is considered more likely than not that certain deferred tax assets will not be realized. The valuation allowance relates to net operating loss carryforwards in states where the Company has no current operations and in Colorado where the net operating loss carryforwards are not expected to be realized. The current year decrease in the allowance relates to the expired net operating loss. Net operating loss carryforwards expire between 2014 and 2034.

The following table reconciles taxes computed at the U.S. federal statutory income tax rate to the Company's actual tax provision (benefit):

	2013	2012
Computed tax provision (benefit) at statutory rate	$ (2,361,000)	$ (1,494,000)
Increase (reduction) in tax resulting from:		
State income taxes, net of federal income tax effect	(140,000)	(81,000)
Expiration of state NOL's	50,000	32,000
Change in valuation allowance	(89,000)	(28,000)
Adjustment for unrecognized tax benefits	(1,000)	(273,000)
Other	66,000	(20,000)
Actual tax provision (benefit)	$ (2,475,000)	$ (1,864,000)

The Company's share of AMREP's consolidated federal net operating loss carryforward is approximately $4,461,000 resulting from current year operations and contribution carryforwards being re-characterized as net operating losses, which will begin to expire in the fiscal year ending April 30, 2029.

8. Income Taxes (continued)

The Company is subject to U.S. federal income taxes, and also to various state and local income taxes. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. During the quarter ended October 31, 2012, AMREP reached a settlement with the Internal Revenue Service with respect to an examination of its fiscal 2010 and 2005 federal tax returns. As a result, the Company recorded a $647,000 payable to AMREP for the examination results related to (i) deferred gains on investment assets not previously recognized and (ii) the timing of certain deductible expenses, and accrued $34,000 of related interest. The $34,000 of interest is included in tax expense in the accompanying consolidated financial statements.

AMREP, and therefore the Company, is undergoing an examination of its fiscal 2011 U.S. federal tax return by the Internal Revenue Service. The Company is not currently under examination by any other tax authorities with respect to its income tax returns. Other than the U.S. federal tax return, in nearly all jurisdictions, the tax years through the fiscal year ended April 30, 2009 are no longer subject to examination due to the expiration of the statute of limitations.

ASC 740-10 clarifies the accounting for uncertain tax positions, prescribing a minimum recognition threshold a tax position is required to meet before being recognized, and providing guidance on the de-recognition, measurement, classification and disclosure relating to income taxes. The following table summarizes the beginning and ending gross amount of unrecognized tax benefits:

	2013	2012
Gross unrecognized tax benefits, beginning of year	$ 118,000	$ 593,000
Gross increase:		
Additions based on tax positions related to current year	-	-
Additions based on tax positions of prior years	-	-
Gross decrease:		
Reductions based on tax positions of prior years	(60,000)	(140,000)
Reductions based on the lapse of the applicable statute of limitations	-	(335,000)
Gross unrecognized tax benefits, end of year	$ 58,000	$ 118,000

The total amount of unrecognized tax benefits at April 30, 2013 was $58,000, which, if recognized, would have an impact on the effective tax rate. The Company believes it is reasonably possible that the liability for unrecognized tax benefits will remain unchanged during the next twelve months.

The Company has elected to include interest and penalties in its income tax expense. The total amount of interest payable recognized in the accompanying consolidated balance sheets was $0 at April 30, 2013 and $1,000 at April 30, 2012. No amount has been accrued for penalties. In 2013 and 2012, the Company recognized decreases of $1,000 and $48,000, respectively, to its income tax provision related to interest, which resulted from the reduction of unrecognized tax benefits due to the expiration of the statute of limitations, offset in part by interest accrued for existing uncertain tax positions.

9. Commitments and Contingencies

Litigation

The Company and its subsidiaries are involved in various claims and legal actions arising in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, management believes that they will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

Non-cancelable leases

The Company is obligated under long-term non-cancelable leases for property and equipment. Rental expense was $94,000 for both 2013 and 2012. The total minimum rental commitments subsequent to April 30, 2013 are due as follows: 2014 - $84,000, 2015 - $89,000, 2016 - $91,000, 2017 - $23,000 and none thereafter.

Lot exchanges

In connection with certain individual home site sales made prior to 1977 at Rio Rancho, New Mexico, if water, electric and telephone utilities have not reached the lot site when a purchaser is ready to build a home, AMREP Southwest is obligated to exchange a lot in an area then serviced by such utilities for the lot of the purchaser, without cost to the purchaser. AMREP Southwest has not incurred significant costs related to the exchange of lots.

Future Development

AMREP Southwest has bonds outstanding for future development commitments in Rio Rancho, New Mexico of approximately $3,100,000.

10. Fair Value of Financial Instruments

The FASB's accounting guidance defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The FASB's guidance classifies the inputs to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs for the asset or liability are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

10. Fair Value of Financial Instruments (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value on a non-recurring basis

Certain assets and liabilities are measured at fair value on a non-recurring basis; that is the asset or liability is not measured at fair value on an ongoing basis but is subject to fair value adjustment in certain circumstances (for example, when there is evidence of impairment). The following presents assets by balance sheet caption and by the level within the fair value hierarchy (as described above) as of April 30, 2013 and 2012, for which a non-recurring change in fair value has been recorded during the years then ended (in thousands):

	Level 1	Level 2	Level 3	Impairment Loss Recorded
2013:				
Real estate inventory	$ -	$ -	$ 2,390	$ 1,125
Investment assets	$ -	$ -	$ 1,076	$ 386
2012:				
Real estate inventory	$ -	$ -	$ 744	$ 525
Investment assets	$ -	$ -	$ 430	$ 45

During 2013, certain real estate inventory and investment assets with carrying amounts of $4,949,000 were written down to their fair value of $3,466,000, less estimated costs to sell, resulting in an impairment charge of $1,511,000. During 2012, certain real estate inventory and investment assets with carrying amounts of $1,734,000 were written down to their fair value of $1,174,000, less estimated costs to sell, resulting in an impairment charge of $570,000. The impairment charges were included in results of operations for each period. For additional detail on valuation techniques and reasons for the measurements, see Note 11.

The Financial Instruments Topic of the FASB Accounting Standards Codification requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Fair value is determined under the framework discussed above. The Topic excludes all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions are used in estimating fair value disclosure for financial instruments.

The carrying amount of trade payables approximates fair value because of the short maturity of the financial instrument. Debt that bears variable interest rates indexed to prime or LIBOR also approximates fair value as it re-prices when market interest rates change.

The estimated fair value of the Company's long-term, fixed-rate mortgage receivables was $35,000 and $54,000 at April 30, 2013 and 2012 and is the approximate carrying amount at those dates. The estimated fair value of the Company's long-term, fixed-rate notes payable was $29,023,000 at April 30, 2013 versus a carrying amount of $32,667,000 and $12,980,000 at April 30, 2012, which was the approximate carrying amount at that date.

11. Impairment of Assets

During 2013, certain real estate with carrying amounts of $4,949,000 was written down to its fair value of $3,466,000, less estimated costs to sell, resulting in an impairment charge of $1,511,000. During 2012, the carrying value of certain real estate consisting of take-back lots located in Rio Rancho, New Mexico was adjusted from $1,734,000 to fair value of $1,174,000, less estimated costs to sell, resulting in an impairment charge of $570,000. The real estate impairment charges were the result of current appraisals that showed deterioration in the fair market values of the properties from the prior year and were included in results of operations for the applicable year.

12. Major Customers

During 2013, three land purchasers totaled $833,000 or 100% of the land sales revenue and for 2012 three land purchasers totaled approximately $1,573,000 or 84% of the total land sales revenue. As of April 30, 2013, the Company had no outstanding receivables related to these revenues.

13. Transactions with Affiliated Companies

Amounts due (to) from affiliated companies consist of:

	April 30,	
	2013	2012
Due (to) from affiliated companies, net	$ (810,000)	$ 570,000
Notes payable to Parent (see Note 7)	(16,660,000)	(12,980,000)
	$ (17,470,000)	$ (12,410,000)

Benefit plans

The Company participates in a defined benefit pension plan sponsored by AMREP (the "Plan"), whereby the accumulated benefits were frozen and future service credits were curtailed as of March 1, 2004. The Company's proportionate share of the actuarially computed amount for pension expense or benefit and contributions are based upon specific census data of its employees participating in the Plan. As of April 30, 2013, the related actuarially computed projected benefit obligation was approximately $38,582,000 and the fair value of total Plan assets was approximately $24,777,000. Based upon actuarial reports, the accumulated Plan liability related to former and present employees of the Company as of April 30, 2013 was approximately $8,350,000 and the pro-rata portion of the fair value of the Plan assets was approximately $4,372,000. The Company recorded other comprehensive income of $154,000 and other comprehensive loss of $455,000 in 2013 and 2012, respectively, to account for the net effect of changes to the unfunded pension liability. The Company's pension expense was $402,000 and $308,000 for the years ended 2013 and 2012, respectively. AMREP has made all required minimum funding contributions to the Plan through August 28, 2013, which the Company did not contribute to in either year.

13. Transactions with Affiliated Companies (continued)

Due to the closing of certain facilities in connection with the consolidation of AMREP's Subscription Fulfillment Services business and the associated work force reduction, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations thereunder, have given the Pension Benefit Guaranty Corporation (the "PBGC") the right to require AMREP to accelerate the funding of approximately $11,688,000 of accrued pension-related obligations to AMREP's defined benefit pension plan. In August 2012, AMREP and the PBGC reached an agreement with respect to this funding obligation, and as a result, AMREP made a $3,000,000 cash contribution to the pension plan on August 16, 2012. The Company did not contribute any amount to this $3,000,000 contribution. The agreement also provided that if, before August 15, 2013, AMREP is unable to pay the remaining $8,688,000 liability or adequately secure it with collateral acceptable to the PBGC, AMREP would be required to either (i) provide a letter of credit equal to 110% of the remaining liability or establish a cash escrow for 100% of the remaining liability, to be maintained for five years or until the remaining liability is discharged, if sooner or (ii) discharge the remaining liability in quarterly installments over a five year period and secure it with collateral acceptable to the PBGC. In the event AMREP failed to meet the terms of the agreement, the PBGC could seek immediate payment of the amount due or attempt to force a termination of the pension plan. Separately, AMREP made contributions to the Plan of $426,000 in excess of the minimum funding requirements for 2012.

In August 2013, AMREP and the PBGC reached another agreement in principal related to the remaining liability (the "Settlement Agreement"). In the Settlement Agreement, the PBGC has agreed to forbear from asserting certain rights to obtain payment of the remaining $8,688,000 accelerated funding liability granted to it by ERISA, and AMREP has agreed (a) to pay $3,243,008 of the accelerated funding liability as a cash contribution to its pension plan not later than 10 days after the date of the Settlement Agreement and (b) to provide first lien mortgages on certain real property of the Company and its Affiliates with a current aggregate appraised value of $10,039,000 in favor of the PBGC to secure the unpaid amount of the accelerated funding liability. In addition, the PBGC has agreed to credit the $426,000 of contributions made by AMREP to the pension plan in excess of the 2012 minimum funding requirements towards the accelerated funding liability.

On an annual basis, AMREP will be required to provide updated appraisals on each mortgaged property and, if the appraised value of the mortgaged properties is less than two times the amount of the accelerated funding liability then outstanding, AMREP is required to make a payment to its pension plan in an amount equal to one-half of the amount of the shortfall. The mortgages in favor of the PBGC will be discharged following the termination date of the Settlement Agreement. In connection with the Settlement Agreement, AMREP has made certain representations and warranties and is required to comply with various covenants, reporting requirements and other requirements, including making all required minimum funding contributions to its pension plan. AMREP's failure to comply with its obligations under the Settlement Agreement may result in an event of default, which would permit the PBGC to repossess, sell or foreclose on the properties that have been mortgaged in favor of the PBGC. The Settlement Agreement will generally terminate on the earlier of the date the accelerated funding liability has been paid in full or during August 2018. Effective on the termination date of the Settlement Agreement, the PBGC will be deemed to have released and discharged AMREP and any other members of its controlled group from any claims in connection with such member's liability or obligations with respect to the accelerated funding liability.

The Settlement Agreement does not address any future events that may accelerate any other accrued pension plan obligations. AMREP and the Company may become subject to additional acceleration of its remaining accrued obligations to the pension plan if certain additional AMREP facilities are closed and its work force is further reduced. Any such acceleration could negatively impact AMREP's limited financial resources and could have a material adverse impact on AMREP and the Company's financial condition.

13. Transactions with Affiliated Companies (continued)

The Company participates in a traditional 401(k) plan sponsored by its Parent, the AMREP Savings and Salary Deferral Plan, in which participating employees contribute salary deductions. The Company may make discretionary matching contributions to the plan, subject to the approval of its Board of Directors. Effective May 1, 2009, the Company suspended the matching contribution to the plan.

Taxes

The Company shares the effects of certain tax benefits with its Parent and Affiliates, including the benefits of net operating losses and deferred taxes. At April 30, 2013 and 2012, "Due from (to) affiliated companies, net" in the accompanying balance sheets includes intercompany tax liabilities of $649,000 and $1,113,000, respectively.

Other

A subsidiary of the Company owns a commercial office building in Palm Coast, Florida and leases the building to a subsidiary of AMREP. Rental income totaled $276,000 and $268,000 for the years ended April 30, 2013 and 2012, respectively.

Management fees of $696,000 were charged to the Company representing corporate costs incurred by AMREP and allocated to the Company for the years ended April 30, 2013 and 2012. These management fees were unpaid in each year. The unpaid management fees totaled $1,826,000 at April 30, 2013 and $1,130,000 at April 30, 2012.