

Falcon Ridge Limited Partnership

Financial Statements

Years Ended December 31, 2015 and 2014

And Supplementary Information

Year Ended December 31, 2015

Falcon Ridge Limited Partnership

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INDEPENDENT AUDITOR'S REPORT

To the Partners of Falcon Ridge Limited Partnership
Hatch, New Mexico
and
Tim Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Falcon Ridge Limited Partnership, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Falcon Ridge Limited Partnership, as of December 31, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 19 - 20 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on pages 19 - 20 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The *Schedule of Vendors* shown on page 21 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2016, on our consideration of Falcon Ridge Limited Partnership's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Falcon Ridge Limited Partnership's internal control over financial reporting and compliance.



Boothe, Vassar & Company

May 12, 2016
Big Spring, Texas

Falcon Ridge Limited Partnership

Balance Sheets

December 31, 2015 and 2014

ASSETS

	<u>12/31/2015</u>	<u>12/31/2014</u>
Current Assets:		
Cash and Cash Equivalents	\$ 73,050	\$ 93,468
Accounts Receivable - Tenants	589	690
Accounts Receivable - Rural Development	25,732	23,497
Accounts Receivable - Interest Subsidy	42,305	42,014
Prepaid Expenses	8,146	9,228
Total Current Assets	<u>149,822</u>	<u>168,897</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	40,761	37,453
Real Estate Tax & Insurance	59,962	48,203
Other Escrows	9,766	11,929
Replacement Reserve	462,954	435,963
Operating & Operating Deficit Reserve	200,881	200,881
Lease Up Reserve	25,055	25,048
Developer Fee Escrow	193,765	221,455
Total Restricted Deposits & Funded Reserves	<u>993,144</u>	<u>980,932</u>
Property & Equipment:		
Land	106,160	106,160
Buildings	8,261,744	8,305,388
Site Improvements	602,166	593,392
Furnishings	293,989	293,989
Accumulated Depreciation	(1,378,927)	(1,110,656)
Total Property & Equipment	<u>7,885,132</u>	<u>8,188,273</u>
Other Assets:		
Deferred Finance Cost, net of amortization	241,154	265,913
Deferred Tax Credit Fees, net of amortization	48,092	53,024
Total Other Assets	<u>289,246</u>	<u>318,937</u>
Total Assets	<u>\$ 9,317,344</u>	<u>\$ 9,657,039</u>

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

Falcon Ridge Limited Partnership

Balance Sheets

December 31, 2015 and 2014

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2015</u>	<u>12/31/2014</u>
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	\$ 40,389	\$ 38,606
Accounts Payable	4,557	6,566
Accrued Interest	15,058	20,179
Accrued Expenses	9,654	22,433
Accrued Property Taxes	17,835	16,324
Total Current Liabilities	<u>87,493</u>	<u>104,108</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	40,221	37,146
Prepaid Tenant Fees	307	542
Total Deposits & Prepaid Liabilities	<u>40,528</u>	<u>37,688</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	3,333,994	3,419,096
Deferred Development Fees	193,765	221,455
Total Long-Term Liabilities	<u>3,527,759</u>	<u>3,640,551</u>
Total Liabilities	<u>3,655,780</u>	<u>3,782,347</u>
Partners' Equity (Deficit)		
Partners' Equity (Deficit)	5,667,823	5,880,951
Syndication Costs	(6,259)	(6,259)
Total Equity	<u>5,661,564</u>	<u>5,874,692</u>
Total Liabilities & Partners' Equity	<u>\$ 9,317,344</u>	<u>\$ 9,657,039</u>

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

Falcon Ridge Limited Partnership
Statements of Operations
For the Years Ended December 31, 2015 and 2014

	12/31/2015	12/31/2014
Rental Income:		
Rental Income - Rental Assistance	\$ 361,923	\$ 390,477
Rental Income - Tenant Portion	176,157	147,603
Potential Rental Income	538,080	538,080
Less: Vacancies	(58,288)	(43,500)
Less: Concessions	(893)	(1,825)
Total Rental Income	478,899	492,755
 Other Income:		
Interest Income	140	112
Laundry & Vending	5,166	3,734
Tenant Charges	8,777	10,493
Interest Subsidy Income	153,273	155,890
Miscellaneous Income	599	491
Total Other Income	167,955	170,720
 Total Income	 646,854	 663,475
 Operating Expenses:		
Administrative	100,987	103,654
Utilities	31,072	30,492
Maintenance	92,198	80,791
Taxes & Insurance	75,598	70,413
Financial Expense	247,165	249,889
Total Cost of Operations	547,020	535,239
 Net Income/(Loss) from Operations	 99,834	 128,236
 Non-Operating Income & (Expenses):		
Depreciation Expense	(268,271)	(266,948)
Amortization Expense	(29,691)	(29,691)
Total Non-Operating Income & (Expenses)	(297,962)	(296,639)
 Net Income/(Loss)	 \$ (198,128)	 \$ (168,403)

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

Falcon Ridge Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2015 and 2014

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2013	\$ 6,064,354	\$ 61,564	\$ 6,002,790
Net Income/(Loss): 12/31/2014	(168,403)	0	(168,403)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2014	5,880,951	46,564	5,834,387
Net Income/(Loss): 12/31/2015	(198,128)	0	(198,128)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2015	<u>\$ 5,667,823</u>	<u>\$ 31,564</u>	<u>\$ 5,636,259</u>

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

Falcon Ridge Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2015	12/31/2014
Cash Flows From Operating Activities:		
Revenue:		
Rental Receipts	\$ 116,842	\$ 101,080
Rental Income - Rental Assistance	359,688	393,291
Other Income	167,664	168,387
Total Receipts	644,194	662,758
Expenses:		
Administrative	(77,658)	(60,896)
Management Fees	(37,033)	(36,655)
Utilities	(31,072)	(30,492)
Maintenance	(92,198)	(80,791)
Taxes & Insurance	(74,087)	(70,390)
Financial Expense	(252,286)	(250,101)
Tenant Security Deposits	(233)	(307)
Total Disbursements	(564,567)	(529,632)
Net Cash from Operating Activities:	79,627	133,126
Cash Flows From Investing Activities:		
Purchase Property & Equipment	(8,774)	(6,146)
Fixed Asset Reduction	43,644	0
Replacement Reserve	(26,991)	(151,100)
Real Estate Tax & Insurance	(11,761)	6,384
Other Escrows	2,163	2,382
Developer Fee Escrow	27,690	27,691
Lease Up Reserve	(7)	(12)
Net Cash from Investing Activities:	25,964	(120,801)
Cash Flows From Financing Activities:		
Principal Payments on Mortgage	(39,675)	(35,968)
Mortgage Reduction	(43,644)	0
Partners' Distributions	(15,000)	(15,000)
Deferred Development Fees	(27,690)	(27,691)
Net Cash from Financing Activities:	(126,009)	(78,659)
Increase (Decrease) In Cash	(20,418)	(66,334)
Cash at Beginning of Period	93,468	159,802
Cash at End of Period	\$ 73,050	\$ 93,468

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

Falcon Ridge Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2015	12/31/2014
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (198,128)	\$ (168,403)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	268,271	266,948
Amortization Expense	29,691	29,691
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	101	(690)
Accounts Receivable - Rural Development	(2,235)	2,814
Accounts Receivable - PHA	0	(339)
Accounts Receivable - Interest Subsidy	(291)	(2,333)
Prepaid Expenses	1,082	(245)
Tenant Security Deposits	(3,308)	2,562
Increase (Decrease) In Liabilities		
Accounts Payable	(2,007)	(973)
Accrued Interest	(5,121)	(212)
Accrued Expenses	(12,779)	7,321
Accrued Property Taxes	1,511	23
Tenant Security Deposits	3,075	(2,869)
Prepaid Tenant Fees	(235)	(169)
Net Cash from Operating Activities	\$ 79,627	\$ 133,126
 <u>Supplemental Disclosures:</u>		
Interest Paid	\$ 92,525	\$ 87,658
Interest Subsidy Income	\$ 153,273	\$ 155,890

The accompanying notes are an integral part of these financial statements

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE A - ORGANIZATION

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

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

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificates of deposit.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. Cash and cash equivalents in excess of FDIC limits were \$302,037 and \$301,600 at December 31, 2015 and 2014, respectively. Accounts held in escrow for developer fees and the operating deficit reserve are invested without any federal deposit insurance. The amounts held without insurance are \$394,961 and \$422,606 as of December 31, 2015 and 2014, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Collateralization of Deposits

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

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account. This account was funded in an amount greater than the security deposit liability as of December 31, 2015 and 2014.

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Partnership does not accrue interest on the tenant receivable balances. The Partnership has not established an allowance for doubtful accounts and does not use the reserve method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Effective January 1, 2015, the Project implemented a new capitalization policy in response to the safe harbor de minimis regulations issued by the Internal Revenue Service. Property and Equipment with a unit cost of \$5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets. Property and Equipment purchases less than \$5,000 or with lives of one year or less, and maintenance and repairs which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

	Estimated Life
Buildings	40
Site Improvements	10-20
Furnishings	7-10

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the moment by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2015 or 2014.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income passes through to, and is reportable by, the Partners individually. As of December 31, 2015, the Partnership's tax years for 2012, 2013 and 2014 are subject to examination by the federal and state tax authorities. With few exceptions, as of December 31, 2015, the Partnership is no longer subject to examinations by tax authorities for years before 2012.

Estimates

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

Return to Owner

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

Rental Income

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

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain items in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2015 and 2014:

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

NOTE D - LONG-TERM DEBT

The Project is financed with a 40-year mortgage payable dated December, 2011, to Lancaster Pollard Mortgage Company in the original amount of \$1,332,000, with an interest rate of 4.58%. The loan is under the USDA Section 538 Guaranteed Rural Rental Housing Program and has been awarded an interest credit by USDA to reduce the effective interest rate on the loan to 2.08% per annum. The mortgage is payable in monthly installments of \$6,061 including interest through the maturity date. The unpaid principal of the loan is due December 1, 2051. The accrued interest was \$0 and \$4,944 as of December 31, 2015 and 2014, respectively. Interest expensed on this loan was \$58,995 and \$59,609 as of December 31, 2015 and 2014, respectively.

<u>12/31/2015</u>	<u>12/31/2014</u>
\$ 1,280,715	\$ 1,295,472

On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principal balance of the Rural Development Section 515 loans originally issued to Los Caballos I, Los Caballos II and Los Caballos III. The amount assumed and related interest and maturity dates were \$728,506 at 9.00% matures February 1, 2037; \$690,892 at 8.75% matures August 1, 2041; \$839,902 at 7.75% matures July 1, 2043. The assumed loans are payable in monthly installments of \$7,173, net of interest subsidy. The accrued interest was \$15,058 and \$15,235 as of December 31, 2015 and 2014, respectively. Interest expensed on these loans was \$181,682 and \$183,727 as of December 31, 2015 and 2014, respectively.

Total	2,093,668 2,162,230
Less: Current Portion	3,374,383 3,457,702
Long-Term Notes Payable	40,389 38,606
	<u>\$ 3,333,994</u> <u>\$ 3,419,096</u>

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE D - LONG-TERM DEBT (continued)

Aggregate maturities of the loans are approximated as follows:

	<u>Principal</u>	<u>Interest*</u>
December 31, 2016	\$ 40,389	\$ 233,922
2017	49,059	230,455
2018	52,808	226,706
2019	56,864	222,650
2020	61,252	218,262
2021-2025	385,883	1,011,687
2026-2030	565,292	832,279
2031-2035	643,661	582,417
2036-2040	681,120	358,092
2041-2045	452,964	135,928
2046-2050	309,989	53,687
2051-2055	75,102	1,767
Total	<u>\$ 3,374,383</u>	<u>\$ 4,107,852</u>

*The Rural Development loans assumed by the Partnership are Section 515. Interest Subsidy from Rural Development should reduce the interest paid to 1% over the term of the loan (See Interest Credit and Rental Assistance Agreement Footnote). The project also received interest subsidy from Rural Development Section 538. Interest subsidy payments of \$153,273 and \$155,890 were recognized as other income during 2015 and 2014, respectively.

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

RD Loan and Building Reduction

During 2015, assets were sold that previously were owned by the Los Caballos entities mentioned in the organization footnote. The proceeds from the sale were paid on the RD loans that Falcon assumed from those entities. The original assumption of the acquisition was capitalized with the construction of Falcon; therefore, the fixed asset, Buildings, was reduced for the proceeds of that sale for \$43,644.

NOTE E - RESERVE FUNDS

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were \$193,765 and \$221,455 as of December 31, 2015 and 2014, respectively.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE E - RESERVE FUNDS (continued)

Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve to fund major repairs or replacements of the Project Property. The Partnership shall make deposits into the Replacement Reserve fund in the amount of \$25 per year for each residential unit in the Project, totaling \$1,800 annually. The Replacement Reserve balance was \$462,954 and \$435,963 as of December 31, 2015 and 2014, respectively.

Operating & Operating Deficit Reserve

In accordance with the Partnership Agreement, the Partnership funded an Operating Reserve fund in the amount of \$200,640. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was \$200,881 and \$200,881 as of December 31, 2015 and 2014, respectively.

Lease Up Reserve

On December 18, 2009 at the time of the loan closing, a Lease Up Reserve account was established in the amount of \$25,000. The TCEP agreement states that the funds are required to be held by the New Mexico Mortgage Finance Authority (NMMFA) and only to be distributed by their approval. However, NMMFA did not retain these funds from the loan draws. When the project reaches stabilization, any remaining funds shall be applied first to pay any monies owed to NMMFA, then to satisfy and other reserve requirement of the project, then to the owners or any lender with a continuing loan on the project. The Lease Up Reserve balance was \$25,055 and \$25,048 as of December 31, 2015 and 2014, respectively.

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

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

NOTE F - TCEP FUNDS

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

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE G - COMMITMENTS AND CONTINGENCIES

Tax Credit Exchange Program

The Low Income Housing Tax Credit Exchange Program Agreement entered into with New Mexico Mortgage Finance Authority states that no interest or scheduled principal payments are due with respect to the loan listed above. However, the entire principal of the loan will become due and payable if an event of default under the TCEP Agreement is failed to be cured. The Events of Default that would cause the loan to become due and payable include, but are not limited to the following:

1. A Recapture Event of Default;
2. Failure to comply with the requirements of Section 42 of the Code;
3. Failure to observe or perform any term, condition or covenant in the TCEP Agreement;
4. A default under any of the Loan Documents;
5. Any representation or warranty made by the Owner or on behalf of Owner becomes materially incorrect or incomplete;
6. Failure by owner to commence construction of the project within the specified time period;
7. The Project is damaged or destroyed and cannot be restored for completion by the Completion Date and within the other terms;
8. Failure by owner to construct the project according to the contract documents;
9. For any cause (other than acts of God) that would suspend construction for a period of 20 consecutive days, construction is not carried on to permit completion by completion date, or construction is not progressing in accordance with the contract documents;
10. Failure by owner to pay the general contractor, mechanic, or supplier;
11. Property, Project or any part thereof are subject to a lien or security agreement except as provided in the TCEP agreement;
12. Failure by owner to discharge, bond over or obtain title insurance against any mechanics' lien; or
13. The General Contractor or Owner shall become insolvent or be adjudicated bankrupt.

Interest Credit and Rental Assistance Agreement

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

Rental Assistance Agreement

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

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

NOTE G - COMMITMENTS AND CONTINGENCIES *(continued)*

Interest Credit Agreement

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

NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management Fee

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the Project. The compensation for these services are based on the Management Certification. Property Management Fees expensed were \$37,083 and \$36,754 during 2015 and 2014, respectively. The amounts due to the Management Agent related to Management Fees were \$50 and \$99 as of December 31, 2015 and 2014, respectively.

General Partner Distributions

In accordance with the Partnership Agreement, the General Partner shall receive 99.99% of Distributable Cash. Distributions of \$15,000 and \$15,000 were recognized during 2015 and 2014, respectively. There were no amounts due to the General Partner related to Distributions as of December 31, 2015 or 2014, respectively.

Development Fee

The Partnership has incurred a Development Fee of \$1,107,346 due to JL Gray Company and the Mesilla Valley Public Housing Authority, rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2015, \$913,581 of this fee has been paid. The amounts due related to Development Fees were \$193,765 and \$221,455 as of December 31, 2015 and 2014, respectively. Current year payments were made from the Developer Fee Holdback Escrow. See Note E.

Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received rental income of \$5,166 and \$3,734 for the years ended December 31, 2015 and 2014, respectively.

Falcon Ridge Limited Partnership

Notes to Financial Statements

December 31, 2015 and 2014

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

Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2015 and 2014, respectively.

NOTE I - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

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

NOTE J - ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Accrued Payroll Expenses	\$ 2,591	\$ 11,016
Accrued Audit Fees	7,036	2,617
Accrued Fees - Miscellaneous	0	8,800
Accrued Unclaimed Resident Property	27	0
Total Accrued Expenses	<u>\$ 9,654</u>	<u>\$ 22,433</u>

NOTE K - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through May 12, 2016 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Falcon Ridge Limited Partnership
Supplemental Information
Year Ended December 31, 2015

Falcon Ridge Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2015

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2015	\$ 435,963
Total Monthly Deposit	26,831
Other Deposits	44
Interest Earned on Reserve for Replacement Account	116
Approved Withdrawals	0
Balance as of December 31, 2015	<u>\$ 462,954</u>

Other Deposits
Reverse bank charges from prior year

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2015	\$ 200,881
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account	0
Approved Withdrawals	0
Balance as of December 31, 2015	<u>\$ 200,881</u>

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2014	Additions	Deductions	Balance 12/31/2015
Land	\$ 106,160	\$ 0	\$ 0	\$ 106,160
Buildings	8,305,388	0	43,644	8,261,744
Site Improvements/Building Equipment	593,392	8,774	0	602,166
Furnishings	293,989	0	0	293,989
Totals	<u>9,298,929</u>	<u>8,774</u>	<u>43,644</u>	<u>9,264,059</u>
Accumulated Depreciation	<u>1,110,656</u>	<u>\$ 268,271</u>	<u>\$ 0</u>	<u>1,378,927</u>
Net Book Value	<u>\$ 8,188,273</u>			<u>\$ 7,885,132</u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2015</u>
Parking Lot	<u>8,774</u>
Totals:	<u>\$ 8,774</u>

Schedule of Deductions to Fixed Assets:

	<u>12/31/2015</u>
RD Loan and Building Reduction	<u>43,644</u>
Totals:	<u>\$ 43,644</u>

Falcon Ridge Limited Partnership
Computation of Surplus Cash and Distributions
Year Ending December 31, 2015

		<u>12/31/2015</u>
Cash:		
Cash		\$ 113,811
Accounts Receivable - Rural Development		<u>25,732</u>
Total Cash		<u>139,543</u>
 Current Obligations:		
Accrued Mortgage Interest Payable		15,058
Accounts Payable - 30 Days		4,557
Accrued Expenses (not escrowed)		9,654
Prepaid Revenue		307
Tenant Security Deposits Liability		<u>40,221</u>
Total Current Obligations		<u>69,797</u>
Surplus Cash (Deficiency)		<u>\$ 69,746</u>

Falcon Ridge Limited Partnership

Schedule of Vendors

Year Ending December 31, 2015

<u>Agency Number</u>	<u>Agency Name</u>	<u>Agency Type</u>	<u>RFB#/RFP#</u>
9010-C	Falcon Ridge Limited Partnership	Other Agencies	None

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

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

To the Partners of Falcon Ridge Limited Partnership
Hatch, New Mexico
and
Tim Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Falcon Ridge Limited Partnership, which comprise the balance sheet as of December 31, 2015, and the related statements of operations, changes in partner's equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2016.

Internal Control Over Financial Reporting

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

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

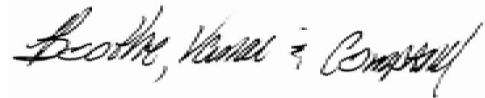
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



Boothe, Vassar & Company

May 12, 2016
Big Spring, Texas

Falcon Ridge Limited Partnership
Schedule of Findings and Responses
December 31, 2015

Current Year Audit Findings: December 31, 2015

Our audit disclosed no findings that are required to be reported.

Falcon Ridge Limited Partnership
Schedule of the Status of Prior Audit Findings,
Questioned Costs, and Recommendations
December 31, 2015

Prior Year Audit Findings: December 31, 2014

Our audit disclosed no findings that are required to be reported.


Falcon Ridge Limited Partnership

Mortgagor's Certification

December 31, 2015

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2015, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 5/12/2016

Name Juan Olvera

Title Executive Director
Mesilla Valley Public Housing Authority

Auditee Information:

505-325-6515
May 12, 2016
Falcon Ridge Limited Partnership
20 S. Chile Capital St.
Hatch, New Mexico 87937

Falcon Ridge Limited Partnership

Management Agent's Certification

December 31, 2015

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2015, and to the best of our knowledge and belief, the same are complete and accurate.

Signed:  _____ Date: _____

Name: Bobby Griffith

Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.
Farmington, NM 87401

