



FOX, GARCIA & Co, LLC

CERTIFIED PUBLIC ACCOUNTANTS

---

## **Falcon Ridge Limited Partnership**

*Independent Auditor's Report  
and Financial Statements  
For the Years Ended  
December 31, 2017 and 2016*

*Supplementary Information  
For the Year Ended  
December 31, 2017*

# Falcon Ridge Limited Partnership

## Table of Contents

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1 - 3
<b>Financial Statements</b>	
Balance Sheets.....	4 - 5
Statements of Operations.....	6
Statements of Changes in Partners' Equity (Deficit).....	7
Statements of Cash Flows.....	8 - 9
<b>Notes to Financial Statements</b> .....	10 - 18
<b>Supplemental Information</b>	
Supplementary Information Required by HUD.....	20
Computation of Surplus Cash and Distributions.....	21
Schedule of Vendors.....	22
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b> .....	24 - 25
<b>Schedule of Findings and Responses</b> .....	26
<b>Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations</b> .....	27
<b>Mortgagor's Certification</b> .....	28
<b>Management Agent's Certification</b> .....	29
<b>Information on Auditor</b> .....	30
<b>Exit Conference</b> .....	31



**FOX, GARCIA & Co, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**Diane R. Fox, CPA**  
**Shelleyn D. Garcia, CPA**  
**Ph: 214-842-8464**

## **INDEPENDENT AUDITOR'S REPORT**

To the Partners of

Falcon Ridge Limited Partnership  
Hatch, New Mexico  
and  
Wayne Johnson, 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, 2017 and 2016, 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 the entity'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 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 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, 2017 and 2016, 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.

## **Prior Period Financial Statements**

The financial statements of Falcon Ridge Limited Partnership as of December 31, 2016, were audited by other auditors whose report dated May 26, 2017, expressed an unmodified opinion on those statements.

## **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 20 - 21 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 20 - 21 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 20 - 21 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The *Schedule of Vendors* shown on page 22 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 18, 2018, 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.

A handwritten signature in cursive script that reads "Fox, Garcia & Company". The signature is written in black ink and is positioned to the right of the date and location text.

Fox, Garcia & Company, LLC

May 18, 2018  
Big Spring, Texas

**Falcon Ridge Limited Partnership**

**Balance Sheets**

**December 31, 2017 and 2016**

**ASSETS**

	<b>12/31/2017</b>	<b>12/31/2016</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 39,088	\$ 48,593
Accounts Receivable - Tenants	237	488
Accounts Receivable - Rural Development	29,945	26,371
Accounts Receivable - Miscellaneous	0	15,000
Accounts Receivable - Interest Subsidy	44,007	42,931
Prepaid Expenses	5,520	8,403
<b>Total Current Assets</b>	<b>118,797</b>	<b>141,786</b>
<b>Restricted Deposits &amp; Funded Reserves:</b>		
Tenant Security Deposits	41,481	38,891
Real Estate Tax & Insurance	33,347	56,113
Other Escrows	11,589	12,211
Replacement Reserve	532,342	485,781
Developer Fee Escrow	138,411	166,102
<b>Total Restricted Deposits &amp; Funded Reserves</b>	<b>757,170</b>	<b>759,098</b>
<b>Property &amp; Equipment:</b>		
Land	106,160	106,160
Buildings	8,261,744	8,261,744
Site Improvements	602,166	602,166
Furnishings	322,939	309,913
Accumulated Depreciation	(1,923,228)	(1,648,789)
<b>Total Property &amp; Equipment</b>	<b>7,369,781</b>	<b>7,631,194</b>
<b>Other Assets:</b>		
Deferred Tax Credit Fees, net of amortization	38,227	43,159
<b>Total Other Assets</b>	<b>38,227</b>	<b>43,159</b>
<b>Entity Assets:</b>		
Lease Up Reserve	25,070	25,063
Operating & Operating Deficit Reserve	200,881	200,881
<b>Total Entity Assets</b>	<b>225,951</b>	<b>225,944</b>
<b>Total Assets</b>	<b>\$ 8,509,926</b>	<b>\$ 8,801,181</b>

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

**Falcon Ridge Limited Partnership**

**Balance Sheets**

**December 31, 2017 and 2016**

**LIABILITIES & PARTNERS' EQUITY**

	<b><u>12/31/2017</u></b>	<b><u>12/31/2016</u></b>
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Current Maturities of Long-Term Debt	\$ 52,483	\$ 49,159
Accounts Payable	7,653	3,148
Accrued Interest	19,438	19,702
Accrued Expenses	13,303	12,039
Accrued Property Taxes	1,504	16,610
<b>Total Current Liabilities</b>	<b><u>94,381</u></b>	<b><u>100,658</u></b>
<b>Deposits &amp; Prepaid Liabilities:</b>		
Tenant Security Deposits	39,852	38,649
Prepaid Tenant Fees	1,142	462
<b>Total Deposits &amp; Prepaid Liabilities</b>	<b><u>40,994</u></b>	<b><u>39,111</u></b>
<b>Long-Term Liabilities:</b>		
Long-Term Debt (net of current maturities)	3,041,344	3,064,446
Deferred Development Fees	138,383	166,073
<b>Total Long-Term Liabilities</b>	<b><u>3,179,727</u></b>	<b><u>3,230,519</u></b>
<b>Total Liabilities</b>	<b><u>3,315,102</u></b>	<b><u>3,370,288</u></b>
<b>Partners' Equity (Deficit)</b>		
Partners' Equity (Deficit)	5,201,083	5,437,152
Syndication Costs	(6,259)	(6,259)
<b>Total Equity</b>	<b><u>5,194,824</u></b>	<b><u>5,430,893</u></b>
<b>Total Liabilities &amp; Partners' Equity</b>	<b><u>\$ 8,509,926</u></b>	<b><u>\$ 8,801,181</u></b>

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

**Falcon Ridge Limited Partnership**  
**Statements of Operations**  
**For the Years Ended December 31, 2017 and 2016**

	<b>12/31/2017</b>	<b>12/31/2016</b>
<b>Rental Income:</b>		
Rental Income - Rental Assistance	\$ 427,657	\$ 384,270
Rental Income - Tenant Portion	110,423	153,811
<b>Potential Rental Income</b>	538,080	538,081
Less: Vacancies	(41,964)	(48,192)
Less: Concessions	0	(200)
<b>Total Rental Income</b>	496,116	489,689
 <b>Other Income:</b>		
Interest Income	242	147
Laundry & Vending	1,997	3,697
Tenant Charges	7,821	14,316
Interest Subsidy Income	153,528	153,528
Miscellaneous Income	966	425
<b>Total Other Income</b>	164,554	172,113
<b>Total Income</b>	660,670	661,802
 <b>Operating Expenses:</b>		
Administrative	109,504	107,119
Utilities	34,415	30,834
Maintenance	100,033	114,818
Taxes & Insurance	91,141	83,856
Financial Expense	267,275	266,052
<b>Total Cost of Operations</b>	602,368	602,679
<b>Net Income/(Loss) from Operations</b>	58,302	59,123
 <b>Non-Operating Income &amp; (Expenses):</b>		
Depreciation Expense	(274,439)	(269,862)
Amortization Expense	(4,932)	(4,932)
<b>Total Non-Operating Income &amp; (Expenses)</b>	(279,371)	(274,794)
<b>Net Income/(Loss)</b>	\$ (221,069)	\$ (215,671)

*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, 2017 and 2016**

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
<b>Partners' Equity (Deficit), December 31, 2015</b>	\$ 5,667,823	\$ 31,564	\$ 5,636,259
Net Income/(Loss): 12/31/2016	(215,671)	0	(215,671)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
<b>Partners' Equity (Deficit), December 31, 2016</b>	5,437,152	16,564	5,420,588
Net Income/(Loss): 12/31/2017	(221,069)	0	(221,069)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
<b>Partners' Equity (Deficit), December 31, 2017</b>	<u>\$ 5,201,083</u>	<u>\$ 1,564</u>	<u>\$ 5,199,519</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, 2017 and 2016**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2017</b>	<b>12/31/2016</b>
<b>Cash Flows From Operating Activities:</b>		
<b>Revenue:</b>		
Rental Receipts	\$ 69,390	\$ 105,675
Rental Income - Rental Assistance	424,083	383,631
Other Income	163,478	171,487
<b>Total Receipts</b>	<b>656,951</b>	<b>660,793</b>
<b>Expenses:</b>		
Administrative	(60,904)	(68,347)
Management Fees	(39,946)	(38,053)
Utilities	(34,415)	(30,834)
Maintenance	(100,033)	(114,818)
Taxes & Insurance	(106,247)	(85,081)
Financial Expense	(242,780)	(236,649)
Tenant Security Deposits	(1,387)	298
<b>Total Disbursements</b>	<b>(585,712)</b>	<b>(573,484)</b>
<b>Net Cash from Operating Activities:</b>	<b>71,239</b>	<b>87,309</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase Property & Equipment	(13,026)	(15,924)
Fixed Asset Reduction	0	0
Replacement Reserve	(46,561)	(22,827)
Real Estate Tax & Insurance	22,764	3,850
Other Escrows	622	(2,445)
Developer Fee Escrow	27,691	27,663
Lease Up Reserve	(7)	(8)
<b>Net Cash from Investing Activities:</b>	<b>(8,517)</b>	<b>(9,691)</b>
<b>Cash Flows From Financing Activities:</b>		
Principal Payments on Mortgage	(44,537)	(44,383)
Partners' Distributions	(15,000)	(15,000)
Deferred Development Fees	(27,690)	(27,692)
Accounts Receivable - Miscellaneous	15,000	(15,000)
<b>Net Cash from Financing Activities:</b>	<b>(72,227)</b>	<b>(102,075)</b>
<b>Increase (Decrease) In Cash</b>	<b>(9,505)</b>	<b>(24,457)</b>
<b>Cash at Beginning of Period</b>	<b>48,593</b>	<b>73,050</b>
<b>Cash at End of Period</b>	<b>\$ 39,088</b>	<b>\$ 48,593</b>

*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, 2017 and 2016**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2017</b>	<b>12/31/2016</b>
<b>Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:</b>		
Net Income (Loss)	\$ (221,069)	\$ (215,671)
<b>Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>		
Depreciation Expense	274,439	269,862
Amortization Expense	4,932	4,932
Non-Cash Interest for Debt Issuance Costs	24,759	24,759
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	251	101
Accounts Receivable - Rural Development	(3,574)	(639)
Accounts Receivable - Interest Subsidy	(1,076)	(626)
Prepaid Expenses	2,883	(257)
Tenant Security Deposits	(2,590)	1,870
Increase (Decrease) In Liabilities		
Accounts Payable	4,507	(1,409)
Accrued Interest	(264)	4,644
Accrued Expenses	1,264	2,385
Accrued Property Taxes	(15,106)	(1,225)
Tenant Security Deposits	1,203	(1,572)
Prepaid Tenant Fees	680	155
Net Cash from Operating Activities	\$ 71,239	\$ 87,309
 <b><u>Supplemental Disclosures:</u></b>		
Interest Paid	\$ 81,445	\$ 75,542
Interest Subsidy Income	\$ 153,528	\$ 153,528

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

## **Falcon Ridge Limited Partnership**

### **Notes to Financial Statements**

**December 31, 2017 and 2016**

#### **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, 2017 and 2016

#### 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). Cash and Cash equivalents in excess of FDIC limits were \$270,132 and \$273,908 at December 31, 2017 and 2016, 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 \$340,534 and \$367,665 as of December 31, 2017 and 2016, 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, 2017 and 2016.

##### 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. 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.

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	5-20
Furnishings	3-10

**Falcon Ridge Limited Partnership**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment

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 amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 or 2016.

Income Taxes

No income tax provision has been included in the financial statements since income or loss of the Project is required to be reported by the Owner. Further, income or loss of a partnership is required to be reported by the respective partners on their income tax returns.

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.

Deferred Fees and Amortization

Tax credit fees are amortized over fifteen years using the straight-line method.

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

**Falcon Ridge Limited Partnership**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Advertising Costs

Advertising Costs are expensed as incurred.

**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, 2017 and 2016:

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 \$4,784 and \$4,837 as of December 31, 2017 and 2016, respectively. Interest expensed on this loan was \$57,680 and \$58,353 as of December 31, 2017 and 2016, respectively.

	<u>12/31/2017</u>	<u>12/31/2016</u>
	\$ 1,252,559	\$ 1,267,557

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 \$14,654 and \$14,865 as of December 31, 2017 and 2016, respectively. Interest expensed on these loans was \$177,029 and \$175,361 as of December 31, 2017 and 2016, respectively.

Less: Unamortized Debt Issuance Costs

Total

Less: Current Portion

Long-Term Notes Payable

	<u>2,032,904</u>	<u>2,062,443</u>
	<u>(191,636)</u>	<u>(216,395)</u>
	3,093,827	3,113,605
	<u>(52,483)</u>	<u>(49,159)</u>
	<u>\$ 3,041,344</u>	<u>\$ 3,064,446</u>

**Falcon Ridge Limited Partnership**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

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

Aggregate maturities of the loans are approximated as follows:

	<u>Principal</u>	<u>Interest*</u>
December 31, 2018	\$ 52,483	\$ 226,706
2019	56,864	222,650
2020	61,252	218,262
2021	66,002	213,512
2022	71,145	208,370
2023-2027	449,131	948,439
2028-2032	659,971	737,600
2033-2037	597,054	490,568
2038-2042	695,622	257,397
2043-2047	310,449	94,421
2048-2052	265,490	25,551
Less: Unamortized Debt Issuance Costs	<u>(191,636)</u>	
Total	<u>\$ 3,093,827</u>	<u>\$ 3,643,476</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 \$153,528 and \$153,528 were recognized as other income during 2017 and 2016, respectively.

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

**NOTE E - RESERVE FUNDS**

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were \$138,411 and \$166,102 as of December 31, 2017 and 2016, respectively.

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, and shall make deposits to fund the Replacement Reserve account. The Replacement Reserve balance was \$532,342 and \$485,781 as of December 31, 2017 and 2016, respectively.



**Falcon Ridge Limited Partnership**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

**NOTE E - RESERVE FUNDS (continued)**

Operating & Operating Deficit Reserve

In accordance with the Partnership Agreement, the Partnership funded an Operating Reserve fund in the amount of \$200,640. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was \$200,881 and \$200,881 as of December 31, 2017 and 2016, 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 \$25,070 and \$25,063 as of December 31, 2017 and 2016, 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, 2017 and 2016**

**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, 2017 and 2016**

**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 \$40,000 and \$38,208 during 2017 and 2016, respectively. The amounts due to the Management Agent related to Management Fees were \$54 and \$155 as of December 31, 2017 and 2016, 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 2017 and 2016, respectively. Due to a clerical error, distributions were issued twice and a receivable was recorded. There were no amounts due to the General Partner related to Distributions as of December 31, 2017 or 2016. Partners' Distributions Receivable were \$0 and \$15,000 as of December 31, 2017 and 2016, 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, 2017, \$968,963 of this fee has been paid. The amounts due related to Development Fees were \$138,383 and \$166,073 as of December 31, 2017 and 2016, 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 laundry income of \$1,997 and \$3,697 for the years ended December 31, 2017 and 2016, respectively.

**Falcon Ridge Limited Partnership**

**Notes to Financial Statements**

**December 31, 2017 and 2016**

**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, 2017 and 2016.

**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>12/31/2017</u>	<u>12/31/2016</u>
Accrued Payroll Expenses	\$ 3,315	\$ 3,102
Accrued Audit Fees	9,988	8,937
Total Accrued Expenses	<u>\$ 13,303</u>	<u>\$ 12,039</u>

**NOTE K - SUBSEQUENT EVENTS**

The Project has evaluated subsequent events through May 18, 2018 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, 2017**

**Falcon Ridge Limited Partnership**  
**Supplementary Information Required by HUD**  
**Year Ending December 31, 2017**

**12. SCHEDULE OF RESERVE FOR REPLACEMENTS**

Balance as of January 1, 2017	\$ 485,781
Total Monthly Deposit	24,767
Other Deposits	21,673
Interest Earned on Reserve for Replacement Account	121
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2017	<u><u>\$ 532,342</u></u>

Other Deposits  
Surplus cash deposit.

**13. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE**

Balance as of January 1, 2017	\$ 200,881
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account	0
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2017	<u><u>\$ 200,881</u></u>

**14. SCHEDULE OF CHANGES IN FIXED ASSETS**

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
Land	\$ 106,160	\$ 0	\$ 0	\$ 106,160
Buildings	8,261,744	0	0	8,261,744
Site Improvements/Building Equipment	602,166	0	0	602,166
Furnishings	309,913	13,026	0	322,939
Totals	<u>9,279,983</u>	<u>13,026</u>	<u>0</u>	<u>9,293,009</u>
Accumulated Depreciation	1,648,789	\$ 274,439	\$ 0	1,923,228
Net Book Value	<u><u>\$ 7,631,194</u></u>			<u><u>\$ 7,369,781</u></u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2017</u>
Handicap & Walk-in Showers	<u>13,026</u>
Totals:	<u><u>\$ 13,026</u></u>

**Falcon Ridge Limited Partnership**  
**Computation of Surplus Cash and Distributions**  
**Year Ending December 31, 2017**

		<b>12/31/2017</b>
<b>Cash:</b>		
	Cash	\$ 80,569
	Accounts Receivable - Rural Development	29,945
	Total Cash	110,514
<b>Current Obligations:</b>		
	Accrued Mortgage Interest Payable	19,438
	Accounts Payable - 30 Days	7,653
	Accrued Expenses (not escrowed)	13,303
	Prepaid Revenue	1,142
	Tenant Security Deposits Liability	39,852
	Total Current Obligations	81,388
	Surplus Cash (Deficiency)	\$ 29,126

**Falcon Ridge Limited Partnership**

**Schedule of Vendors**

**Year Ending December 31, 2017**

<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**



**FOX, GARCIA & Co, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**Diane R. Fox, CPA**  
**Shelleyn D. Garcia, CPA**  
**Ph: 214-842-8464**

**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  
Wayne Johnson, 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, 2017, 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 March 20, 2018.

**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.



Fox, Garcia & Company, LLC

May 18, 2018  
Big Spring, Texas

**Falcon Ridge Limited Partnership**  
**Schedule of Findings and Responses**  
**December 31, 2017**

**Current Year Audit Findings: December 31, 2017**

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, 2017**

**Prior Year Audit Findings: December 31, 2016**

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


**Falcon Ridge Limited Partnership**

**Mortgagor's Certification**

**December 31, 2017**

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2017, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 5/23/18

Name Juan Olvera

Title Executive Director  
Mesilla Valley Public Housing Authority

Auditee Information:

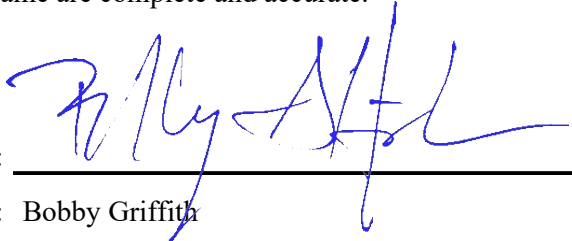
505-325-6515  
May 18, 2018  
Falcon Ridge Limited Partnership  
20 S. Chile Capital St.  
Hatch, New Mexico 87937

**Falcon Ridge Limited Partnership**

**Management Agent's Certification**

**December 31, 2017**

We hereby certify that we have examined the accompanying financial statements and supplemental information of Falcon Ridge Limited Partnership as of December 31, 2017, 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

**Falcon Ridge Limited Partnership**

**Information on Auditor**

**December 31, 2017**

**Auditor's Transmittal Letter**

Audit Firm: Fox, Garcia & Company, LLC  
State of New Mexico License No. 00557

Lead Auditor: Diane Fox  
Certified Public Accountant

Audit Firm Address: P.O. Box 3538  
Big Spring, Texas 79721  
214-842-8464

Auditor's Report Date: May 18, 2018

Contacts: [diane@foxgarcia.com](mailto:diane@foxgarcia.com)  
[fgco@foxgarcia.com](mailto:fgco@foxgarcia.com)



**Falcon Ridge Limited Partnership**

**Exit Conference**

**December 31, 2017**

**EXIT CONFERENCE**

An exit conference was held on May 18, 2018, which was attended by the following:

**Housing Authority Administration**

Juan Olvera Executive Director

Elizabeth Garcia Comptroller

**Fox, Garcia & Company, LLC**

Diane Fox Owner/Engagement Partner

Shelley Garcia Owner/Engagement Manager

**Management Agent**

Jack Curry Owner

Bobby Griffith Chief Financial Officer

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Fox, Garcia & Company, LLC. However, the contents of the financial statements remain the responsibility of management.