



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

FALCON RIDGE LIMITED PARTNERSHIP

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2018, With
Comparative Totals For 2017**

FALCON RIDGE LIMITED PARTNERSHIP
Table of Contents

TABLE OF CONTENTS	i
INDEPENDENT AUDITOR’S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Operations	4
Statement of Changes in Partners’ Equity (Deficit)	5
Statement of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7-14
SUPPLEMENTARY INFORMATION	
Supplementary Information Required by HUD	15
Computation of Surplus Cash and Distributions	16
Schedule of Expenses	17
COMPLIANCE	
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>	18-19
Independent Auditor’s Report on Compliance for Each Major HUD Program and on Internal Control Over Compliance Required by the <i>Consolidated Audit Guide for Audits of HUD Programs</i>	20-21
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS	22-24
MORTGAGOR’S CERTIFICATION	25
MANAGEMENT AGENT’S CERTIFICATION	26
EXIT CONFERENCE	27



INDEPENDENT AUDITOR’S REPORT

To the Partners of
Falcon Ridge Limited Partnership
Hatch, New Mexico
and
Brian S. Colón, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the Falcon Ridge Limited Partnership, which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in partners’ equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the 2018 financial statements have been restated due to misstatements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Partnership's financial statements for the year ended December 31, 2017 dated May 18, 2018. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for prior year comparative data, is based solely on the report of the other auditors. Those auditors 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 Supplementary Information Required by HUD and the Computation of Surplus Cash and Distributions, as identified in the table of contents, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD-Assisted Programs (the Guide)*, issued by the U.S. Department of Housing and Urban Development, Office of Inspector General and is not a required part of the financial statements.

The Schedule of Expenses, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

All supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2019 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, and 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.



Hinkle + Landers, P.C.
Albuquerque, NM
April 11, 2019

FALCON RIDGE LIMITED PARTNERSHIP
Balance Sheet
As of December 31, 2018, With Comparative Totals for 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 63,981	39,088
Accounts receivable - tenants	237	237
Accounts receivable - rural development	25,044	29,945
Accounts receivable - interest subsidy	12,682	44,007
Prepaid expenses	10,115	5,520
Total current assets	<u>112,059</u>	<u>118,797</u>
Restricted Deposits & Funded Reserves		
Tenant security deposits	40,690	41,481
Real estate tax & insurance	63,277	33,347
Other escrows	11,479	11,589
Replacement cash reserve	555,557	532,342
Developer fee escrow	111,477	138,411
Total restricted deposits & funded reserves	<u>782,480</u>	<u>757,170</u>
Property & Equipment		
Land	106,160	106,160
Buildings	8,261,744	8,261,744
Site improvements	602,166	602,166
Furnishings	322,939	322,939
Total property and equipment	9,293,009	9,293,009
Less: accumulated depreciation	(2,198,140)	(1,923,228)
Net property and equipment	<u>7,094,869</u>	<u>7,369,781</u>
Other Assets		
Deferred tax credit fees	73,987	73,987
Amortization	(40,693)	(35,760)
Total other assets	<u>33,294</u>	<u>38,227</u>
Entity Assets		
Lease up reserve	25,080	25,070
Operating & operating deficit reserve	201,863	200,881
Total entity assets	<u>226,943</u>	<u>225,951</u>
Total Assets	<u>\$ 8,249,645</u>	<u>8,509,926</u>
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	\$ 56,910	52,483
Accounts payable	6,426	7,653
Accrued interest	18,718	19,438
Accrued expenses	11,025	13,303
Accrued property taxes	18,672	1,504
Total current liabilities	<u>111,751</u>	<u>94,381</u>
Deposits & Prepaid Liabilities		
Tenant security deposits	39,288	39,852
Prepaid tenant fees	1,270	1,142
Total deposits & prepaid liabilities	<u>40,558</u>	<u>40,994</u>
Long-Term Liabilities		
Long-term debt (net of current maturities)	3,004,317	3,041,344
Deferred development fees	110,700	138,383
Total long-term liabilities	<u>3,115,017</u>	<u>3,179,727</u>
Total Liabilities	<u>3,267,326</u>	<u>3,315,102</u>
Partners' Equity (Deficit)		
Partners' equity (deficit)	4,988,578	5,201,083
Syndication costs	(6,259)	(6,259)
Total equity	<u>4,982,319</u>	<u>5,194,824</u>
Total Liabilities & Partners' Equity	<u>\$ 8,249,645</u>	<u>8,509,926</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.

FALCON RIDGE LIMITED PARTNERSHIP
Statement of Operations
For the Year Ended December 31, 2018, With Comparative Totals for 2017

	<u>2018</u> <u>Total</u>	<u>2017</u> <u>Total</u>
REVENUE		
Rental Income		
Rental income - rental assistance	\$ 390,854	427,657
Rental income - tenant portion	<u>147,226</u>	<u>110,423</u>
Potential rental income	538,080	538,080
Less: vacancies	(49,029)	(41,964)
Less: concessions	(6)	-
Net rental income	<u>489,045</u>	<u>496,116</u>
Other Income		
Interest income	1,913	242
Laundry & vending	962	1,997
Tenant charges	6,025	7,821
Interest subsidy income	152,184	153,528
Miscellaneous income	<u>14,973</u>	<u>966</u>
Total other income	<u>176,057</u>	<u>164,554</u>
Total Revenue	<u>665,102</u>	<u>660,670</u>
EXPENSES		
Operating Expenses		
Administrative	104,400	109,504
Utilities	31,834	34,415
Maintenance	94,116	100,033
Taxes & insurance	83,024	91,141
Financial expenses	<u>258,818</u>	<u>267,275</u>
Total cost of operations	<u>572,192</u>	<u>602,368</u>
Net Income/(Loss) from Operations	<u>92,910</u>	<u>58,302</u>
Non-Operating Income & (Expenses)		
Depreciation expense	(274,912)	(274,439)
Amortization expense	<u>(4,932)</u>	<u>(4,932)</u>
Total non-operating income & (expenses)	<u>(279,844)</u>	<u>(279,371)</u>
Net Income/(Loss)	<u>\$ (186,934)</u>	<u>(221,069)</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.

FALCON RIDGE LIMITED PARTNERSHIP
Statement of Changes in Partners' Equity (Deficit)
For the Year Ended December 31, 2018, With Comparative Totals for 2017

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2016	\$ 5,437,152	16,564	5,420,588
Net income/(loss)	(221,069)	-	(221,069)
Partners' capital contributions	-	-	-
Partners' distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
Partners' Equity (Deficit), December 31, 2017	\$ 5,201,083	1,564	5,199,519
Restatement	<u>(10,571)</u>	<u>-</u>	<u>(10,571)</u>
Partners' Equity (Deficit), as Restated, December 31, 2017	5,190,512	1,564	5,188,948
Net income/(loss)	(186,934)	-	(186,934)
Partners' capital contributions	-	-	-
Partners' distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
Partners' Equity (Deficit), December 31, 2018	\$ <u>4,988,578</u>	<u>(13,436)</u>	<u>5,002,014</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.

FALCON RIDGE LIMITED PARTNERSHIP
Statement of Cash Flows
For the Year Ended December 31, 2018, With Comparative Totals for 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Revenue		
Rental receipts	\$ 98,319	69,390
Rental income - rental assistance	395,755	424,083
Other income	207,382	163,478
Total cash receipts	<u>701,456</u>	<u>656,951</u>
Expenses		
Administrative	(82,931)	(60,749)
Management fees	(40,140)	(40,101)
Utilities	(31,834)	(34,415)
Operating & maintenance	(94,116)	(100,033)
Taxes & insurance	(65,856)	(106,247)
Financial expense	(159,551)	(161,335)
Interest paid	(75,228)	(81,445)
Tenant security deposits	227	(1,387)
Total cash disbursements	<u>(549,429)</u>	<u>(585,712)</u>
Net cash provided (used) by operating activities	<u>152,027</u>	<u>71,239</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase property & equipment	-	(13,026)
Replacement reserve	(23,215)	(46,561)
Real estate tax & insurance	(29,930)	22,764
Operating & operating deficit reserve	(982)	-
Other escrows	110	622
Developer fee escrow	26,934	27,691
Lease up reserve	(10)	(7)
Net cash provided (used) by investing activities	<u>(27,093)</u>	<u>(8,517)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage	(57,358)	(44,537)
Partners' distributions	(15,000)	(15,000)
Deferred development fees	(27,683)	(27,690)
Accounts receivable - miscellaneous	-	15,000
Net cash provided (used) by financing activities	<u>(100,041)</u>	<u>(72,227)</u>
Net increase (decrease) in cash and cash equivalents	24,893	(9,505)
Cash and cash equivalents at beginning of year	39,088	48,593
Cash and cash equivalents at end of year	\$ <u>63,981</u>	<u>39,088</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	\$ (186,934)	(221,069)
Adjustments to reconcile net income (loss) to cash provided/(used) by operating activities:		
Depreciation expense	274,912	274,439
Amortization expense	4,932	4,932
Non-cash interest for debt issuance costs	24,759	24,759
Restatement	(10,571)	-
Decrease (increase) in assets:		
Accounts receivable - tenants	-	251
Accounts receivable - rural development	4,901	(3,574)
Accounts receivable - interest subsidy	31,325	(1,076)
Prepaid expenses	(4,595)	2,883
Tenant security deposit account	791	(2,590)
(Decrease) increase in liabilities:		
Accounts payable	(1,227)	4,507
Accrued interest	(720)	(264)
Accrued expenses	(2,278)	1,264
Accrued property taxes	17,168	(15,106)
Tenant security deposits	(564)	1,203
Prepaid tenant fees	128	680
Net cash provided (used) by operating activities	\$ <u>152,027</u>	<u>71,239</u>
Supplementary Disclosures		
Interest subsidy income	\$ <u>152,184</u>	<u>153,528</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 1 - 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 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.

Related to GASB 77, the Partnership does not negotiate property tax abatements and has no tax abatement agreements as of December 31, 2018.

The Partnership does not receive public money from the State of New Mexico or any local governments as defined by 6-10-1 to 6-10-63 NMSA 1978 and therefore is not subject to several state compliance regulations.

NOTE 2 - SUMMARY OF 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:

A. 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. The Partnership is a for profit organization and prepares their financials under the Financial Accounting Standards and not the Governmental Accounting Standards generally accepted in the United States of America.

B. 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. Restricted deposits and funded reserves are not considered cash equivalents for purposes of the statement of cash flow.

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

C. Credit Risk - 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 \$319,110 and \$270,132 at December 31, 2018 and 2017, 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 \$313,340 and \$340,534 as of December 31, 2018 and 2017, 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.

D. Collateralization of Deposits

The Partnership does not receive public money from the State of New Mexico or any local governments as defined by NMSA 1978 and therefore is not required to secure collateralization on cash deposits.

E. 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, 2018 and 2017.

F. 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.

G. 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.

<u>Classification</u>	<u>Estimated Life</u>
Buildings	40
Site improvements	5-20
Furnishings	3-10

H. 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 2018 and 2017.

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

I. Income Taxes

No income tax provision has been included in the financial statements since income or loss of the Partnership 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.

J. 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.

K. 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.

L. 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.

M. Deferred Fees and Amortization

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

N. Advertising Costs

Advertising costs are expensed as incurred.

O. Reclassifications

Certain December 31, 2017 amounts may have been reclassified in order to conform to the December 31, 2018 financial statement presentation.

NOTE 3 – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Falcon Ridge Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2018 and 2017:

General Partner:

Falcon Ridge LLC to receive Net Income at 100.00%

Limited Partner:

JLG Properties, LLC to receive Net Loss at 100.00%

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 4 – 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 \$4,720 and \$4,784 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was \$56,976 and \$57,680 as of December 31, 2018 and 2017, respectively.

	2018	2017
\$	1,236,760	\$ 1,252,559

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 \$13,997 and \$14,654 as of December 31, 2018 and 2017, respectively. Interest expensed on these loans was \$169,716 and \$177,029 as of December 31, 2018 and 2017, respectively.

	1,991,345	2,032,904
Less: unamortized debt issuance costs	(166,878)	(191,636)
Total	3,061,227	3,093,827
Less: current portion	(56,910)	(52,483)
Long-term notes payable \$	3,004,317	\$ 3,041,344

Aggregate maturities of the loans are approximated as follows:

	Principal	Interest
2019 \$	56,910	222,650
2020	61,252	218,262
2021	66,002	213,512
2022	71,145	208,370
2023	76,713	202,801
2024-2028	484,774	912,797
2029-2033	684,438	684,563
2034-2038	590,411	448,802
2039-2043	649,549	209,558
2044-2048	282,905	80,771
Thereafter	204,006	14,684
Less: Unamortized debt issuance costs	(166,878)	-
Total \$	3,061,227	3,416,769

*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 Partnership also received interest subsidy from Rural

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

Development Section 538. Interest subsidy payments of \$152,184 and \$153,528 were recognized as other income during 2018 and 2017, 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 5 – RESERVE FUNDS

Replacement Reserve

In accordance with the partnership agreement, the Partnership shall establish a replacement reserve to fund major repairs or replacements of the project and shall make deposits to fund the replacement reserve account. Replacement reserve balances at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Replacement reserve \$	<u>555,557</u>	<u>532,342</u>

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 balances at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Developer fee holdback escrow \$	<u>111,477</u>	<u>138,411</u>

Operating and 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. Operating reserve balances at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Operating reserve \$	<u>201,863</u>	<u>200,881</u>

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 Partnership, then to the owners or any lender with a continuing loan on the Partnership. Lease up reserve balances at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Lease up reserve \$	<u>25,080</u>	<u>25,070</u>

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

1. The Partnership has achieved an occupancy of 93%;
2. The Partnership has met the debt service coverage ratio for three consecutive months;
3. The owner has closed on and received permanent financing;

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

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 6 – COMMITMENTS AND CONTINGENCIES

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.

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. 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. 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
For the Year Ended December 31, 2018, With Comparative Totals for 2017

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 7 – 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 \$40,086 and \$40,000 during 2018 and 2017, respectively. The amounts due to the Management Agent related to management fees were \$0 and \$54 as of December 31, 2018 and 2017, 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 2018 and 2017, respectively. There were no amounts due to the General Partner related to distributions as of December 31, 2018 or 2017. Partners' distributions receivable were \$0 and \$0 as of December 31, 2018 and 2017, 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, 2018, \$996,646 of this fee has been paid. The amounts due related to development fees were \$110,700 and \$138,383 as of December 31, 2018 and 2017, respectively. Current year payments were made from the developer fee holdback escrow. See Note 5.

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 was terminated and sold to CSC Works during 2018. The Partnership received laundry income of \$962 and \$1,997 for the years ended December 31, 2018 and 2017, respectively.

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, 2018 and 2017.

NOTE 8 – 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 Partnership'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.

FALCON RIDGE LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 9 – ACCRUED EXPENSES

Accrued expenses consist of the following at year end:

	2018	2017
Accrued payroll expenses	\$ 2,728	3,315
Accrued expenses - audit fees	8,080	9,988
Unclaimed resident property	217	-
Total accrued expenses	\$ 11,025	13,303

NOTE 10 – SUBSEQUENT EVENTS

The Partnership has evaluated subsequent events through April 11, 2019 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

NOTE 11 – RESTATEMENTS

The following summarizes the Partnership's restatement:

Description	Amount
To adjust mortgage payables and related accrued interest	\$ (4,758)
To adjust escrow and related accounts	(26,959)
To adjust AR interest subsidy	40,901
To adjust accumulated depreciation	1,387
Total	\$ 10,571

Falcon Ridge Limited Partnership
Supplementary Information
Year Ended December 31, 2018

FALCON RIDGE LIMITED PARTNERSHIP
Supplementary Information Required by HUD
For the Year Ended December 31, 2018, With Comparative Totals 2017

1. Schedule of Reserve for Replacements

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 532,342	485,781
Total monthly deposit	24,771	24,767
Other deposits	6,590	21,673
Interest earned on reserve for replacement account (Net of service fees)	1,896	121
Approved withdrawals	(8,311)	-
Adjustments	(1,731)	-
Balance at end of year	<u>\$ 555,557</u>	<u>532,342</u>

2. Schedule of Operating & Operating Deficit Reserve

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 200,881	200,881
Total monthly deposit	-	-
Interest earned on reserve for replacement account (net of service fees)	-	-
Approved withdrawals	-	-
Adjustments	982	-
Balance at end of year	<u>\$ 201,863</u>	<u>200,881</u>

3. Schedule of Changes in Fixed Asset Accounts

	<u>2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Adjustments</u>	<u>2018</u>
Land	\$ 106,160	-	-	-	\$ 106,160
Buildings	8,261,744	-	-	-	8,261,744
Site improvements/building equipment	602,166	-	-	-	602,166
Furniture & fixtures	322,939	-	-	-	322,939
Total	<u>9,293,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,293,009</u>
Accumulated depreciation	1,923,228	274,912	-	-	2,198,140
Net book value	<u>\$ 7,369,781</u>				<u>\$ 7,094,869</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.

FALCON RIDGE LIMITED PARTNERSHIP
Computation of Surplus Cash and Distributions
For the Year Ended December 31, 2018, With Comparative Totals 2017

<u>Cash</u>	<u>2018</u>	<u>2017</u>
Cash	\$ 104,671	80,569
Accounts receivable - rural development	25,044	29,945
Total cash	<u>129,715</u>	<u>110,514</u>
 Current obligations		
Accrued mortgage interest payable	18,718	19,438
Accounts payable due within 30 days	6,426	7,653
Accrued expenses (not escrowed)	11,025	13,303
Prepaid revenue	1,270	1,142
Tenant security deposits liability	<u>39,288</u>	<u>39,852</u>
Total current obligations	<u>76,727</u>	<u>81,388</u>
 Surplus cash (deficiency)	 \$ <u>52,988</u>	 <u>29,126</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.

FALCON RIDGE LIMITED PARTNERSHIP
Schedule of Expenses
For the Year Ended December 31, 2018, With Comparative Totals 2017

OPERATING EXPENSES	<u>2018</u>	<u>2017</u>
Administrative		
Professional management fees	\$ 40,086	40,000
Salaries & wages	24,194	25,842
Professional services	8,295	12,573
Manager's unit	8,160	8,160
Advertising	7,280	3,768
Training	5,832	6,738
Telephone, cable, internet	3,967	5,100
Compliance & monitoring fees	1,805	905
Supplies & office expenses	1,467	2,431
Technical support	1,205	1,226
Credit/criminal reports	877	1,507
Equipment & furniture	587	-
Dues, fees, & subscriptions	500	488
Travel, meals, & entertainment	81	141
Service for residents	64	259
Bad debt & adjustments	-	366
Total administrative expenses	<u>104,400</u>	<u>109,504</u>
Utilities		
Sewer	17,960	17,391
Electric	9,013	11,192
Water	3,399	3,904
Gas	894	1,797
Utility allowance	568	131
Total utility expenses	<u>31,834</u>	<u>34,415</u>
Maintenance		
Contractual	30,566	30,910
Maintenance payroll	23,199	25,900
Trash removal	19,426	17,822
Supplies	6,573	11,322
Appliance and equipment replacement	4,487	2,474
Repair & maintenance	3,476	5,016
Pest control	2,737	2,335
Security	1,723	2,576
Painting and drywall	1,342	1,284
Travel and transportation	587	394
Total maintenance expenses	<u>94,116</u>	<u>100,033</u>
Taxes & insurance		
Insurance	39,274	45,561
Property taxes	37,344	38,457
Payroll taxes	6,406	7,123
Total taxes & insurance	<u>83,024</u>	<u>91,141</u>
Financial expenses		
Interest	226,692	234,709
Debt issuance costs	24,759	24,759
Mortgage insurance premium	6,262	6,409
Service charges	1,105	1,398
Total financial expenses	<u>258,818</u>	<u>267,275</u>
Total Cost of Operating Expenses	<u>572,192</u>	<u>602,368</u>
NON-OPERATING EXPENSES		
Depreciation expense	274,912	274,439
Amortization expense	4,932	4,932
Total non-operating expenses	<u>279,844</u>	<u>279,371</u>
Total Expenses	<u>\$ 852,036</u>	<u>881,739</u>

The independent auditor's report and accompanying notes are an integral part of these financial statements.



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
Brian S. Colón, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Falcon Ridge Limited Partnership which comprise the balance sheet as of December 31, 2018, and related statements of operations, changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings, questioned costs, and recommendations, that we consider to be a material weakness: 2018-001.

April 11, 2019

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings, questioned costs, and recommendations as item 2018-002.

Falcon Ridge Limited Partnership's Response to Findings

Falcon Ridge Limited Partnership's response to the finding identified in our audit is described in the accompanying schedule of findings, questioned costs, and recommendations. Falcon Ridge Limited Partnership's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Hinkle + Landers, PC
Albuquerque, NM
April 11, 2019



INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS

To the Partners of
Falcon Ridge Limited Partnership
Las Cruces, New Mexico
and
Brian S. Colón, New Mexico State Auditor

Report on Compliance for Each Major HUD Program

We have audited Falcon Ridge Limited Partnership's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have direct and material effect on each of Falcon Ridge Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2018. Falcon Ridge Limited Partnership's major HUD program is as follows:

Name of Major HUD Programs	Direct and Material Compliance Requirements
HUD Insured Mortgage	Fair housing and nondiscrimination, mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant application, eligibility, and recertification, tenant security deposits, management functions, unauthorized change of ownership/acquisition of liabilities, and unauthorized loans of project funds.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD program(s).

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Falcon Ridge Limited Partnership’s major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Falcon Ridge Limited Partnership’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination of Falcon Ridge Limited Partnership’s compliance.

April 11, 2019

Opinion on Each Major Federal Program

In our opinion, Falcon Ridge Limited Partnership complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2018.

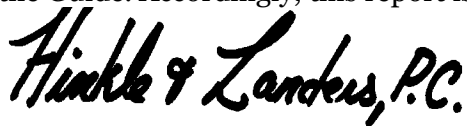
Report on Internal Control Over Compliance

Management of Falcon Ridge Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Falcon Ridge Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Falcon Ridge Limited Partnership's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first Paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, PC
Albuquerque, NM
April 11, 2019

FALCON RIDGE LIMITED PARTNERSHIP
Schedule of Findings, Questioned Costs, and Recommendations
For the Year Ended December 31, 2018

FINDINGS AND RESPONSES

Finding	Prior Year Findings	Status of Prior Year Findings	Type of Finding*
	None	n/a	n/a
Finding	Current Year Findings		
2018-001	Financial Close and Reporting	Current	A
2018-002	Late Submission of Audit Report	Current	G

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Finding That Does Not Rise to the Level of a Significant Deficiency (Other Matters)
 Involving Internal Control Financial Reporting
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance of Federal Awards
- G. Non-compliance with State Audit Rule, NM State Statutes, NMAC, or other entity compliance

FALCON RIDGE LIMITED PARTNERSHIP
Schedule of Findings, Questioned Costs, and Recommendations
For the Year Ended December 31, 2018

2018-001 - Financial Close and Reporting

Type of Finding: A

Statement of Condition

The Partnership has not implemented effective financial close and reporting process controls for the year ended December 31, 2018. The financial close should include but not be limited to:

- Identifying all sources of financial and non-financial data (routine and non-routine events and transactions) that will be needed in order to maintain and systematically adjust the Partnership's general ledger.
- Establishing and implementing procedures and records to initiate, authorize, record process, correct, transfer to the general ledger, and report the Partnerships transactions.
- Monitoring assigned personnel are completing their task timely and accurately.

Areas that required proposed audit adjustments are as follows:

- Net adjustment to receivables \$(64,154)
- Net adjustment to accrued property tax \$(17,940)
- Net adjustment to cash, including escrow accounts \$45,455
- Net adjustment to accrued interest \$1,879
- Net adjustment to mortgage payables \$7,802
- Net adjustment to prepaid expenses \$(3,326)
- Net adjustment to payables and similar liabilities \$5,245
- Net adjustment to fixed assets and related accounts \$1,387
- Net adjustment to equity \$10,544

Criteria

There are several key underlying accounting standards related to an organization designing and implementing an effective financial close and reporting process. Auditors are required to identify and communicate internal weaknesses according to AU-C 265 "Communicating Internal Control Related Matters Identified in an Audit". The following are a few concepts associated with this standard:

- The auditor cannot be part of a client's internal control because becoming part of a client's internal control impairs auditor independence;
- The auditor's work is independent of the client's internal control over financial reporting, and the auditor cannot be a compensating control for the client; and
- A system of internal control over the financial reporting does not stop at the general ledger – it includes controls over the presentation of the financial statements.

Financial Close is considered a significant process of internal control and should be performed by the Partnership.

Effect

The Partnership was not ready for its audit in a timely manner resulting in an audit finding and material adjustments.

Cause

Insufficient review of year end balances and their underlying support.

FALCON RIDGE LIMITED PARTNERSHIP
Schedule of Findings, Questioned Costs, and Recommendations
For the Year Ended December 31, 2018

Recommendation

We recommend the Partnership institute procedures to ensure there is a proper monthly/quarterly and year-end/financial close to its accounts.

View of Responsible Officials and Corrective Action Plan

Management will verify all balances with their underlying support as available at year end. Some mortgage statements are not available until after the date financials are required to be submitted to auditors. Those balances will not be adjusted until the following year. These adjustments are not material.

Corrective Action Plan Timeline

December 31, 2019

Designation of Employee Position Responsible for Meeting Deadline

CFO and Accountant

2018-002—Late Submission of Audit Report

Type of Finding: G

Statement of Condition

The audit report for the Partnership's fiscal year ended December 31, 2018 was not submitted by the May 31, 2019 due date. The audit report was submitted June 12, 2019.

Criteria

OSA Rule 2.2.2.9.A establishes a due date of May 31, 2019 for submission of this audit report to the Office of the State Auditor.

Effect

The report was not submitted as required. Without the audit report being delivered on time, fund and regulatory agencies as well as legislative committees do not have the financial data available to make funding decisions.

Cause

The Partnership's financial close procedures were not adequate and resulted in significant delays in the completion of the audit.

Recommendation

We recommend the Partnership provide the required deliverables and respond to auditor inquiries in a timely manner to ensure auditors can complete their procedures. Additionally, the Partnership should implement a formal annual financial reporting and closing process to ensure the Audit Rule deadline is met.

View of Responsible Officials and Corrective Action Plan

Procedures have been put in place to ensure compliance with the OSA Rule 2.2.2.9A.

Corrective Action Plan Timeline

Immediately

Designation of Employee Position Responsible for Meeting Deadline

CFO and Accountant

FALCON RIDGE LIMITED PARTNERSHIP
Mortgagor's Certification
For the Year Ended December 31, 2018

We hereby certify that we have examined the accompanying financial statements and supplemental data of Falcon Ridge Limited Partnership as of December 31, 2018, and to the best of our knowledge and belief; the same are accurate and complete.

Signatories:



Juan Olvera, Executive Director
Mesilla Valley Public Housing Authority



Date

Auditee Information:

505-325-6515
Falcon Ridge Limited Partnership
20 S. Chile Capital St.
Hatch, New Mexico 88001

**FALCON RIDGE LIMITED PARTNERSHIP
Management Agent's Certification
For the Year Ended December 31, 2018**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Falcon Ridge Limited Partnership as of December 31, 2018, and to the best of our knowledge and belief; the same are accurate and complete.



Bobby Griffith, CFO – Senior Executive
JL Gray Company

April 12, 2019

Date

Address:
1816 East Mojave St.
Farmington, NM 87401

FALCON RIDGE LIMITED PARTNERSHIP
Exit Conference
For the Year Ended December 31, 2018

EXIT CONFERENCE

An exit conference was held on April 11, 2019, which was attended by the following:

Housing Authority Administration

Juan Olvera	Executive Director
Elizabeth Garcia	Comptroller

Hinkle + Landers, PC

Farley Vener, CPA	President and Shareholder
Maclen Enriquez, CPA	Senior Audit Manager

Management Agent

Bobby Griffith	Chief Financial Officer
Lori Varnell	Accountant

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Hinkle + Landers, PC. However, the contents of the financial statements remain the responsibility of management.