



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STONE MOUNTAIN PLACE LIMITED
PARTNERSHIP**

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

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

STONE MOUNTAIN LIMITED PARTNERSHIP
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INDEPENDENT AUDITOR’S REPORT

To the Partners of
Stone Mountain Place Limited Partnership
Las Cruces, New Mexico
and
Brian S. Colón, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the Stone Mountain Place 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 Stone Mountain Place 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.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from Stone Mountain Place Limited 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

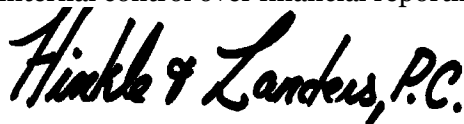
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information Required by HUD and the Computation of Surplus Cash and Distributions, as identified in the table of contents, is presented for purposes of additional analysis as required 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 Stone Mountain Place 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 Stone Mountain Place Limited Partnership's internal control over financial reporting and compliance.



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

STONE MOUNTAIN 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	\$ 64,675	54,372
Receivables	963	2,114
Prepaid expenses	21,031	20,222
Total current assets	<u>86,669</u>	<u>76,708</u>
Restricted Deposits & Funded Reserves		
Tenant security deposits	41,368	39,912
Real estate tax & insurance	13,659	17,403
Other escrows	3,229	3,133
Replacement cash reserve	165,357	139,924
Total restricted deposits & funded reserves	<u>223,613</u>	<u>200,372</u>
Property & Equipment		
Land	699,742	699,742
Buildings	8,013,334	8,013,334
Site improvements	701,222	701,222
Furnishings	319,092	319,092
Total property and equipment	9,733,390	9,733,390
Less: accumulated depreciation	(3,184,138)	(2,931,827)
Net property and equipment	<u>6,549,252</u>	<u>6,801,563</u>
Entity Assets		
Lease up reserve		
Operating reserve	210,788	210,578
Total entity assets	<u>210,788</u>	<u>210,578</u>
Total Assets	<u>\$ 7,070,322</u>	<u>7,289,221</u>
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	\$ 26,200	24,654
Accounts payable	6,456	3,875
Accrued interest	11,070	11,195
Accrued expenses	11,575	9,239
Accrued property taxes	16,282	14,509
Total current liabilities	<u>71,583</u>	<u>63,472</u>
Deposits & Prepaid Liabilities		
Tenant security deposits	40,310	39,881
Prepaid tenant fees	9,750	14,835
Total deposits & prepaid liabilities	<u>50,060</u>	<u>54,716</u>
Long-Term Liabilities		
Long-term debt (net of current maturities)	2,418,181	2,441,495
Deferred development fees	154,946	193,019
Asset management fee/return to owner	4,845	4,704
Total long-term liabilities	<u>2,577,972</u>	<u>2,639,218</u>
Total Liabilities	<u>2,699,615</u>	<u>2,757,406</u>
Partners' Equity (Deficit)	<u>4,370,707</u>	<u>4,531,815</u>
Total Liabilities & Partners' Equity	<u>\$ 7,070,322</u>	<u>7,289,221</u>

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

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

	2018	2017
	Total	Total
REVENUE		
Rental Income		
Potential rental income	571,920	549,156
Lease excess	47,845	44,260
Less: vacancies	(30,854)	(15,460)
Less: concessions	(15,610)	(13,231)
Net rental income	573,301	564,725
Other Income		
Interest income	448	405
Tenant charges	15,123	11,326
Miscellaneous income	6,674	488
Total other income	22,245	12,219
Total Revenue	595,546	576,944
EXPENSES		
Operating Expenses		
Administrative	106,627	103,783
Utilities	40,201	33,883
Maintenance	108,612	98,900
Taxes & insurance	96,321	92,680
Financial expenses	147,736	149,462
Total cost of operations	499,497	478,708
Net Income/(Loss) from Operations	96,049	98,236
Non-Operating Income & (Expenses)		
Administrative fees	(4,845)	(4,704)
Depreciation expense	(252,312)	(254,151)
Total non-operating income & (expenses)	(257,157)	(258,855)
Net Income/(Loss)	\$ (161,108)	(160,619)

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

STONE MOUNTAIN 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	\$ 4,692,434	(198)	4,692,632
Net income/(loss)	(160,619)	(16)	(160,603)
Partners' capital contributions	-	-	-
Partners' distributions	-	-	-
Partners' Equity (Deficit), December 31, 2017	\$ 4,531,815	(214)	4,532,029
Net income/(loss)	(161,108)	(16)	(161,092)
Partners' capital contributions	-	-	-
Partners' distributions	-	-	-
Partners' Equity (Deficit), December 31, 2018	\$ <u>4,370,707</u>	<u>(230)</u>	<u>4,370,937</u>

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

STONE MOUNTAIN LIMITED PARTNERSHIP

Statement of Cash Flows

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

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Revenue		
Rental receipts	\$ 569,367	567,746
Other income	22,245	12,219
Total cash receipts	591,612	579,965
Expenses		
Administrative	(67,080)	(69,285)
Management Fees	(35,441)	(34,573)
Utilities	(40,201)	(33,883)
Maintenance	(108,612)	(98,900)
Taxes & insurance	(94,548)	(92,876)
Financial expense	(11,316)	(11,579)
Interest paid	(133,659)	(135,115)
Tenant security deposits	(1,027)	3,811
Asset management expense	(4,845)	(4,704)
Total cash disbursements	(496,729)	(477,104)
Net cash provided (used) by operating activities	94,883	102,861
CASH FLOWS FROM INVESTING ACTIVITIES		
Replacement reserve	(25,433)	(21,184)
Real estate tax & insurance	3,744	(4,761)
Other escrows	(96)	(26)
Operating reserve	(210)	(211)
Net cash provided (used) by investing activities	(21,995)	(26,182)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage	(24,653)	(23,199)
Asset management fee/return to owner	141	137
Deferred development fees	(38,073)	(25,000)
Net cash provided (used) by financing activities	(62,585)	(48,062)
Net increase (decrease) in cash and cash equivalents	10,303	28,617
Cash and cash equivalents at beginning of year	54,372	25,755
Cash and cash equivalents at end of year	\$ 64,675	54,372
<u>Reconciliation of net income (loss) to net cash provided (used) by operating activities:</u>		
Net income (loss)	\$ (161,108)	(160,619)
Adjustments to reconcile net income (loss) to cash provided/(used) by operating activities:		
Depreciation expense	252,312	254,151
Non-cash interest for debt issuance costs	2,886	2,886
Decrease (increase) in assets:		
Receivables	1,151	(432)
Prepaid expenses	(809)	291
Tenant security deposits	(1,456)	3,578
(Decrease) increase in liabilities:		
Accounts payable	2,581	(52)
Accrued interest	(125)	(118)
Accrued expenses	2,334	(314)
Accrued property taxes	1,773	(196)
Tenant security deposits	429	233
Prepaid tenant fees	(5,085)	3,453
Net cash provided (used) by operating activities	\$ 94,883	102,861

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

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

NOTE 1 - ORGANIZATION

Stone Mountain Place Limited Partnership was organized in August 4, 2005 as a Limited Partnership to develop, construct, own, maintain, and operate an 84-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Las Cruces, New Mexico, and is currently known as Stone Mountain Place Apartments. The major activities of the Partnership are governed by the partnership agreement and the Internal Revenue Code Section 42.

The management of the Partnership and the ongoing management of Stone Mountain Place Apartments are vested in the Partners. The Partnership has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the partnership agreement and management agreement.

The Project is financed and constructed under Section 542(c) of the Housing and Community Development Act, as amended, and is administered by the New Mexico Mortgage Finance Authority (MFA). Under this program, the Partnership provides housing to low- and moderate-income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Project through rent subsidies provided by the local Public Housing Authority (PHA).

The Partnership is reported as a component unit of Mesilla Valley Public Housing Authority (MVPHA), previously Housing Authority of the City of Las Cruces, because MVPHA is a 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.

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 \$68,032 and \$55,352 at 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.

STONE MOUNTAIN LIMITED PARTNERSHIP

Notes To Financial Statements

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

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	15-40
Site improvements	5-15
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 or 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

STONE MOUNTAIN LIMITED PARTNERSHIP

Notes To Financial Statements

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

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. 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.

L. Advertising Costs

Advertising costs are expensed as incurred.

M. 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 Stone Mountain Place Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2018 and 2017:

General Partner:	
<i>Stone Mountain Place, LLC</i>	0.01%
Limited Partner:	
<i>TCIG Tax Credit Fund II, LLC</i>	<u>99.99%</u>
Total	<u>100.00%</u>

NOTE 4 – LONG-TERM DEBT

The Project is financed with a 40-year mortgage payable to New Mexico Mortgage Finance Authority in the original amount of \$2,305,000, with an interest rate of 6.10%. The mortgage is payable in monthly installments of \$12,843 including interest through the maturity date. The loan will be secured by a first lien position on the Project. The unpaid principal of the loan is due May 2048. The accrued interest was \$10,721 and \$10,846 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was \$129,343 and \$130,805 as of December 31, 2018 and 2017, respectively.

	2018	2017
\$	2,108,948	2,133,601

The Project also has a 45-year mortgage payable to City of Las Cruces in the original amount of \$419,116. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 1.00% per annum. Interest only payments shall be made monthly in the amount of \$349 for the first 15 years; in year sixteen the note will be payable in 360 monthly installments of \$1,348. Maturity of the loan occurs at the sale, refinance, or transfer of the property or on August 2051. The accrued interest was \$349 and \$349 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was \$4,191 and \$4,191 as of December 31, 2018 and 2017, respectively.

	419,116	419,116
Less: unamortized debt issuance costs	<u>(83,683)</u>	<u>(86,568)</u>
Total	2,444,381	2,466,149
Less: current portion	<u>(26,200)</u>	<u>(24,654)</u>
Long-term notes payable \$	<u>2,418,181</u>	<u>2,441,495</u>

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

Aggregate maturities of the loans are approximated as follows

	Principal	Interest
2019 \$	26,200	\$ 132,113
2020	27,844	130,469
2021	29,591	128,722
2022	34,446	126,863
2023	45,490	124,808
2024-2028	263,502	587,989
2029-2033	338,269	513,221
2034-2038	438,652	412,839
2039-2043	573,709	277,782
2044-2048	690,847	96,426
Thereafter	59,514	1,147
Less: unamortized debt issuance costs	(83,683)	-
Total \$	2,444,381	\$ 2,532,379

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 and the New Mexico Mortgage Finance Authority Loan Agreement, the Partnership shall establish and maintain a replacement reserve. The Partnership shall make deposits into the replacement reserve fund of \$25,200 annually. Replacement reserve balances at December 31, 2018 and 2017 were as follows:

	2018	2017
Replacement reserve \$	165,357	139,924

Operating Reserve

In accordance with the partnership agreement, the Partnership shall establish and maintain an operating reserve fund in an amount not less than \$205,000. Operating reserve balances at December 31, 2018 and 2017 were as follows:

	2018	2017
Operating reserve \$	210,788	210,578

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Housing Tax Credits

As incentive for investment equity, the Partnership applied for and received an allocation certificate for housing tax credits established by the Tax Reform Act of 1986. To qualify for the tax credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management has certified that each tax credit unit has met these qualifications to allow the credits allocated to each unit be claimed.

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct

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

noncompliance within a reasonable time period could result in recapture of previously claimed tax credits plus interest.

Housing Finance Agency Risk-Sharing Program - Section 542(c)

The Project is financed and operated under Section 542(c) of the Housing and Community Development Act, as amended, administrated by the New Mexico Mortgage Finance Authority (MFA). Under this program the Partnership provides housing to low- and moderate-income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods.

HOME Investment Partnerships Program

In addition, the Partnership received funding from the HOME Investment Partnerships Program to assist with financing the development of the Project. Under the terms of the agreement, eight units shall be designated as floating HOME assisted units.

Regulatory Agreement Provisions

On February 5, 2001, the Partnership executed a 542 (c) Multifamily Insurance Program Regulatory Agreement with the New Mexico Mortgage Finance Authority in order to obtain the "risk-sharing" mortgage loan. The Partnership is required to abide by the Regulatory Agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) replacement reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

Long-Term Contract

The Partnership entered into a service agreement and a compensation agreement with Comcast of California XIV LLC (Comcast) on March 13, 2012. The service agreement is for a term of 15 years, and then automatically renews biannually unless either party provides at least 60 days notice not to renew at the end of the term. Per the compensation agreement, Comcast agreed to pay the Partnership a one-time fee of \$10,500 as consideration for entering into a long-term service agreement. The total fee was received by the Partnership upon execution of the agreements.

NOTE 7 – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Property 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 current year management fee is equal to 6% of gross rental income. Property management fees expensed were \$35,393 and \$34,410 during 2018 and 2017, respectively. The amounts due to the management agent related to management fees were \$546 and \$594 as of December 31, 2018 and 2017, respectively.

Asset Management Fee

In accordance with the partnership agreement, the Partnership shall pay to the Limited Partner an asset management fee in the annual, cumulative amount of \$3,500. The fee will increase by three percent (3%) each year. The fee is payable out of available cash flow as further detailed in the partnership agreement. Asset management fees of \$4,845 and \$4,704 were recognized during 2018 and 2017, respectively. The amounts due to the Limited Partner related to asset management fees were \$4,845 and \$4,704 as of December 31, 2018 and 2017, respectively.

Incentive Management Fee

In accordance with the partnership agreement, the Partnership shall pay to the General Partner a noncumulative incentive management fee. The fee shall equal 90% of cash flow remaining after the priorities set forth in the partnership agreement. In no event, shall the incentive management fee and the Property management fee exceed, in the aggregate, 12% of the gross revenues of the Project in any fiscal

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

year. There were no incentive management fees accrued during 2018 and 2017. There were no amounts due to the General Partner related to incentive management fees as of December 31, 2018 and 2017.

Development Fee

The Partnership entered into a development services agreement with the Housing Authority of the City of Las Cruces currently known as Mesilla Public Housing Authority (MVPHA), an affiliate of the General Partner and JL Gray Company, (Developer). The development fee of \$855,247 is payable 30% to the Owner and 70% to the Developer. The fee is payable out of available cash flow as further detailed in the partnership agreement. This development fee has been capitalized into the basis of the building. As of December 31, 2018, \$700,301 of this fee has been paid. Development fees of \$38,073 and \$25,000 were paid during 2018 and 2017, respectively. The amounts due related to development fees were \$154,946 and \$193,019 as of December 31, 2018 and 2017, respectively.

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-one percent (51%) of the laundry room receipts after Gross Receipts Tax. This lease was terminated and sold to CSC Works during 2018.. The Partnership received no laundry income for the years ended December 31, 2018 and 2017.

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.

Guaranty of Tax Credits

Under the terms of the partnership agreement, the General Partner has the duty to use its best efforts to ensure that the Partnership qualifies for the maximum lawful low-income-housing tax credits. In the event that actual low-income-housing tax credits accruing to the benefit of the Limited Partner are less than the amount of credits that were projected at the formation of the Partnership, the contributions of capital otherwise required of the Limited Partner may be reduced, or constructive advances deemed made, in accordance with applicable provisions of the partnership agreement.

Operating Deficit and Completion Guarantees

The General Partner is obligated to make contributions to the Partnership as necessary to fund operating expenses, debt service payments, reserve and escrow accounts, capital improvements and maintenance expenses that occur during certain specified periods, as defined. The General Partner's obligation to make operating deficits is unlimited prior to the later of (1) permanent loan closing and (2) the achievement of debt service coverage ratio of 1.15:1 for ninety consecutive days. Subsequently, the General Partner's obligation to make operating deficit contributions is limited to \$205,000 and terminates upon the achievement of certain operating milestones. Operating deficit loans bear interest at 10% per annum and are repayable subject to distributable cash flow, as defined. There are no outstanding liabilities reported as operating deficit loans as of December 31, 2018 and 2017, respectively.

Additionally, the General Partner has guaranteed to fund any cost overruns necessary to complete the Project. The Developer has guaranteed the operating deficit and construction completion obligations.

NOTE 8 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Stone Mountain Place 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,

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

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.

NOTE 9 – ACCRUED EXPENSES

Accrued expenses consist of the following at year end:

	2018	2017
Accrued payroll expenses	\$ 3,965	3,599
Accrued expenses - audit fees	7,610	5,640
Total accrued expenses	\$ 11,575	9,239

NOTE 10 – RECEIVABLES

Receivables consist of the following at year end:

	2018	2017
AR - Residents	\$ 963	-
AR - PHA	-	2,114
Total receivables	\$ 963	2,114

NOTE 11 – 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.

STONE MOUNTAIN PLACE LIMITED PARTNERSHIP

Supplementary Information

Year Ended December 31, 2018

STONE MOUNTAIN LIMITED PARTNERSHIP
Supplementary Information Required by HUD
For the Year Ended December 31, 2018

1. Schedule of Reserve for Replacements

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 139,924	118,740
Total monthly deposit	25,200	25,200
Interest earned on reserve for replacement account (Net of service fees)	233	191
Approved withdrawals	-	(4,207)
Balance at end of year	\$ <u>165,357</u>	<u>139,924</u>

2. Schedule of Operating Reserve

Balance at beginning of year	\$ 210,578	210,367
Total monthly deposit	-	-
Interest earned on reserve for replacement account (net of service fees)	210	211
Approved withdrawals	-	-
Balance at end of year	\$ <u>210,788</u>	<u>210,578</u>

3. Schedule of Changes in Fixed Assets

	<u>2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>2018</u>
Land	\$ 699,742	-	-	\$ 699,742
Buildings	8,013,334	-	-	8,013,334
Site improvements/building equipment	701,222	-	-	701,222
Furnishings	319,092	-	-	319,092
Total	<u>9,733,390</u>	-	-	<u>9,733,390</u>
Accumulated depreciation	2,931,826	252,312	-	<u>3,184,138</u>
Net book value	\$ <u>6,801,564</u>			\$ <u>6,549,252</u>

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

STONE MOUNTAIN LIMITED PARTNERSHIP
Computation of Surplus Cash and Distributions
For the Year Ended December 31, 2018

Cash	<u>2018</u>	<u>2017</u>
Cash	\$ 106,043	94,284
Total cash	<u>106,043</u>	<u>94,284</u>
 Current obligations		
Accrued mortgage interest payable	11,070	11,195
Accounts payable due within 30 days	6,456	3,875
Accrued expenses (not escrowed)	11,575	9,239
Prepaid revenue	9,750	14,835
Tenant security deposits liability	<u>40,310</u>	<u>39,881</u>
Total current obligations	<u>79,161</u>	<u>79,025</u>
 Surplus cash (deficiency)	 \$ <u>26,882</u>	 <u>15,259</u>
 Amount available for distribution during next fiscal period		
Surplus cash	\$ <u>26,882</u>	<u>15,259</u>

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

STONE MOUNTAIN LIMITED PARTNERSHIP
Schedule of Expenses
For the Year Ended December 31, 2018

OPERATING EXPENSES	<u>2018</u>	<u>2017</u>
Administrative		
Professional management fees	\$ 35,393	34,410
Salaries & wages	30,764	29,512
Professional services	8,158	8,867
Telephone, cable, internet	6,771	6,595
Advertising	5,914	3,736
Compliance & monitoring fees	4,891	3,240
Training	4,542	7,954
Supplies & office expenses	2,928	2,004
Credit/criminal reports	1,838	1,200
Technical support	1,805	1,831
Bad debt & adjustments	1,479	2,940
Equipment & furniture	1,409	905
Dues, fees, & subscriptions	559	545
Service for residents	136	-
Travel, meals, & entertainment	40	44
Total administrative expenses	<u>106,627</u>	<u>103,783</u>
Utilities		
Water	14,112	11,558
Electric	13,933	12,417
Sewer	11,660	9,694
Utility allowance	496	214
Total utility expenses	<u>40,201</u>	<u>33,883</u>
Maintenance		
Contractual	32,161	25,530
Maintenance payroll	29,704	31,364
Appliance and equipment replacement	16,655	13,710
Trash removal	11,641	11,673
Supplies	10,142	12,838
Repair & maintenance	3,040	1,350
Painting and drywall	1,920	1,365
Security	1,870	760
Pest control	1,320	260
Travel and transportation	159	50
Total maintenance expenses	<u>108,612</u>	<u>98,900</u>
Taxes & insurance		
Insurance	55,800	55,518
Property taxes	32,564	29,018
Payroll taxes	7,957	8,144
Total taxes & insurance	<u>96,321</u>	<u>92,680</u>
Financial expenses		
Interest	133,534	134,997
Mortgage insurance premium	10,591	10,711
Debt issuance costs	2,886	2,886
Service charges	725	868
Total financial expenses	<u>147,736</u>	<u>149,462</u>
Total Cost of Operating Expenses	<u>499,497</u>	<u>478,708</u>
NON-OPERATING EXPENSES		
Depreciation expense	252,312	254,151
Asset management fees	4,845	4,704
Total non-operating expenses	<u>257,157</u>	<u>258,855</u>
Total Expenses	<u>\$ 756,654</u>	<u>737,563</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
Stone Mountain Place Limited Partnership
Las Cruces, 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 Stone Mountain Place 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 Stone Mountain Place 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 Stone Mountain Place Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Stone Mountain Place 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.

**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*, continued**

April 11, 2019

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone Mountain Place 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.

Hinkle & Landers, P.C.

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
Stone Mountain Place 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 Stone Mountain Place 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 Stone Mountain Place Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2018. Stone Mountain Place 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 Stone Mountain Place 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 Stone Mountain Place 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 Stone Mountain Place Limited Partnership’s compliance.

April 11, 2019

Opinion on Each Major Federal Program

In our opinion, Stone Mountain Place 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.

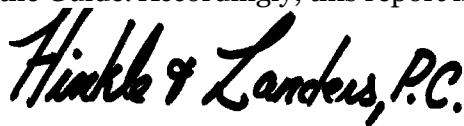
Report on Internal Control Over Compliance

Management of Stone Mountain Place 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 Stone Mountain Place 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 Stone Mountain Place 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

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

Finding	Prior Year Findings	Status of Prior Year Findings	Type of Finding*
	None	n/a	n/a
Finding	Current Year Findings		
	None	n/a	n/a


* 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

STONE MOUNTAIN 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 Stone Mountain Place 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

04/12/2019

Date

Auditee Information:

505-325-6515
Stone Mountain Place Limited Partnership
930 East Boutz Road
Las Cruces, New Mexico 88001

STONE MOUNTAIN 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 Stone Mountain Place 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

STONE MOUNTAIN 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.