



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**DESERT PALMS APARTMENTS LIMITED
PARTNERSHIP**

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

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

**DESERT PALMS APARTMENTS 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	7-13
SUPPLEMENTARY INFORMATION	
Supplementary Information Required by HUD	14
Computation of Surplus Cash and Distributions	15
Schedule of Expenses	16
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>	17-18
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>	19-20
SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS	21
MORTGAGOR’S CERTIFICATION	22
MANAGEMENT AGENT’S CERTIFICATION	23
EXIT CONFERENCE	24



INDEPENDENT AUDITOR’S REPORT

To the Partners of
Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership (the Partnership), which comprise the balance sheet as of December 31, 2018, and the related statements 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 Desert Palms Apartments 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 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 the 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 the Partnership's internal control over financial reporting and compliance.



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

DESERT PALMS APARTMENTS 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	\$ 7,556	3,334
Receivables	3,928	4,609
Prepaid expenses	16,550	12,087
Total current assets	<u>28,034</u>	<u>20,030</u>
Restricted Deposits & Funded Reserves		
Tenant security deposits	35,180	32,717
Real estate tax & insurance	6,827	8,805
Other escrows	1,996	1,939
Replacement cash reserve	110,419	90,532
Total restricted deposits & funded reserves	<u>154,422</u>	<u>133,993</u>
Property & Equipment		
Land	200,000	200,000
Buildings	3,399,062	3,399,062
Site improvements	391,753	391,752
Furnishings	515,375	515,376
Maintenance equipment	609	609
Total property and equipment	4,506,799	4,506,799
Less: accumulated depreciation	(1,967,414)	(1,831,114)
Net property and equipment	<u>2,539,385</u>	<u>2,675,685</u>
Other Assets		
Deferred tax credit fees, net of amortization	17,591	17,591
Amortization	(15,343)	(14,170)
Total other assets	<u>2,248</u>	<u>3,421</u>
Entity Assets		
Operating reserve	23,228	23,221
Operating deficit reserve	15,540	15,516
Total entity assets	<u>38,768</u>	<u>38,737</u>
Total Assets	<u>\$ 2,762,857</u>	<u>2,871,866</u>
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	\$ 29,050	27,232
Accounts payable	72,407	71,245
Accrued interest	8,399	8,529
Accrued expenses	12,251	20,160
Accrued property taxes	8,056	7,179
Total current liabilities	<u>130,163</u>	<u>134,345</u>
Deposits & Prepaid Liabilities		
Tenant security deposits	34,785	32,180
Prepaid tenant	4,462	2,746
Total deposits & prepaid liabilities	<u>39,247</u>	<u>34,926</u>
Long-Term Liabilities		
Long-term debt (net of current maturities)	1,746,989	1,774,538
Long-term accrued interest	202,468	181,675
Deferred development fees	143,132	193,939
Asset management fee/return to owner	65,397	59,346
Total long-term liabilities	<u>2,157,986</u>	<u>2,209,498</u>
Total Liabilities	<u>2,327,396</u>	<u>2,378,769</u>
Partners' Equity (Deficit)	<u>435,461</u>	<u>493,097</u>
Total Liabilities & Partners' Equity	<u>\$ 2,762,857</u>	<u>2,871,866</u>

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

DESERT PALMS APARTMENTS 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	\$ 484,560	484,560
Lease excess	26,914	17,578
Less: vacancies	(47,960)	(53,169)
Less: concessions	(22,011)	(19,880)
Net rental income	441,503	429,089
Other Income		
Interest income	183	172
Laundry & vending	-	529
Tenant charges	25,036	20,768
Miscellaneous income	4,026	1,052
Total other income	29,245	22,521
Total Revenue	470,748	451,610
EXPENSES		
Operating Expenses		
Administrative	96,130	103,231
Utilities	33,205	35,859
Maintenance	103,913	131,857
Taxes & insurance	70,472	69,117
Financial expenses	131,950	133,041
Total cost of operations	435,670	473,105
Net Income/(Loss) from Operations	35,078	(21,495)
Non-Operating Income & (Expenses)		
Depreciation expense	(136,300)	(136,748)
Investor service fee	(6,050)	(5,874)
Amortization expense	(1,172)	(1,173)
Total non-operating income & (expenses)	(143,522)	(143,795)
Net Income/(Loss)	\$ (108,444)	(165,290)

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

DESERT PALMS APARTMENTS 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	\$ 658,387	283,800	374,587
Net Income/(Loss)	(165,290)	(17)	(165,273)
Partners' Capital Contributions	-	-	-
Partners' Distributions	-	-	-
Partners' Equity (Deficit), December 31, 2017	\$ 493,097	283,783	209,314
Net Income/(Loss)	(108,444)	(11)	(108,433)
Partners' Capital Contributions	50,808	50,808	-
Partners' Distributions	-	-	-
Partners' Equity (Deficit), December 31, 2018	\$ <u>435,461</u>	<u>334,581</u>	<u>100,880</u>

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

DESERT PALMS APARTMENTS 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	\$ 443,900	424,025
Other income	29,245	22,521
Total receipts	473,145	446,546
Expenses		
Administrative	(103,678)	(73,954)
Management fees	(3,659)	(16,681)
Utilities	(33,205)	(36,158)
Maintenance	(103,913)	(122,805)
Taxes & insurance	(69,595)	(69,002)
Financial expense	(29,221)	(28,613)
Interest paid	(101,358)	(102,861)
Tenant security deposits	142	607
Total disbursements	(444,487)	(449,467)
Net cash provided (used) by operating activities	28,658	(2,921)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase property & equipment	-	(54,632)
Replacement reserve	(19,887)	45,548
Real estate tax & insurance	1,978	(2,672)
Other escrows	(57)	63
Operating reserve	(7)	7,993
Operating deficit reserve	(24)	(23)
Deferred construction in progress	-	(82,190)
Net cash provided (used) by investing activities	(17,997)	(85,913)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage	(27,232)	(25,527)
Long-term accrued interest	20,793	20,005
Partners' contributions	50,808	-
Deferred development fees	(50,808)	-
Net cash provided (used) by financing activities	(6,439)	(5,522)
Net increase (decrease) in cash and cash equivalents	4,222	(94,356)
Cash and cash equivalents at beginning of year	3,334	97,690
Cash and cash equivalents at end of year	\$ 7,556	3,334
<u>Reconciliation of net income (loss) to net cash provided (used) by operating activities:</u>		
Net income (loss)	\$ (108,444)	(165,290)
Adjustments to reconcile net income (loss) to cash provided/(used) by operating activities:		
Depreciation expense	136,300	136,748
Amortization expense	1,172	1,173
Non-cash interest for debt issuance costs	1,501	1,688
Decrease (increase) in assets:		
Receivables	681	(2,887)
Prepaid expenses	(4,463)	292
Tenant security deposit account	(2,463)	4,479
(Decrease) increase in liabilities:		
Accounts payable	1,162	20,754
Accrued interest	(130)	(121)
Accrued expenses	(7,907)	303
Accrued property taxes	877	115
Tenant security deposits	2,605	(3,872)
Prepaid tenant fees	1,716	(2,177)
Asset management fee/return to owner	6,051	5,874
Net cash provided (used) by operating activities	\$ 28,658	(2,921)

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

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 1 - ORGANIZATION

Desert Palms Apartments Limited Partnership was organized in 2003 as a Limited Partnership to develop, construct, own, maintain, and operate a 101-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 Desert Palms 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 Desert Palms 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). Deposit accounts, at times, may exceed federally insured limits. 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.

DESERT PALMS APARTMENTS 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	10-40
Site improvements	5-15
Furnishings	3-7
Maintenance equipment	5

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.

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.

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

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. 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 Desert Palms Apartments Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2018 and 2017:

General Partner:	
<i>Mesilla Valley Public Housing Authority</i>	0.01%
Limited Partner:	
<i>Freddie Mac Equity Plus II, ESIC</i>	99.99%
	100.00%

NOTE 4 – LONG-TERM DEBT

	2018	2017
<p>The Project is financed with a 35-year mortgage payable to New Mexico Mortgage Finance Authority in the original amount of \$1,705,000, with an interest rate of 6.48%. The mortgage is payable in monthly installments of \$10,277 through October 1, 2041. The accrued interest was \$7,928 and \$8,075 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was \$95,950 and \$97,662 as of December 31, 2018 and 2017, respectively.</p>	<p>\$ 1,468,078</p>	<p>1,495,310</p>

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

The Project also has a mortgage payable to City of Las Cruces in the original amount of \$342,744. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 4.94% compounded annually. Monthly interest only payments of 1% are to be paid for the first fifteen years. After the end of year fifteen the principal and accrued interest will become due and payable in 179 monthly installments of \$4,820. Maturity of the loan occurs at the sale, refinance, and transfer of the property or on September 2034. The short-term accrued interest was \$471 and \$454 as of December 31, 2018 and 2017, respectively. The long-term accrued interest was \$202,468 and \$181,675 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was \$26,071 and \$25,082 as of December 31, 2018 and 2017, respectively.

	342,744	342,744
Less: unamortized debt issuance costs	(34,783)	(36,284)
Total	1,776,039	1,801,770
Less: current portion	(29,050)	(27,232)
Long-term notes payable \$	1,746,989	1,774,538

Aggregate maturities of the loans are approximated as follows

	Principal	Interest
2019 \$	29,050	99,746
2020	30,990	98,022
2021	34,975	95,667
2022	58,266	88,063
2023	60,620	85,709
2024-2028	344,297	387,348
2029-2033	431,761	299,884
2034-2038	435,332	356,313
Thereafter	385,531	30,984
Less: Unamortized debt issuance costs	(34,783)	-
Total \$	1,776,039	1,541,737

Long-term accrued interest on the HOME loan in the amount of \$117,256 becomes principal and is amortized when principal payments begin December of 2021.

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 at the time of the fourth installment to fund major repairs or replacements of the project property. The Partnership shall make deposits into the replacement reserve fund of \$30,000 annually commencing with the completion of the Project. Replacement reserve balances at December 31, 2018 and 2017 were as follows:

	2018	2017
Replacement reserve \$	110,419	90,532

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

Operating Reserves

The General Partner is required to establish and maintain an operating reserve on the date of the fourth capital contribution in the amount of \$75,000. The Partnership was also required to establish a separate operating deficit reserve with New Mexico Mortgage Finance Authority. Operating and operating deficit reserve balances at December 31, 2018 and 2017 were follows:

	<u>2018</u>	<u>2017</u>
Operating reserve	\$ 23,228	23,221
Operating reserve-deficit	15,540	15,516
Total	<u>\$ 38,768</u>	<u>38,737</u>

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

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 \$12,625 as consideration for entering into a long-term service agreement. The total fee was received by the Partnership upon execution of the agreements.

Regulatory Agreement Provisions

On December 14, 2011, 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.

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, ten units shall be designated as floating HOME assisted units.

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 current year management fee is equal to 6% of gross rental collections. Property management fees expensed were

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

\$27,076 and \$26,016 during 2018 and 2017, respectively. The amounts included in accounts payable that are due to the Management Agent related to management fees were \$66,659 and \$43,242 as of December 31, 2018 and 2017, respectively.

Owner Distribution - Investor Services Fee

In accordance with the partnership agreement, the Partnership shall pay to the Limited Partner an investor services fee in the amount of \$4,000 beginning in 2004. The fee shall increase at a rate of 3% per year thereafter. The investor services fee shall be payable from the available cash flows. Any unpaid fees may accrue for payment in subsequent years. Investor services fees of \$6,050 and \$5,874 were recognized during 2018 and 2017, respectively. The amounts due to the Limited Partner related to investor services fees were \$65,397 and \$59,347 as of December 31, 2018 and 2017, respectively.

Owner Distribution - Partnership Administrative Fee

In accordance with the partnership agreement, the Partnership shall pay to the General Partner a partnership administrative fee in the annual amount of \$25,000. The fee shall increase at a rate of 3% per year thereafter. The partnership administration fee shall be payable from the available cash flows. Any unpaid fees may accrue for payment in subsequent years. There were no partnership administrative fees accrued during 2018 and 2017.

Development Fee

The Partnership has incurred a development fee of \$203,230 due to JL Gray Company and the General Partner, rendered to the Partnership for overseeing the construction of the Project. This development fee has been capitalized into the basis of the building. During the year ended December 31, 2018, the General Partner contributed \$50,808 to pay their portion of the deferred developer fee in full. As of December 31, 2018, \$60,098 of this fee has been paid. The amounts due related to development fees were \$143,132 and \$193,939 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 percent (50%) of the laundry room receipts after gross receipts tax. This lease was terminated and sold to CSC Service Works during 2018. The Partnership received laundry income of \$0 and \$529 for the years ended December 31, 2018 and 2017, respectively.

Reimbursed Expenses

The Management Agent 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. The amounts due to the Management Agent related to reimbursed expenses were \$0 and \$646 as of December 31, 2018 and 2017, respectively.

Operating Deficit Loans

Pursuant to the partnership agreement, the General Partner has guaranteed to fund all deficits through the later of permanent loan closing and achievement of a debt service coverage ratio of 1:15:1 for 90 days, as defined. Subsequent to permanent loan closing or achievement of the debt service coverage ratio, funding up to an additional \$275,000 of operating deficits is guaranteed. The requirement to fund additional operating deficits will terminate on the date the following occurs:

1. The Partnership has operated at break-even three consecutive calendar years following the stabilization date of the Project;
2. The Partnership has met the required debt service coverage for three years;
3. The balance in the operating reserve equals or exceeds the operating reserve amount.

The General Partner obligations shall be guaranteed by the Guarantor (JL Gray Company) as defined in the guaranty agreement.

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 8 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Desert Palms 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.

NOTE 9 – ACCRUED EXPENSES

Accrued expenses consist of the following at year end:

	<u>2018</u>	<u>2017</u>
Accrued payroll expenses	\$ 3,940	3,441
Accrued expenses - audit fees	8,000	16,000
Unclaimed resident property	311	719
Total accrued expenses	<u>\$ 12,251</u>	<u>20,160</u>

NOTE 10 – RECEIVABLES

Receivables consist of the following at year end:

	<u>2018</u>	<u>2017</u>
AR - Tenants	\$ 1,618	2,052
AR - PHA	2,310	2,557
Total receivables	<u>\$ 3,928</u>	<u>4,609</u>

NOTE 11 – LITIGATION

The Partnership is part of a class action lawsuit. There is not currently an estimated range of potential loss, nor has it been concluded whether there is likely to be an unfavorable outcome as of the date of this report.

NOTE 12 – 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.

Desert Palms Apartments Limited Partnership
Supplementary Information
Year Ended December 31, 2018

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Supplementary Information Required by HUD
For the Year Ended December 31, 2018, With Comparative Totals for 2017

1. Schedule of Reserve for Replacements

	2018	2017
Balance at beginning of year	\$ 90,532	136,080
Total monthly deposit	30,000	30,000
Interest earned on reserve for replacement account (Net of service fees)	152	141
Approved withdrawals	(10,265)	(75,689)
Balance at end of year	\$ 110,419	90,532

2. Schedule of Operating & Operating Deficit Reserve

	2018	2017
Balance at beginning of year	\$ 38,737	46,707
Total monthly deposit	-	-
Interest earned on reserve for replacement account (Net of service fees)	31	30
Approved withdrawals	-	(8,000)
Balance at end of year	\$ 38,768	38,737

3. Schedule of Changes in Fixed Asset Accounts

	2017	Additions	Deductions	2018
Land	\$ 200,000	-	-	200,000
Buildings	3,399,062	-	-	3,399,062
Site Improvements/Building Equipment	391,753	-	-	391,753
Furniture & Fixtures	515,375	-	-	515,375
Maintenance Equipment	609	-	-	609
Total	4,506,799	-	-	4,506,799
Accumulated depreciation	(1,831,114)	(136,300)	-	(1,967,414)
Net book value	\$ 2,675,685	(136,300)	-	2,539,385

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

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Computation of Surplus Cash and Distributions
For the Year Ended December 31, 2018, With Comparative Totals for 2017

Cash	2018	2017
Cash	\$ 42,736	36,051
Total cash	42,736	36,051
Current obligations		
Accrued mortgage interest payable	(8,399)	(8,529)
Accounts payable due within 30 days	(72,407)	(71,245)
Accrued expenses (not escrowed)	(12,251)	(20,160)
Prepaid revenue	(4,462)	(2,746)
Tenant security deposits liability	(34,785)	(32,180)
Total current obligations	(132,304)	(134,860)
Surplus cash (deficiency)	\$ (89,568)	(98,809)
Amount available for distribution during next fiscal period		
Surplus cash (deficiency)	\$ -	-

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

DESERT PALMS APARTMENTS LIMITED PARTNERSHIP
Schedule of Expenses
For the Year Ended December 31, 2018, With Comparative Totals for 2017

OPERATING EXPENSES	<u>2018</u>	<u>2017</u>
Administrative		
Professional management fees	\$ 27,076	26,016
Salaries & wages	26,991	25,390
Bad debt & adjustments	8,273	16,344
Professional services	8,100	9,293
Advertising	5,904	4,158
Compliance & monitoring fees	4,500	4,500
Telephone, cable, internet	3,706	4,592
Credit/criminal reports	3,529	2,513
Training	3,070	5,329
Supplies & office expenses	2,133	2,409
Technical support	1,805	1,800
Dues, fees, & subscriptions	675	675
Equipment & furniture	327	101
Travel, meals, & entertainment	41	59
Service for residents	-	52
Total administrative expenses	<u>96,130</u>	<u>103,231</u>
Utilities		
Electric	12,642	14,945
Water	11,108	11,017
Sewer	8,905	9,511
Utility allowance	550	386
Total utility expenses	<u>33,205</u>	<u>35,859</u>
Maintenance		
Maintenance payroll	31,679	33,044
Contractual	15,946	19,746
Repair & maintenance	14,874	15,149
Supplies	11,853	11,047
Appliance and equipment replacement	10,314	13,423
Trash removal	9,881	9,830
Pest control	4,960	23,478
Painting and drywall	4,406	6,140
Total maintenance expenses	<u>103,913</u>	<u>131,857</u>
Taxes & insurance		
Insurance	46,420	46,841
Property taxes	16,309	14,351
Payroll taxes	7,743	7,925
Total taxes & insurance	<u>70,472</u>	<u>69,117</u>
Financial expenses		
Interest	122,021	122,745
Mortgage insurance premium	7,391	7,523
Debt issuance costs	1,501	1,688
Service charges	1,037	1,085
Total financial expenses	<u>131,950</u>	<u>133,041</u>
Total Cost of Operating Expenses	<u>435,670</u>	<u>473,105</u>
NON-OPERATING EXPENSES		
Depreciation expense	136,300	136,748
Investor service fees	6,050	5,874
Amortization expense	1,172	1,173
Total non-operating expenses	<u>143,522</u>	<u>143,795</u>
Total Expenses	<u>\$ 579,192</u>	<u>616,900</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
Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Desert Palms Apartments 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 Desert Palms Apartments 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
Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2018. Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments Limited Partnership’s compliance.

April 11, 2019

Opinion on Each Major Federal Program

In our opinion, Desert Palms Apartments 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.

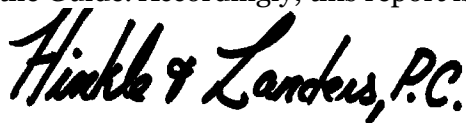
Report on Internal Control Over Compliance

Management of Desert Palms Apartments 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 Desert Palms Apartments 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 Desert Palms Apartments 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

DESERT PALMS APARTMENTS 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

DESERT PALMS APARTMENTS 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 Desert Palms Apartments 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
Desert Palms Apartments Limited Partnership
2405 W Picacho
Las Cruces, New Mexico 88001

DESERT PALMS APARTMENTS 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 Desert Palms Apartments 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

DESERT PALMS APARTMENTS 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.