

Cimmaron Limited Partnership

**Financial Statements and Supplemental Information
with Report of Independent Auditors**

December 31, 2019 and 2018

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Report of Independent Auditors

To the Partners of Cimmaron Limited Partnership, Anthony, New Mexico,
and Brian S. Colón, New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of Cimmaron Limited Partnership, a New Mexico limited partnership, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 in accordance with 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 auditors' 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 auditors consider 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 Cimmaron Limited Partnership as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Cimmaron Limited Partnership as of December 31, 2018, were audited by other auditors whose report dated April 11, 2019 expressed an unmodified opinion on those statements.

Changes in Accounting Principles

As discussed in Note 2 to the financial statements, Cimmaron Limited Partnership adopted changes in accounting principles related to revenue recognition, presentation and disclosure of the statements of cash flows, and real estate sales. Our opinion is not modified with respect to those matters.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, which includes HUD-required financial data templates, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements.

The 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.

The schedule of the status of prior audit findings, questioned costs, and recommendations, mortgagor's (owners) certification and managing agent's certification have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 on our consideration of Cimmaron 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 Cimmaron Limited Partnership's internal control over financial reporting and compliance.

Novogradac & Company LLP

Austin, Texas

March 31, 2020

CIMMARON LIMITED PARTNERSHIP
BALANCE SHEETS
December 31, 2019 and 2018

| | ASSETS | |
|--|--------------|--------------|
| | 2019 | 2018 |
| Current assets | | |
| Cash and cash equivalents | \$ 50,381 | \$ 41,017 |
| Accounts receivable - HAP | - | 498 |
| Prepaid expenses | 20,087 | 15,570 |
| Total current assets | 70,468 | 57,085 |
| Restricted deposits and funded reserves | | |
| Tenant security deposits | 30,235 | 29,176 |
| Real estate tax & insurance | 4,673 | 9,209 |
| Other escrows | 1,499 | 1,522 |
| Replacement reserve | 212,853 | 194,459 |
| Total restricted deposits and funded reserves | 249,260 | 234,366 |
| Property and equipment | | |
| Land | 120,000 | 120,000 |
| Building | 5,614,079 | 5,614,079 |
| Land improvements | 64,049 | 64,049 |
| Furniture, fixtures, and equipment | 33,978 | 33,978 |
| Total property and equipment | 5,832,106 | 5,832,106 |
| Less: accumulated depreciation | (1,975,849) | (1,832,116) |
| Net property and equipment | 3,856,257 | 3,999,990 |
| Other assets | | |
| Deferred tax credit fees | 56,943 | 56,943 |
| Accumulated amortization | (53,146) | (49,350) |
| Net other assets | 3,797 | 7,593 |
| Entity assets | | |
| Operating reserve | 97,707 | 97,602 |
| Total entity assets | 97,707 | 97,602 |
| Total assets | \$ 4,277,489 | \$ 4,396,636 |

see accompanying notes

CIMMARON LIMITED PARTNERSHIP
BALANCE SHEETS (CONTINUED)
December 31, 2019 and 2018

| LIABILITIES AND PARTNERS' CAPITAL | 2019 | 2018 |
|---|--------------|--------------|
| Current liabilities | | |
| Current maturities of long-term debt | \$ 13,324 | \$ 12,497 |
| Accounts payable | 18,520 | 4,028 |
| Accrued interest | 7,515 | 7,520 |
| Accrued expenses | 16,839 | 11,549 |
| Accrued property taxes | 6,208 | 6,171 |
| Total current liabilities | 62,406 | 41,765 |
| Deposits and prepaid liabilities | | |
| Tenant security deposits | 30,235 | 28,603 |
| Prepaid rent | 2,920 | 1,510 |
| Total deposits and prepaid liabilities | 33,155 | 30,113 |
| Long-term liabilities | | |
| Long-term debt, net of current maturities | 1,076,777 | 1,087,117 |
| Long-term accrued interest | 157,972 | 142,736 |
| Deferred development fee | 60,000 | 70,000 |
| Asset management fee payable | 5,140 | 4,990 |
| Total long-term liabilities | 1,299,889 | 1,304,843 |
| Total liabilities | 1,395,450 | 1,376,721 |
| Partners' capital | 2,882,039 | 3,019,915 |
| Total liabilities and partners' capital | \$ 4,277,489 | \$ 4,396,636 |

see accompanying notes

CIMMARON LIMITED PARTNERSHIP
STATEMENTS OF OPERATIONS
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--------------------------|--------------|--------------|
| REVENUE | | |
| Rental income | | |
| Potential rental income | \$ 388,224 | \$ 388,224 |
| Lease excess | 8,333 | 7,722 |
| Less: vacancies | (5,931) | (11,350) |
| Less: concessions | (152) | (2,803) |
| Net rental income | 390,474 | 381,793 |
| Other income | | |
| Interest income | 516 | 316 |
| Tenant charges | 13,608 | 11,287 |
| Miscellaneous income | 1,086 | - |
| Total other income | 15,210 | 11,603 |
| Total revenue | 405,684 | 393,396 |
| OPERATING EXPENSES | | |
| Administrative | 87,459 | 77,586 |
| Utilities | 51,519 | 51,393 |
| Maintenance | 108,591 | 81,991 |
| Taxes and insurance | 55,177 | 52,367 |
| Financial expenses | 88,145 | 87,703 |
| Total operating expenses | 390,891 | 351,040 |
| Total operating income | 14,793 | 42,356 |
| OTHER EXPENSES | | |
| Administrative fees | 5,140 | 4,990 |
| Depreciation expense | 143,733 | 144,938 |
| Amortization expense | 3,796 | 3,796 |
| Total other expenses | 152,669 | 153,724 |
| Net loss | \$ (137,876) | \$ (111,368) |

see accompanying notes

CIMMARON LIMITED PARTNERSHIP
STATEMENT OF CHANGES IN PARTNERS' CAPITAL
For the years ended December 31, 2019 and 2018

| | General Partner | Limited Partner | Total Partners' Capital |
|----------------------------|--------------------|--------------------|-------------------------------|
| BALANCE, JANUARY 1, 2018 | \$ (53) | \$ 3,131,336 | \$ 3,131,283 |
| Net loss | (11) | (111,357) | (111,368) |
| BALANCE, DECEMBER 31, 2018 | (64) | 3,019,979 | 3,019,915 |
| Net loss | (14) | (137,862) | (137,876) |
| BALANCE, DECEMBER 31, 2019 | \$ (78) | \$ 2,882,117 | \$ 2,882,039 |

see accompanying notes

CIMMARON LIMITED PARTNERSHIP
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Rental receipts | \$ 392,382 | \$ 382,627 |
| Other operating receipts | 15,210 | 11,603 |
| Total receipts | 407,592 | 394,230 |
| CASH PAID FOR: | | |
| Administrative expenses | (60,082) | (73,015) |
| Utilities expenses | (51,519) | (51,393) |
| Operating and maintenance expenses | (108,591) | (82,037) |
| Taxes and insurance expenses | (59,657) | (53,840) |
| Financial expenses | (21,199) | (20,203) |
| Interest paid | (69,930) | (63,595) |
| Entity/construction disbursements | (4,990) | (4,845) |
| Total disbursements | (375,968) | (348,928) |
| Net cash provided by operating activities | 31,624 | 45,302 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net deposits to operating reserve | (105) | (30) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on mortgage | (12,497) | (11,724) |
| Long-term accrued interest | 15,236 | 14,653 |
| Payments on deferred developer fee | (10,000) | (10,000) |
| Net cash used in financing activities | (7,261) | (7,071) |
| Net change in cash, cash equivalents and restricted cash | 24,258 | 38,201 |
| Cash, cash equivalents and restricted cash at beginning of year | 275,383 | 237,182 |
| Cash, cash equivalents and restricted cash at end of year | \$ 299,641 | \$ 275,383 |
| Cash and cash equivalents | \$ 50,381 | \$ 41,017 |
| Restricted cash | 249,260 | 234,366 |
| Total cash, cash equivalents and restricted cash | \$ 299,641 | \$ 275,383 |

see accompanying notes

CIMMARON LIMITED PARTNERSHIP
STATEMENTS OF CASH FLOWS (CONTINUED)
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net loss | \$ (137,876) | \$ (111,368) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Depreciation expense | 143,733 | 144,938 |
| Amortization expense | 3,796 | 3,796 |
| Amortization of debt issuance costs | 2,984 | 2,984 |
| Changes in asset and liability accounts | | |
| Decrease (increase) in assets | | |
| Accounts receivable - HAP | 498 | 50 |
| Prepaid expenses | (4,517) | 2,050 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 14,492 | (1,846) |
| Accrued interest | (5) | 921 |
| Accrued expenses | 5,290 | 3,337 |
| Accrued property taxes | 37 | (1,474) |
| Deferred income | 1,410 | 784 |
| Tenant security deposits held in trust | 1,632 | 985 |
| Accrued owner fees | 150 | 145 |
| Net cash provided by operating activities | \$ 31,624 | \$ 45,302 |

see accompanying notes

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

1. Organization

Cimmaron Limited Partnership (the “Entity”) was formed in 2004 to construct, develop and operate a 60-unit property located in Anthony, New Mexico known as Cimmaron Apartments (the “Property”). The Property is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided for in Section 42 of the Internal Revenue Code (“Section 42”).

The limited partner is NEF Assignment Corporation (the “Limited Partner”). The general partner is Mesilla Valley Public Housing Authority (the “General Partner”). Pursuant to the Amended and Restated Agreement of Limited Partnership and the subsequent amendments (“the Partnership Agreement”), profits, losses and tax credits are allocated 0.01% to the General Partner and 99.99% to the Limited Partner.

The Property 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 Entity provides housing to low- and moderate-income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development, as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Property through rent subsidies provided by the local Public Housing Authority.

On February 5, 2001, the Entity executed a 542 (c) Multifamily Insurance Program Regulatory Agreement (the “Regulatory Agreement”) with the MFA in order to obtain the “risk-sharing” mortgage loan. The Entity 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.

Pursuant to the terms of the Partnership Agreement, the Limited Partner was required to provide capital contributions subject to adjustments based on the amount of low-income housing tax credits ultimately allocated to the Property in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of December 31, 2019 and 2018, all capital contributions had been provided.

The Entity is reported as a component unit of Mesilla Valley Public Housing Authority (“MVPHA”), previously known as Housing Authority of the City of Las Cruces, because MVPHA is the General Partner of the Entity. The Entity has no component units.

Related to GASB 77, the Entity does not negotiate property tax abatements and has no tax abatement agreements as of December 31, 2019.

The Entity 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.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Entity prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, whereby income is recognized as earned and expenses are recognized as obligations are incurred. The Entity is a for profit organization and prepared their financials under the Financial Accounting Standards and not the Governmental Accounting Standards generally accepted in the United States of America.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents and includes cash held with financial institutions for funding of operating deficits, repairs and replacements to fixed assets, and annual insurance and property tax payments.

Concentration of credit risk

The Entity maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Entity has not experienced any losses in such accounts. The Entity believes it is not exposed to any significant credit risk on cash and cash equivalents.

Collateralization of deposits

The Entity 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.

Receivables

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Fixed assets and depreciation

Fixed assets are recorded at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 40 years using the straight-line method. Site improvements are depreciated over their estimated useful lives of 7-20 years using the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of 3-10 years using the straight-line method. Depreciation expense for the years ended December 31, 2019 and 2018 was \$143,733 and \$144,938, respectively.

Impairment of long-lived assets

The Entity reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2019 or 2018.

Deferred charges and amortization

Tax credit fees are amortized on a straight-line basis over the 15-year tax credit compliance period. Amortization expense for the years ended December 31, 2019 and 2018 was \$3,796 each year.

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Income taxes

Income taxes on Entity income are levied on the partners at the partner level. Accordingly, all profits and losses of the Entity are recognized by each partner on its respective tax return.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Entity to report information regarding its exposure to various tax positions taken by the Entity. The Entity has determined whether any tax positions have met the recognition threshold and has measured the Entity's exposure to those tax positions. Management believes that the Entity has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Entity are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Economic concentrations

The Entity operates one property in Anthony, New Mexico. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing. In addition, the Entity operates in a heavily regulated environment. The operations of the Entity are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. 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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events

Subsequent events have been evaluated through March 31, 2020, which is the date the financial statements were available to be issued. The spread of a novel strain of coronavirus (COVID-19) in the first quarter of 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Entity's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be determined at this time.

Changes in accounting principles

On January 1, 2019, the Entity adopted a new accounting standard that affects the accounting for revenue. The Entity's revenue is mainly derived from leases, which is not impacted by this standard. Adopting this standard did not have a significant impact on the financial statements.

The new revenue standard also introduced new guidance for accounting for other income, including the accounting for sales of real estate. Adopting this standard did not have a significant impact on the financial statements.

On January 1, 2019, the Entity adopted new accounting standards that affect the statement of cash flows. These new standards address how certain cash receipts and payments are presented and classified in the statement of cash flows, including that debt prepayments and other debt extinguishment related payments are required to be classified as financing activities, when previously these payments were classified as an operating activity. The new standards also require the statement of cash flows to explain the change in cash, cash equivalents and restricted cash. Previously, changes in restricted cash were presented in the statement of cash flows as operating, investing or financing activities depending upon the intended purpose of the restricted funds.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Changes in accounting principles (continued)

The effect of the revisions to the statements of cash flows for the year ended December 31, 2018 is as follows:

| | <u>As Previously Reported</u> | <u>Adjustments</u> | <u>As Revised</u> |
|--|-------------------------------|--------------------|-------------------|
| Net cash flows from operating activities | \$43,744 | \$ 1,558 | \$ 45,302 |
| Net cash flows from investing activities | (\$16,052) | \$ 16,022 | (\$ 30) |

Change in accounting principle – not yet adopted

The Entity will adopt a new accounting standard for leases on January 1, 2021. Accounting for leases by lessors is left largely unchanged by the new standard. It is expected that the adoption of the new standard will not have a material impact on the accounting for tenant lease revenue.

3. Restricted deposits and funded reserves

Tenant security deposits

Tenant security deposits held in trust are placed into an interest-bearing account and are generally held until the termination of the lease, at which time some or all deposits may be returned to the lessee. As of December 31, 2019 and 2018, the balance was \$30,235 and \$29,176, respectively.

Real estate tax and insurance escrows

The Entity established an insurance escrow in an amount adequate to fund insurance premiums. As of December 31, 2019 and 2018, the balance was \$1,412 and \$5,627, respectively.

The Entity established a property tax escrow in an amount adequate to fund annual property tax payments. As of December 31, 2019 and 2018, the balance was \$3,261 and \$3,582, respectively.

Other escrows

The Entity established a mortgage insurance premium escrow in an amount adequate to fund insurance premiums. As of December 31, 2019 and 2018, the balance was \$1,499 and \$1,522, respectively.

Replacement reserve

Pursuant to the Partnership Agreement, annual deposits of \$18,000 are made to the replacement reserve account. The replacement reserve shall be used to make capital improvement and repairs to the Property. As of December 31, 2019 and 2018, the balance was \$212,853 and \$194,459, respectively.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

4. Entity assets

Operating reserve

Pursuant to the Partnership Agreement, the Entity is required to fund an operating reserve in the amount of \$92,284. Funds from the operating reserve are to be used for operating and debt service deficits. As of December 31, 2019 and 2018, the balance of the operating reserve was \$97,707 and \$97,602, respectively.

5. Related party transactions

Property management fee

The Entity entered into a management agreement with JL Gray Company (the “Management Agent”), for services rendered in connection with the leasing and operation of the Property. The Management Agent fee for its services is 5.5% of gross rental collections. During 2019 and 2018, property management fees of \$21,755 and \$21,138, respectively, were incurred and are included in “Administrative” on the accompanying statements of operations. As of December 31, 2019 and 2018, property management fees of \$437 and \$392, respectively, remained payable, and are included in “Accounts payable” on the accompanying balance sheets.

Employees of the Property are employed by the Management Agent and the Property reimburses the Management Agent for payroll costs, including salaries, payroll taxes, workers compensation, payroll administration fees and employee benefits.

Reimbursed expenses

The Management Agent is reimbursed for various expenditures incurred on behalf of the Entity. These reimbursed expenses are separately identifiable from the property management fee paid to the Management Agent. As of December 31, 2019 and 2018, no amounts remained outstanding.

Asset management fee

Pursuant to the Partnership Agreement, the Entity pays an asset management fee to the Limited Partner for property management oversight, tax credit compliance monitoring, and related services. The annual fee is \$3,500, increasing at a rate of 3% each year. During 2019 and 2018, asset management fees of \$5,140 and \$4,990, respectively, were incurred. As of December 31, 2019 and 2018, asset management fees of \$5,140 and \$4,990, respectively, were outstanding.

Partnership management fee

Pursuant to the Partnership Agreement, the Entity pays a partnership management fee to the General Partner for management of the Entity’s assets and operations and coordinating the preparation of the required state housing finance agency, federal, state, and local tax and other required filings and reports. The fee is non-cumulative and paid annually from available cash flow, as defined in the Partnership Agreement. The partnership management fee is \$25,000. During 2019 and 2018, no partnership management fees were incurred or paid. As of December 31, 2019 and 2018, no partnership management fees were outstanding.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

5. Related party transactions (continued)

Development fee

Pursuant to a development services agreement (the “Development Agreement”), the Entity agreed to pay CAASNM, a related party of the General Partner, and JL Gray Company, a total fee of \$659,093 for services relating to the development of the Property. The development fee is unsecured and is payable from available cash flow, as further defined in the Partnership Agreement. As of December 31, 2019 and 2018, the outstanding balance was \$60,000 and \$70,000, respectively.

Operating deficit guaranty

Pursuant to the Partnership Agreement, the General Partner is required to fund any operating deficits during the period set forth in the Partnership Agreement. Any funds provided by the General Partner shall not exceed \$147,899, and the obligation to provide such funds terminates on the date the following occurs:

1. The Entity has operated at break-even three consecutive calendar years following the stabilization date of the Property; or
2. The Entity has met the required debt service coverage ratio for three years.

6. Long-term debt

The Entity has two notes payable to one entity. The notes include certain covenants and other performance requirements, for which management has reported compliance. The following are notes payable as of December 31, 2019 and 2018:

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| <p>40 year mortgage from New Mexico Mortgage Finance Authority in the amount of \$1,042,000 (the “Mortgage”). The Mortgage bears interest at a rate of 6.42% per annum and matures on November 1, 2046. Principal and interest payments of \$6,041 are due monthly through the maturity date. The mortgage is secured by the Property. During 2019 and 2018, interest expense of \$59,929 and \$60,709, respectively, was incurred. As of December 31, 2019 and 2018, interest of \$4,964 and \$5,031, respectively, was accrued.</p> | \$ 927,687 | \$ 940,184 |

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

6. Long-term debt (continued)

| | 2019 | 2018 |
|--|--------------|--------------|
| <p>40 year second mortgage from New Mexico Mortgage Finance Authority HOME Program in the amount of \$240,000 (the “Second Mortgage”). The Second Mortgage bears interest at a rate of 4.91% per annum. Interest only payments are due monthly in the amount of 1.0% of the outstanding principal plus accrued and unpaid interest beginning in 2006. The Second Mortgage matures in November 2046, at which point, outstanding principal and unpaid interest becomes due. The mortgage is secured by the Property. During 2019 and 2018, interest expense of \$19,195 and \$18,460, respectively, was incurred. As of December 31, 2019 and 2018, interest of \$160,523 and \$145,225, respectively, was accrued.</p> | 240,000 | 240,000 |
| Notes payable | \$ 1,167,687 | \$ 1,180,184 |

Total interest expense for 2019 and 2018 was \$79,124 and \$79,169, respectively. As of December 31, 2019 and 2018, accrued interest was \$165,487 and \$150,256, respectively.

Long-term debt consists of the following as of December 31,

| | 2019 | 2018 |
|--|--------------|--------------|
| Principal balance | \$ 1,167,687 | \$ 1,180,184 |
| Less: unamortized debt issuance costs | (77,586) | (80,570) |
| Long-term debt, net of unamortized debt issuance costs | 1,090,101 | 1,099,614 |
| Less: current portion | (13,324) | (12,497) |
| Long-term debt | \$ 1,076,777 | \$ 1,087,117 |

Debt issuance costs of \$119,362 related to the Mortgage are being amortized to interest expense over the term of the Mortgage. For 2019 and 2018, the effective interest rate was 6.83% each year. During 2019 and 2018, amortization expense for debt issuance costs was \$2,984 each year, and is included in “Financial expenses” on the accompanying statements of operations.

CIMMARON LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

6. Long-term debt (continued)

Aggregate principal payments are due as follows:

| | | |
|-------------|----|---------------------|
| 2020 | \$ | 13,324 |
| 2021 | | 14,205 |
| 2022 | | 15,144 |
| 2023 | | 16,146 |
| 2024 | | 17,213 |
| 2025 - 2029 | | 104,722 |
| 2030 - 2034 | | 144,236 |
| 2035 - 2039 | | 198,660 |
| 2040 - 2044 | | 273,620 |
| Thereafter | | <u>370,417</u> |
| Total | | <u>\$ 1,167,687</u> |

7. Litigation

A maintenance worker from the Property has filed a lawsuit for wrongful termination against the Entity. The Entity is vigorously defending this claim. There appears to be sufficient insurance coverage for this claim. 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 March 31, 2020.

8. Commitments and contingencies

Low-income housing tax credits

As incentive for investment in equity, the Entity 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 Entity 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 the 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 to 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 tenant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed tax credits plus interest.

HOME investment partnerships program

The entity received funding from the HOME Investment Partnerships Program to assist with financing the development of the Project. Under the terms of the agreement three units shall be designated as floating HOME assisted units.

**HUD
SUPPLEMENTARY
INFORMATION**

CIMMARON LIMITED PARTNERSHIP
SCHEDULES OF EXPENSES
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|-----------------------------------|-----------|-----------|
| ADMINISTRATIVE | | |
| Professional management fees | \$ 21,755 | \$ 21,138 |
| Salaries and wages | 21,164 | 20,393 |
| Telephone, cable, internet | 4,056 | 4,567 |
| Professional services | 15,613 | 9,440 |
| Manager's rent free unit | 6,060 | 6,060 |
| Training | 3,441 | 3,990 |
| Compliance and monitoring fees | 3,354 | 3,613 |
| Bad debt and adjustments | 1,983 | 1,190 |
| Technical support | 1,800 | 1,805 |
| Dues, fees, and subscriptions | 432 | 442 |
| Supplies and office expenses | 2,631 | 2,232 |
| Credit/criminal reports | 1,221 | 1,344 |
| Advertising | 1,261 | 571 |
| Equipment and furniture | 468 | 194 |
| Service for residents | 1,616 | 172 |
| Travel, meals, and entertainment | 604 | 435 |
| | \$ 87,459 | \$ 77,586 |
| UTILITIES | | |
| Utility allowance | \$ 320 | \$ 413 |
| Electricity | 8,554 | 10,279 |
| Water | 24,046 | 23,056 |
| Sewer | 18,599 | 17,645 |
| | \$ 51,519 | \$ 51,393 |
| TAXES & INSURANCE | | |
| Insurance | \$ 26,677 | \$ 24,677 |
| Property taxes | 12,907 | 10,725 |
| Payroll taxes | 4,692 | 4,451 |
| Miscellaneous taxes and insurance | 10,901 | 12,514 |
| | \$ 55,177 | \$ 52,367 |

see report of independent auditors

CIMMARON LIMITED PARTNERSHIP
SCHEDULES OF EXPENSES - CONTINUED
For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|-------------------------------------|------------|------------|
| MAINTENANCE | | |
| Maintenance payroll | \$ 15,181 | \$ 14,031 |
| Contracts | 28,664 | 6,521 |
| Appliance and equipment replacement | 16,702 | 10,646 |
| Supplies | 20,914 | 13,004 |
| Security | - | 4,400 |
| Trash removal | 6,533 | 5,756 |
| Painting and drywall | 3,426 | 3,219 |
| Landscape maintenance | 13,599 | 23,390 |
| Pest control | 3,572 | 1,024 |
| | \$ 108,591 | \$ 81,991 |
| FINANCIAL EXPENSES | | |
| Interest expense | \$ 79,124 | \$ 79,169 |
| Mortgage insurance premium | 4,915 | 4,819 |
| Debt issuance costs | 2,984 | 2,984 |
| | \$ 88,145 | \$ 87,703 |
| Total operating expenses | \$ 390,891 | \$ 351,040 |
| NON-OPERATING EXPENSES | | |
| Depreciation expense | \$ 143,733 | \$ 144,938 |
| Amortization expense | 3,796 | 3,796 |
| Asset management fee | 5,140 | 4,990 |
| | \$ 152,669 | \$ 153,724 |
| Total non-operating expenses | \$ 152,669 | \$ 153,724 |
| Total expenses | \$ 543,560 | \$ 504,764 |

see report of independent auditors

CIMMARON LIMITED PARTNERSHIP
SCHEDULE OF CHANGES IN RESTRICTED CASH
For the year ended December 31, 2019

Schedule of Reserve for Replacements

| | |
|----------------------------|-------------------|
| BALANCE, JANUARY 1, 2019 | \$ 194,459 |
| Monthly deposits | 18,000 |
| Interest income | 394 |
| Approved withdrawals | <u>-</u> |
| BALANCE, DECEMBER 31, 2019 | <u>\$ 212,853</u> |

Schedule of Operating Reserve

| | |
|----------------------------|------------------|
| BALANCE, JANUARY 1, 2019 | \$ 97,602 |
| Monthly deposits | - |
| Interest income | 105 |
| Approved withdrawals | <u>-</u> |
| BALANCE, DECEMBER 31, 2019 | <u>\$ 97,707</u> |

see report of independent auditors

CIMMARON LIMITED PARTNERSHIP
COMPUTATION OF SURPLUS CASH
For the year ended December 31, 2019

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

| | |
|---|--------------------|
| Cash | <u>\$ 50,381</u> |
| Total cash | 50,381 |
| Accrued mortgage (or bond) interest payable | 7,515 |
| Accounts payable (due within 30 days) | 18,520 |
| Accrued expenses (not escrowed) | 23,047 |
| Prepaid revenue | 2,920 |
| Tenant deposits held in trust | 30,235 |
| Less total current obligations | <u>82,237</u> |
| Surplus cash (deficiency) | <u>\$ (31,856)</u> |
| Amount available for distribution during next fiscal period | <u>\$ -</u> |

CIMMARON LIMITED PARTNERSHIP
SCHEDULE OF CHANGES IN FIXED ASSETS
For the year ended December 31, 2019

| | Beginning Balance | Additions | Deductions | Ending Balance |
|--------------------------|----------------------|------------|------------|-------------------|
| Land | \$ 120,000 | \$ - | \$ - | \$ 120,000 |
| Buildings | 5,614,079 | - | - | 5,614,079 |
| Site improvements | 64,049 | - | - | 64,049 |
| Furnishings | 33,978 | - | - | 33,978 |
| | | | | |
| TOTAL | 5,832,106 | \$ - | \$ - | 5,832,106 |
| Accumulated depreciation | 1,832,116 | \$ 143,733 | \$ - | 1,975,849 |
| Net book value | \$ 3,999,990 | | | \$ 3,856,257 |

see report of independent auditors

REPORT OF INDEPENDENT AUDITORS 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 Cimmaron Limited Partnership, Anthony, 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 Cimmaron Limited Partnership, which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cimmaron 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 Cimmaron Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Cimmaron Limited Partnership's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cimmaron 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.

Novogradac & Company LLP

Austin, Texas
March 31, 2020

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

To the Partners of Cimmaron Limited Partnership, Anthony, New Mexico,
and Brian S. Colón, New Mexico State Auditor:

Report on Compliance for The Major HUD Program

We have audited Cimmaron Limited Partnership's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") that could have a direct and material effect on Cimmaron Limited Partnership's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended December 31, 2019. Cimmaron Limited Partnership's major HUD program and the related direct and material compliance requirements are as follows:

Name of Major HUD Program

Direct and Material Compliance Requirements

HUD Insured Mortgage

Mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Cimmaron Limited Partnership's major HUD program 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 Cimmaron 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 the major HUD program. However, our audit does not provide a legal determination of Cimmaron Limited Partnership's compliance.

Opinion on The Major HUD Program

In our opinion, Cimmaron Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major HUD program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Cimmaron 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 Cimmaron Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on the major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Cimmaron 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.

Purpose of this Report

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.

Novogradac & Company LLP

Austin, Texas

March 31, 2020

CIMMARON LIMITED PARTNERSHIP
 HUD PROJECT NO. 116-98055
 SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS
 December 31, 2019

Summary of Auditors' Results

Financial statements

| | | | |
|---|------------|-----|-----------------------|
| Type of auditors' report issued | Unmodified | | |
| Internal control over financial reporting: | | | |
| - Material weakness(es) identified? | _____ | Yes | ___X___ No |
| - Significant deficiencies identified? | _____ | Yes | ___X___ None reported |
| Noncompliance material to financial statements noted? | _____ | Yes | ___X___ No |

Federal awards

| | | | |
|---|------------|-----|-----------------------|
| Internal control over major federal program: | | | |
| - Material weakness(es) identified? | _____ | Yes | ___X___ No |
| - Significant deficiencies identified? | _____ | Yes | ___X___ None reported |
| Type of auditors' report issued on compliance for major program | Unmodified | | |

Findings – Financial Statements Audit

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

CIMMARON LIMITED PARTNERSHIP
HUD PROJECT NO. 116-98055
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS,
AND RECOMMENDATIONS (UNAUDITED)
December 31, 2019

Findings – Financial Statement Audit for the year ended December 31, 2018

Audit report, dated April 11, 2019, for the period ended December 31, 2018, issued by Hinkle + Landers, P.C.

There were no financial statement audit findings for the year ended December 31, 2018.

Findings from Other Audits or Studies

There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.

Findings from Deficiencies Listed in Letters or Reports Issued by HUD Management


There were no letters or reports issued by HUD during the period covered by this audit.

see report of independent auditors

CIMMARON LIMITED PARTNERSHIP
HUD PROJECT NO. 116-98055
MORTGAGOR'S (OWNERS) CERTIFICATION
December 31, 2019

We hereby certify that we have examined the accompanying financial statements and supplemental data of Cimmaron Limited Partnership and, to the best of our knowledge and belief, the same is complete and accurate.

CIMMARON LIMITED PARTNERSHIP



Signature

March 31, 2020
Date

Name of Signatory

Juan Olvera

Title of Certifying Official

Executive Director


Auditee Telephone Number

505-325-6515

CIMMARON LIMITED PARTNERSHIP
HUD PROJECT NO. 116-98055
MANAGING AGENT CERTIFICATION
December 31, 2019

We hereby certify that we have examined the accompanying financial statements and supplemental data of Cimmaron Limited Partnership and, to the best of our knowledge and belief, the same is complete and accurate.

JL Gray Company



Signature

March 31, 2020

Date

Name of Signatory

Name of Property Manager

JL Gray Company

CIMMARON LIMITED PARTNERSHIP
HUD PROJECT NO. 116-98055
EXIT CONFERENCE
For the Year Ended December 31, 2019

Exit Conference

An exit conference was held on March 31, 2020, which was attended by the following:

Housing Authority Administration

Juan Olvera Executive Director
Elizabeth Garcia Comptroller

Novogradac and Company, LLP

Nick Hoehn, CPA Audit Partner
Michael Derrickson, CPA Audit Principal

Management Agent

Bobby Griffith Chief Financial Officer
Lori Varnell Accountant

Preparation of financial statements

The auditor, Novogradac and Company, LLP, compiled the financial statements presented in this report. However, the contents of the financial statements remain the responsibility of management.