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# MESILLA VALLEY PUBLIC HOUSING AUTHORITY

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

**June 30, 2019**

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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Mesilla Valley Public Housing Authority

# DIRECTORY OF OFFICIALS

June 30, 2019

## Board of Commissioners

| Name | Title |
|---|---|
| Marcos Montes | Chair |
| Felix C. Cordero | Vice-Chair |
| Joseph A. Figueroa | Commissioner (Resident) |
| Vacant | Commissioner (At Large) |
| Vacant | Commissioner (County) |

## Administrative Officials

| | |
|---|---|
| Juan Olvera | Executive Director |
| Lorena Rivera | Deputy Director/Operations Director |
| Elizabeth Garcia | Comptroller |

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# INDEPENDENT AUDITORS' REPORT

The Board of Commissioners of
Mesilla Valley Public Housing Authority
and
The U.S. Department of Housing and Urban Development
and
Brian Colón
New Mexico State Auditor

## Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and each discretely presented component unit of Mesilla Valley Public Housing Authority (the Housing Authority) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed in the table of contents.

## 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 misstatements, whether due to fraud or error.

## Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements and the supplementary information of Robledo Ridge, LLLP (RR), Cimmaron, LP (Cimmaron I), Cimmaron II Apartments, LP (Cimmaron II), Desert Palms Apartments, LP, (DP), Falcon Ridge, LP (FR), Montana Senior Village, LLC (MSV), MSV II, LP (MSV II) and Stone Mountain Place, LP (SMP) for the year ended December 31, 2018, which are component units of the Housing Authority and which represent 78%, 72%, and 28%, respectively, of the assets, net position, and operating revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for RR, Cimmaron I, Cimmaron II, DP, FR, MSV, MSV II and SMP, is based solely on the reports of the other auditors. 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 of 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 opinions.

## Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each discretely presented component unit of the Housing Authority as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis-of-Matters

*Presentation of Discretely Presented Component Units*

RR, Cimmaron I, Cimmaron II, DP, FR, MSV, MSV II and SMP were formed as limited partnerships for the purpose of renting single-family affordable housing units in locations in Doña Ana County and the City of Las Cruces, New Mexico. The buildings qualify for an allocation of affordable housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended. The Housing Authority is the General Partner of all eight limited partnerships. RR, Cimmaron I, Cimmaron II, DP, FR, MSV, MSV II and SMP each have issued separate audited financial statements. Those separate audited financial statements were presented in accordance with accounting standards prescribed by the Governmental Accounting Standards Board.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 and Schedules I and II on pages 119 and 120, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority's basic financial statements. The Management's Discussion and Analysis, the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Combining Financial Statements, Supporting Schedules required by 2.2.2 NMAC, and the Financial Data Schedule (primary government amounts only) as required by the U.S Department of Housing and Urban Development are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards, the Combining Financial Statements, and Supporting Schedules (primary government amounts only) in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, the Combining Financial Statements and Supporting Schedules (primary government amounts only) are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The introductory section and the component unit section of the Financial Data Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, on our consideration of the Housing Authority'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 the 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 Housing Authority's internal control over financial reporting and compliance.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico
September 27, 2019

As management of the Mesilla Valley Public Housing Authority (the "Housing Authority") we offer the readers of the Housing Authority's financial statements this narrative overview and analysis of the financial activities of the Housing Authority for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the financial statements of the Housing Authority and additional information provided.

## Financial Highlights

- The assets and deferred outflows of the Housing Authority exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $9,885,247 (*net position*). Of this amount, $6,175,933 (*unrestricted net position*) may be used to meet the Housing Authority's ongoing obligations to residents and creditors.

- At the end of the current fiscal year, unrestricted net position of the Housing Authority was $6,175,933 or 52% of the total Housing Authority operating expenses.

## Authority Financial Statements

The Housing Authority's mission is to lead the public effort in providing safe, affordable housing and associated services that provide opportunities to eligible persons in the City of Las Cruces and Doña Ana County.

The Housing Authority, as of June 30, 2019, manages 288 residential units that are leased to low-income families and individuals. In addition, the Housing Authority also oversees the regulatory portion and subsidizes rent for HUD Section 8 Housing Voucher of 1,385 units.

In view of this mission, the Housing Authority's financial reporting objective under GASB 34 in FY 2019 focuses on the financial activities of the Housing Authority as a whole.

## Overview of the Financial Statements

The Housing Authority is engaged in reporting enterprise funds and therefore, in accordance with GASB Statement No. 34, the Housing Authority is reporting only business-type activities. Included in the financial statements are the Management's Discussion and Analysis (MD&A), basic financial statements and notes to the financial statements.

The MD&A present the financial position and the results of operations of the Housing Authority for the year ended June 30, 2019. This discussion and analysis are intended to serve as an introduction to the Housing Authority's basic financial statements. The Housing Authority's basic financial statements comprise two components: 1) basic financial statements which are comprised of the following: a) the statement of net position, b) the statement of revenues, expenses and changes in net position and c) the statement of cash flows; and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

These financial statements are designed to provide readers with a broad overview of the Housing Authority's finances in a manner similar to a private-sector business. The enterprise fund financial statements can be found on pages 12-21 of this report.

### Financial Statements

The Housing Authority is presenting its fiscal year 2019 discussion and analysis based on the financial results of its enterprise programs in three basic financial statements – the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.

### Statement of Net Position

The statement of net position reports all financial and capital assets of the Housing Authority and is presented in a format where assets plus deferred outflows equal liabilities plus deferred inflows plus net position. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the entity is improving or deteriorating.

The focus of the statement of net position (the "Unrestricted Net Position") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Housing Authority. Net position is reported in three broad categories:

- Investment in Capital Assets, Net of Related Debt: This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and accumulated depreciation.

- Restricted Net Position: This component of net position consists of assets where constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc. This category is subdivided into non-expendable and expendable. The non-expendable category is restricted assets earmarked for investment purposes only, such as endowments. Expendable restricted assets are available for expenditures restricted by the creditor, donor or other external source such as grants and contracts.

- Unrestricted Net Position: Consists of net position that does not meet the definition of "Net Position Invested in Capital Assets, Net of Related Debt" or "Restricted Net Position." This category reports the assets available to the Housing Authority for any lawful purpose, including program income to use only for housing related activities by policy.

**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position (similar to an income statement) includes operating revenues, such as charges for services, operating, grants and miscellaneous revenues. Operating expenses include administration, tenant services, utilities, ordinary maintenance and operations, general, housing assistance payments and depreciation. Non-operating revenues include interest income, capital grants, and gain on disposal of assets. The Statement of Revenues, Expenses and Changes in Net Position (SRECNP) presents information showing how the net position changed during the most recent fiscal year (similar to net income or loss). All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., accounts receivable and accounts payable).

**Statement of Cash Flows**

The statement of cash flows is included, which discloses net cash provided by (used in) operating activities, net cash provided by (used in) capital and related financing activities, net cash provided by (used in) noncapital and related financing activities, and net cash provided by (used in) investing activities, if applicable.

These financial statements utilize the economic resources measurement focus and the full accrual basis of accounting. They report the Housing Authority's net position and changes in net position in full compliance with GASB 34. Under the full accrual basis of accounting, revenues are recognized in the period they are earned and expenses in the period when they are incurred.

**Housing Authority's Programs**

The Housing Authority maintains five federal programs within its operations. The detailed program financial statements provide separate information for the Low Rent Public Housing Program, the Section 8 Housing Choice Vouchers Program, the Section 8 New Construction and Substantial Rehabilitation Program, the Resident Opportunity and Supportive Services of the Housing Authority, and the Local Housing Projects. The Family Self-Sufficiency Program is maintained in the Section 8 program.

Individual program financial statements can be found at the Statements on pages 122-141 of this report.

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 22-118 of this report.

**Government-Wide Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Housing Authority, assets and deferred outflows exceeded liabilities and deferred inflows by $9,885,247 at the close of the most recent fiscal year.

A portion of the Housing Authority's net position (36 %) reflects its investment in capital assets (e.g., land, buildings, and dwelling and administrative equipment), less any related debt used to acquire those assets that is still outstanding. The Housing Authority uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Housing Authority's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CONDENSED STATEMENT OF NET POSITION**

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| ASSETS | | |
| Current assets | $ 5,935,549 | $ 5,353,907 |
| Restricted assets | 252,417 | 109,143 |
| Capital assets, net of accumulated depreciation | 4,645,570 | 4,862,148 |
| Other noncurrent assets | 1,731,811 | 3,257,002 |
| Total assets | 12,565,347 | 13,582,200 |
| Deferred outflows | 510,125 | 406,998 |
| Total assets and deferred outflows | $ 13,075,472 | $ 13,989,198 |
| LIABILITIES AND NET POSITION | | |
| Current liabilities (payable from current assets) | $ 254,508 | $ 234,732 |
| Current liabilities (payable from restricted assets) | 110,146 | 96,938 |
| Non-current liabilities | 2,770,277 | 2,599,158 |
| Total liabilities | 3,134,931 | 2,930,828 |
| Deferred inflows | 55,294 | 88,883 |
| Net investment in capital assets | 3,567,043 | 3,656,945 |
| Restricted for program activities | 142,271 | 206,042 |
| Unrestricted | 6,175,933 | 7,106,500 |
| Total net position | 9,885,247 | 10,969,487 |
| Total liabilities, deferred inflows, and net position | $ 13,075,472 | $ 13,989,198 |

The authority has *restricted net position* in the amount of $142,271 which is restricted for use in the Authority's Housing Choice Voucher Program.

The balance of *unrestricted net position* of $6,175,933 may be used to meet the Housing Authority's ongoing obligations to residents and creditors.

There was a decrease of ($930,567) (13.1%) in unrestricted net position reported by the Housing Authority as compared to the prior year.

There was a net decrease of $110,002 in net investment in capital assets reported in connection with the Housing Authority's activities. The majority of this decrease is attributable to ongoing utilization of capital assets (depreciation expense) and dispositions of assets being a smaller amount than the Housing Authority's additions to capital assets during the fiscal year.

**Housing Authority Activities:** Key elements of Housing Authority activities are as follows:

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

| | Year Ending | |
|---|---|---|
| | June 30, 2019 | June 30, 2018 |
| OPERATING REVENUES | | |
| Tenant rent | $ 886,410 | $ 858,165 |
| Operating subsidies and grants | 9,386,150 | 8,718,324 |
| Total operating revenues | 10,272,560 | 9,576,489 |
| OPERATING EXPENSES | | |
| Housing assistance payments | 7,418,670 | 7,061,075 |
| Administration | 1,875,241 | 2,032,739 |
| Maintenance and operations | 552,614 | 593,621 |
| Utilities | 159,653 | 147,325 |
| Miscellaneous | 1,544,584 | - |
| Depreciation | 261,451 | 260,855 |
| Total operating expenses | 11,812,213 | 10,095,615 |
| Operating (loss) | (1,539,653) | (519,126) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Other revenue | 2,218 | 79,905 |
| Interest income | 61,051 | (74,527) |
| Interest expense | (72,684) | (40,984) |
| Developer fees | 17,299 | 18,021 |
| Management fees and other income | 23,064 | 152,511 |
| Gain (loss) on sale of assets | 104,754 | 30,350 |
| Total non-operating revenues (expenses) | 135,702 | 165,276 |
| Transfers in | 183,657 | 48,458 |
| Transfers out | (105,702) | - |
| Capital grants revenue | 241,756 | 88,099 |
| Change in net position | (1,084,240) | (217,293) |
| Net position, beginning of year | 10,969,487 | 11,186,780 |
| Net position, end of year | $ 9,885,247 | $ 10,969,487 |

Total operating revenues increased $696,071 (7.3%) during the year. Most of this increase is the increase in operating subsidies and grants.

Increases in several categories of operating expenses reflect the increases in ongoing residential tenant operations and maintenance. Operating expenses overall increased $424,366 (4.2%) from the prior year. The majority of this increase occurred in housing assistance payments.

**Capital Assets and Debt Administration**

The Housing Authority's net investment in capital assets for its business-type activities as of June 30, 2019, amounts to $3,567,043 (net of accumulated depreciation). This investment in capital assets included land, land improvements, buildings, equipment and furnishings.

Major capital asset events during the current fiscal year included the following:

Ongoing tenant dwelling renovations were completed with new structural improvements for the Low Rent Public Housing Program totaling $13,647 and were placed in service during the current fiscal year. There were also site improvement additions in the Low Rent Housing, and Local Housing programs totaling $9,748 that were placed in service during the current year. There was no construction in progress additions in the current fiscal year.

**THE HOUSING AUTHORITY'S CAPITAL ASSETS**

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Land | $ 1,403,620 | $ 1,387,405 |
| Site Improvements | 2,531,781 | 2,541,506 |
| Structures | 9,129,577 | 9,183,133 |
| Equipment | 535,120 | 535,120 |
| Accumulated depreciation | (8,954,528) | (8,785,017) |
| Capital assets, net | $ 4,645,570 | $ 4,862,147 |

Additional information on the Housing Authority's capital assets can be found on page 34 of this report.

**Long-term debt**

At the end of the current fiscal year, the Housing Authority had notes payable due to Wells Fargo Bank and others in the amount of $1,098,627, noncurrent compensated absences outstanding in the amount of $64,725 and a net pension liability of $1,720,325. Additional information of the Housing Authority's long-term debt can be found on page 35 of this report.

## Economic Factors

Rental occupancy rates of the Housing Authority's Low Rent Public Housing Program remains at capacity and has remained stable with slight variations over the past five years. The Housing Authority continues to be High Performers in the Public Housing Assessment System.

The reporting entity includes several component units as defined under GASB Statement No. 14, amended by No. 39 and No. 61. The discretely presented component units have a calendar year end and are comprised of Montana Senior Village, LLC (MSV), MSV II, LP (MSV II), Stone Mountain Place, LP (SMP), Falcon Ridge, LP (FR), Cimmaron, LP (Cimmaron I), Cimmaron II Apartments, LP (Cimmaron II), Desert Palms Apartments, LP (DP) and Robledo Ridge, LLLP (RR). The Housing Authority is the managing member of MSV, is the sole member of Montana Street, LLC (MSV II's general partner), is the sole member of Stone Mountain Place, LLC (SMP's general partner), is the sole member of Falcon Ridge, LLC (FR's general partner), is the sole member of Cimmaron Apartments I, LLC (Cimmaron I's general partner), is the sole member of Cimmaron Apartments, LLC (Cimmaron II's general partner), is the sole member of Desert Palms Apartments, LLC (DP's general partner) and is a partner of Robledo Ridge, LLLP.

The financial statements and the supplementary information of Robledo Ridge, LLLP (RR), Cimmaron, LP (Cimmaron I), Cimmaron II Apartments, LP (Cimmaron II), Desert Palms Apartments, LP, (DP), Falcon Ridge, LP (FR), Montana Senior Village, LLC (MSV), MSV II, LP (MSV II) and Stone Mountain Place, LP (SMP) for the year ended December 31, 2018, which are component units of the Housing Authority and which represent 78%, 72%, and 28%, respectively, of the assets, net position, and operating revenues of the aggregate discretely presented component units were audited by other auditors whose reports thereon have been furnished to us.

## Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Mesilla Valley Public Housing Authority at 926 South San Pedro, Las Cruces, New Mexico 88001.

Mesilla Valley Public Housing Authority

**STATEMENT OF NET POSITION**

June 30, 2019

| | Primary Government | Robledo Ridge, LLLP | Cimmaron, LP |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 5,629,213 | $ 460,267 | $ 41,017 |
| Restricted cash | 252,417 | 174,441 | 234,366 |
| Accounts receivable, net | 1,416 | 3,184 | 498 |
| Accounts receivable - other | 59,775 | 1,002 | - |
| Grants receivable | 68,030 | - | - |
| Inventory | 7,415 | - | - |
| Prepaid expenses | 169,700 | 29,754 | 15,570 |
| Total current assets | 6,187,966 | 668,648 | 291,451 |
| Noncurrent assets | | | |
| Capital assets, net | 4,645,570 | 8,687,082 | 3,999,990 |
| Receivables from component units, net of allowance for doubtful accounts of $2,882,166 | 18,295 | - | - |
| Interest receivable | - | - | - |
| Deferred development fees receivable | 608,388 | - | - |
| Home mortgage receivables, noncurrent, net of allowance for doubtful accounts of $1,236,594 | 1,091,140 | - | - |
| Other receivables, net of allowance for doubtful accounts of $460,000 | 13,988 | 245,216 | 105,195 |
| Total noncurrent assets | 6,377,381 | 8,932,298 | 4,105,185 |
| Total assets | 12,565,347 | 9,600,946 | 4,396,636 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Employer contributions subsequent to the measurement date | 89,753 | - | - |
| Changes in assumptions | 155,972 | - | - |
| Net difference between projected and actual investment earnings on pension plan investments | 127,588 | - | - |
| Difference between expected and actual experience | 49,721 | - | - |
| Changes in proportion | 87,091 | - | - |
| Total deferred outflows of resources | 510,125 | - | - |
| Total assets and deferred outflows of resources | $ 13,075,472 | $ 9,600,946 | $ 4,396,636 |

Component Units as of December 31, 2018

| Cimmaron II Apartments, LP | Desert Palms Apartments, LP | Falcon Ridge, LP | Montana Senior Village, LLC | MSV II, LP | Stone Mountain Place, LP | Component Unit Totals |
|---|---|---|---|---|---|---|
| $ 58,059 | $ 7,556 | $ 63,981 | $ 33,732 | $ 49,416 | $ 64,675 | $ 778,703 |
| 359,545 | 154,422 | 782,480 | 107,991 | 565,159 | 223,613 | 2,602,017 |
| 479 | 3,928 | 237 | - | 444 | 963 | 9,733 |
| - | - | 37,726 | - | - | - | 38,728 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 20,212 | 16,550 | 10,115 | 6,767 | 10,768 | 21,031 | 130,767 |
| 438,295 | 182,456 | 894,539 | 148,490 | 625,787 | 310,282 | 3,559,948 |
| 8,373,613 | 2,539,385 | 7,094,869 | 1,206,356 | 2,503,572 | 6,549,252 | 40,954,119 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 208,554 | 41,016 | 260,237 | 67,939 | 94,661 | 210,788 | 1,233,606 |
| 8,582,167 | 2,580,401 | 7,355,106 | 1,274,295 | 2,598,233 | 6,760,040 | 42,187,725 |
| 9,020,462 | 2,762,857 | 8,249,645 | 1,422,785 | 3,224,020 | 7,070,322 | 45,747,673 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| $ 9,020,462 | $ 2,762,857 | $ 8,249,645 | $ 1,422,785 | $ 3,224,020 | $ 7,070,322 | $ 45,747,673 |

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

## STATEMENT OF NET POSITION – CONTINUED

June 30, 2019

| | Primary Government | Robledo Ridge, LLLP | Cimmaron, LP |
|---|---|---|---|
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | $ 110,121 | $ 5,445 | $ 4,028 |
| Prepaid tenant rent | 3,479 | - | - |
| Accrued payroll | 27,508 | - | - |
| Other accrued liabilities | - | 115,967 | 25,240 |
| Notes payable, current portion | 113,400 | 37,123 | 12,497 |
| Total current liabilities | 254,508 | 158,535 | 41,765 |
| Current liabilities (payable from restricted assets) | | | |
| Tenant deposits | 78,865 | 19,206 | 30,113 |
| FSS deposits | 31,281 | - | - |
| Total current liabilities (payable from resricted assets) | 110,146 | 19,206 | 30,113 |
| Non-current liabilities | | | |
| Compensated absences | 64,725 | - | - |
| Development fees/asset management fees | - | 800,883 | 74,990 |
| Notes payable, net of current portion | 985,227 | 2,893,002 | 1,087,117 |
| Accrued interest | - | 55,595 | 142,736 |
| Net pension liability | 1,720,325 | - | - |
| Total non-current liabilities | 2,770,277 | 3,749,480 | 1,304,843 |
| Total liabilities | 3,134,931 | 3,927,221 | 1,376,721 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Changes in assumptions | 9,891 | - | - |
| Difference between expected and actual experience | 45,168 | - | - |
| Changes in proportion | 235 | - | - |
| Total deferred inflows of resources | 55,294 | - | - |
| NET POSITION | | | |
| Net investment in capital assets | 3,567,043 | - | - |
| Restricted for program activities | 142,271 | - | - |
| Unrestricted (deficit) | 6,175,933 | 5,673,725 | 3,019,915 |
| Total net position (deficit) | 9,885,247 | 5,673,725 | 3,019,915 |
| Total liabilities, deferred inflows of resources and net position | $ 13,075,472 | $ 9,600,946 | $ 4,396,636 |

| Component Units as of December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|
| Cimmaron II Apartments, LP | Desert Palms Apartments, LP | Falcon Ridge, LP | Montana Senior Village, LLC | MSV II, LP | Stone Mountain Place, LP | Component Unit Totals |
| $ 6,178 | $ 72,407 | $ 6,426 | $ 4,239 | $ 8,351 | $ 6,456 | $ 113,530 |
| - | - | 1,270 | 5,738 | 6,453 | 9,750 | 23,211 |
| - | - | - | - | - | - | - |
| 29,338 | 28,706 | 48,415 | 24,198 | 29,994 | 38,927 | 340,785 |
| 11,557 | 29,050 | 56,910 | 21,304 | 51,700 | 26,200 | 246,341 |
| 47,073 | 130,163 | 113,021 | 55,479 | 96,498 | 81,333 | 723,867 |
| 40,973 | 39,247 | 39,288 | 18,861 | 33,572 | 40,310 | 261,570 |
| - | - | - | - | - | - | - |
| 40,973 | 39,247 | 39,288 | 18,861 | 33,572 | 40,310 | 261,570 |
| - | - | - | - | - | - | - |
| 109,987 | 208,529 | 110,700 | - | 4,675 | 159,791 | 1,469,555 |
| 1,304,928 | 1,746,989 | 3,004,317 | 1,357,627 | 2,886,241 | 2,418,181 | 16,698,402 |
| - | 202,468 | - | 329,706 | 96,628 | - | 827,133 |
| - | - | - | - | - | - | - |
| 1,414,915 | 2,157,986 | 3,115,017 | 1,687,333 | 2,987,544 | 2,577,972 | 18,995,090 |
| 1,502,961 | 2,327,396 | 3,267,326 | 1,761,673 | 3,117,614 | 2,699,615 | 19,980,527 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 7,517,501 | 435,461 | 4,982,319 | (338,888) | 106,406 | 4,370,707 | 25,767,146 |
| 7,517,501 | 435,461 | 4,982,319 | (338,888) | 106,406 | 4,370,707 | 25,767,146 |
| $ 9,020,462 | $ 2,762,857 | $ 8,249,645 | $ 1,422,785 | $ 3,224,020 | $ 7,070,322 | $ 45,747,673 |

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

Mesilla Valley Public Housing Authority

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2019

| | Primary Government | Robledo Ridge, LLLP | Cimmaron, LP |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Rental revenue, net | $ 813,936 | $ 694,265 | $ 381,793 |
| Other tenant revenue | 72,474 | 2,908 | - |
| Operating subsidies and grants | 9,386,150 | - | - |
| Total operating revenues | 10,272,560 | 697,173 | 381,793 |
| OPERATING EXPENSES | | | |
| Housing assistance payments | 7,418,670 | - | - |
| Administration, taxes and insurance | 1,875,241 | 341,750 | 217,610 |
| Maintenance and operations | 552,614 | 85,257 | 82,037 |
| Utilities | 159,653 | 18,075 | 51,393 |
| Miscellaneous | 1,544,584 | - | - |
| Depreciation and amortization | 261,451 | 268,953 | 148,734 |
| Total operating expenses | 11,812,213 | 714,035 | 499,774 |
| Operating loss | (1,539,653) | (16,862) | (117,981) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Other revenues | 2,218 | 5,310 | 11,287 |
| Interest income | 61,051 | 200 | 316 |
| Interest expense | (72,684) | - | - |
| Capital outlay | - | - | - |
| Developer fees | 17,299 | - | - |
| Management fees and other income (expense) | 23,064 | (20,299) | (4,990) |
| Gain (loss) on assets held for sale | 104,754 | - | - |
| Total non-operating revenues (expenses) | 135,702 | (14,789) | 6,613 |
| Loss before transfers and capital grants | (1,403,951) | (31,651) | (111,368) |
| Transfers in | 183,657 | - | - |
| Transfers out | (105,702) | - | - |
| Capital grants revenue | 241,756 | - | - |
| Change in net position | (1,084,240) | (31,651) | (111,368) |
| Total net position - beginning of year | 10,969,487 | 5,503,585 | 3,131,283 |
| Equity transfers in (out) and capital contributions (distributions) | - | 201,791 | - |
| Total net position - end of year | $ 9,885,247 | $ 5,673,725 | $ 3,019,915 |

Component Units for the Year Ending December 31, 2018

| | Cimmaron II Apartments, LP | Desert Palms Apartments, LP | Falcon Ridge, LP | Montana Senior Village, LLC | MSV II, LP | Stone Mountain Place, LP | Component Unit Totals |
|---|---|---|---|---|---|---|---|
| | $ 547,349 | $ 441,503 | $ 489,045 | $ 301,563 | $ 495,716 | $ 573,301 | $ 3,924,535 |
| | - | - | - | 3,962 | - | - | 6,870 |
| | - | - | - | - | - | - | - |
| | 547,349 | 441,503 | 489,045 | 305,525 | 495,716 | 573,301 | 3,931,405 |
| | - | - | - | - | - | - | - |
| | 305,446 | 298,552 | 446,242 | 175,062 | 261,337 | 350,684 | 2,396,683 |
| | 93,738 | 103,913 | 94,116 | 65,293 | 152,895 | 108,612 | 785,861 |
| | 66,809 | 33,205 | 31,834 | 13,902 | 30,586 | 40,201 | 286,005 |
| | - | - | - | - | - | - | - |
| | 301,417 | 137,472 | 279,844 | 106,617 | 206,842 | 252,312 | 1,702,191 |
| | 767,410 | 573,142 | 852,036 | 360,874 | 651,660 | 751,809 | 5,170,740 |
| | (220,061) | (131,639) | (362,991) | (55,349) | (155,944) | (178,508) | (1,239,335) |
| | 13,813 | 29,062 | 174,144 | - | 8,358 | 22,245 | 264,219 |
| | 1,723 | 183 | 1,913 | - | 307 | - | 4,642 |
| | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |
| | - | (6,050) | - | (20,518) | - | (4,845) | (56,702) |
| | - | - | - | - | - | - | - |
| | 15,536 | 23,195 | 176,057 | (20,518) | 8,665 | 17,400 | 212,159 |
| | (204,525) | (108,444) | (186,934) | (75,867) | (147,279) | (161,108) | (1,027,176) |
| | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |
| | (204,525) | (108,444) | (186,934) | (75,867) | (147,279) | (161,108) | (1,027,176) |
| | 7,757,026 | 493,097 | 5,184,253 | (263,021) | 253,685 | 4,531,815 | 26,591,723 |
| | (35,000) | 50,808 | (15,000) | - | - | - | 202,599 |
| | $ 7,517,501 | $ 435,461 | $ 4,982,319 | $ (338,888) | $ 106,406 | $ 4,370,707 | $ 25,767,146 |

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

Mesilla Valley Public Housing Authority

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2019

| | Primary Government | Robledo Ridge, LLLP | Cimmaron, LP |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from tenant rents | $ 899,532 | $ 706,730 | $ 382,627 |
| Cash payments for employee wages and benefits | (1,391,476) | - | - |
| Cash payments to suppliers for goods and services | (8,782,655) | (449,921) | (350,486) |
| Subsidy grants and other receipts | 9,397,397 | 5,510 | 11,603 |
| Net cash provided by operating activities | 122,798 | 262,319 | 43,744 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Miscellaneous income | 17,600 | - | - |
| Transfers | 77,955 | - | - |
| Net cash provided by noncapital financing activities | 95,555 | - | - |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of capital assets | (23,396) | - | - |
| Capital contributions (distributions) | - | 201,791 | (10,000) |
| Proceeds from debt and deferred fees | - | - | - |
| Capital grants revenue | 241,756 | - | - |
| Principal payments on long-term debt | (106,576) | (35,432) | (11,724) |
| Interest payments on long-term debt | (72,684) | 11,332 | 14,653 |
| Net cash provided by (used in) capital and related financing activities | 39,100 | 177,691 | (7,071) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from (payments for) restricted cash for tenants' security, HAP & FSS escrow deposits | (252,417) | (201,791) | - |
| Developer fee escrow | - | 1,637 | (99) |
| Acquisition of capital assets | - | - | - |
| Other | - | (38,378) | (15,953) |
| Proceeds from the sale of assets held for sale | 104,754 | - | - |
| Interest received on investments | 61,051 | - | - |
| Net cash used in investing activities | (86,612) | (238,532) | (16,052) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 170,841 | 201,478 | 20,621 |
| Cash and cash equivalents, beginning of year | 5,458,372 | 258,789 | 20,396 |
| Cash and cash equivalents, end of year | $ 5,629,213 | $ 460,267 | $ 41,017 |

Component Units for the Year Ending December 31, 2018

| Cimmaron II Apartments, LP | Desert Palms Apartments, LP | Falcon Ridge, LP | Montana Senior Village, LLC | MSV II, LP | Stone Mountain Place, LP | Component Unit Totals |
|---|---|---|---|---|---|---|
| $ 547,287 | $ 443,900 | $ 98,319 | $ 301,714 | $ 497,046 | $ 569,367 | $ 3,546,990 |
| - | - | - | - | - | - | - |
| (457,206) | (444,487) | (549,429) | (287,625) | (436,767) | (496,729) | (3,472,650) |
| 15,536 | 29,245 | 603,137 | 3,962 | 8,665 | 22,245 | 699,903 |
| 105,617 | 28,658 | 152,027 | 18,051 | 68,944 | 94,883 | 774,243 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| (35,000) | 50,808 | (15,000) | - | - | - | 192,599 |
| (27,513) | (50,808) | (27,683) | - | - | (37,932) | (143,936) |
| - | - | - | - | - | - | - |
| (10,811) | (27,232) | (57,358) | (6,159) | (45,496) | (24,653) | (218,865) |
| - | 20,793 | - | - | 6,000 | - | 52,778 |
| (73,324) | (6,439) | (100,041) | (6,159) | (39,496) | (62,585) | (117,424) |
| - | - | - | - | - | - | (201,791) |
| 25,461 | (57) | 27,044 | - | - | (96) | 53,890 |
| - | - | - | - | (9,515) | - | (9,515) |
| (33,849) | (17,940) | (54,137) | (11,281) | (29,745) | (21,899) | (223,182) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| (8,388) | (17,997) | (27,093) | (11,281) | (39,260) | (21,995) | (380,598) |
| 23,905 | 4,222 | 24,893 | 611 | (9,812) | 10,303 | 276,221 |
| 34,154 | 3,334 | 39,088 | 33,121 | 59,228 | 54,372 | 502,482 |
| $ 58,059 | $ 7,556 | $ 63,981 | $ 33,732 | $ 49,416 | $ 64,675 | $ 778,703 |

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

Mesilla Valley Public Housing Authority

## STATEMENT OF CASH FLOWS – CONTINUED

Year Ended June 30, 2019

| | Primary Government | Robledo Ridge, LLLP | Cimmaron, LP |
|---|---|---|---|
| Reconciliation of change in net position to net cash provided by operating activities | | | |
| Change in net position | $ (1,084,240) | $ (31,651) | $ (111,368) |
| Adjustments to reconcile change in net position to net cash provided by operating activities: | | | |
| Depreciation and amortization | 261,451 | 268,953 | 148,734 |
| Bad debt expense | 1,308,259 | - | - |
| Noncash pension expense | 186,247 | - | - |
| Noncash expenses related to tax credits, debt issuance costs | - | 1,644 | 2,984 |
| Non-operating (revenues) expenses | (135,702) | - | - |
| Transfers (in) out | (77,955) | - | - |
| Capital grants revenue | (241,756) | - | - |
| (Increases) decreases in assets and deferred outflows: | | | |
| Accounts receivable | (47,350) | 9,557 | 50 |
| Mortgages receivable | (18,183) | - | - |
| Prepaid expenses | (2,573) | (2,594) | 2,050 |
| Increases (decreases) in liabilities and deferred inflows: | | | |
| Accounts payable | (11,958) | 1 | (1,846) |
| Prepaid tenant rent | (7,693) | - | 784 |
| Other accrued liabilities | - | 16,510 | 2,929 |
| Accrued payroll | (14,158) | - | - |
| Compensated absences | 5,411 | - | - |
| Deferred outflows-subsequent contributions | (14,644) | - | - |
| Tenant deposits | 17,642 | (101) | (573) |
| Net cash provided by operating activities | $ 122,798 | $ 262,319 | $ 43,744 |

Component Units for the Year Ending December 31, 2018

| Cimmaron II Apartments, LP | Desert Palms Apartments, LP | Falcon Ridge, LP | Montana Senior Village, LLC | MSV II, LP | Stone Mountain Place, LP | Component Unit Totals |
|---|---|---|---|---|---|---|
| $ (204,525) | $ (108,444) | $ (186,934) | $ (75,867) | $ (147,279) | $ (161,108) | $ (1,027,176) |
| 301,417 | 137,472 | 279,844 | 106,617 | 206,842 | 252,312 | 1,702,191 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 2,356 | 1,501 | 14,188 | (13,534) | 5,306 | 2,886 | 17,331 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| (479) | 681 | 36,226 | - | (182) | 1,151 | 47,004 |
| - | - | - | - | - | - | - |
| 5,416 | (4,463) | (4,595) | (1,357) | (213) | (809) | (6,565) |
| 1,996 | 1,162 | (1,227) | 1,488 | 3,745 | 2,581 | 7,900 |
| 417 | 1,716 | 128 | 151 | 1,512 | (5,085) | (377) |
| (1,843) | (1,109) | 14,170 | 2,137 | 667 | 3,982 | 37,443 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 862 | 142 | 227 | (1,584) | (1,454) | (1,027) | (3,508) |
| $ 105,617 | $ 28,658 | $ 152,027 | $ 18,051 | $ 68,944 | $ 94,883 | $ 774,243 |

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

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. <u>Financial Reporting Entity</u>

Mesilla Valley Public Housing Authority (the "Housing Authority") is a public housing authority that provides affordable housing to low-income families. The programs are primarily funded with federal grants and tenant rents. The Housing Authority exists under an intergovernmental agreement between the City of Las Cruces, New Mexico and Doña Ana County. The agreement established the Housing Authority and it commenced its operations as of January 1, 2012.

The reporting entity for the Housing Authority is based upon criteria established by the Governmental Accounting Standards Board (GASB). All functions of the Housing Authority for which it exercises oversight responsibility are included. The indicators that an oversight responsibility exists include, but are not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, and special financing relationships.

These financial statements represent the financial operations of the Housing Authority for the year ended June 30, 2019.

This summary of significant accounting policies of the Housing Authority is presented to assist in the understanding of the Housing Authority's financial statements. The financial statements and notes are the representation of the Housing Authority's management, who is responsible for their integrity and objectivity. The financial statements of the Housing Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

**Activities of the Housing Authority**

The Housing Authority manages the following units:

| | |
|---|---|
| HUD Public Housing (Contract FW5434) | |
| Scattered sites, Development H and Modernization programs | 248 units |
| New Construction Housing (NMOZ-0002-0004) | |
| Burley Court | 40 units |

The Housing Authority also oversees the regulatory portion and subsidizes rent for the following program:

| | |
|---|---|
| HUD Section 8 Housing | |
| Voucher (Contract FW5374V) | 1,642 units |

In evaluating how to define the Housing Authority for financial reporting purposes, management has considered all potential programs and operations of the Housing Authority. The decision to include a potential component unit in the reporting entity was made by applying the criteria set

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Financial Reporting Entity – Continued

forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 80. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency.

Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing board by the Housing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service. Application of this criterion involves considering whether the activity benefits the Housing Authority and/or its residents and participants, or whether the activity is conducted within the geographic boundaries of the Housing Authority and is generally available to its residents and participants.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Housing Authority is able to exercise oversight responsibilities.

**Discretely Presented Component Units**

Robledo Ridge, LLLP (RR), Cimmaron, LP (Cimmaron I), Cimmaron II Apartments, LP (Cimmaron II), Desert Palms Apartments, LP (DP), Falcon Ridge, LP (FR), Montana Senior Village, LLC (MSV), MSV, II LP (MSV II), and Stone Mountain Place, LP (SMP) were formed to acquire, construct and rehabilitate, and operate apartment buildings for rental to low-income tenants. The Housing Authority is the managing member of MSV, is the sole member of Montana Street, LLC (MSV II's general partner), is the sole member of Stone Mountain Place, LLC (SMP's general partner), is the sole member of Falcon Ridge, LLC (FR's general partner), is the sole member of Cimmaron Apartments I, LLC (Cimmaron I's general partner), is the sole member of Cimmaron Apartments, LLC (Cimmaron II's general partner), is the sole member of Desert Palms Apartments, LLC (DP's general partner) and is a partner in Robledo Ridge, LLLP. The criteria provided in Government Accounting Standards Board Statements No. 14, No. 39 and No. 61 have been considered and MSV, MSV II, SMP, FR, Cimmaron I, Cimmaron II, DP and RR meet the criteria for inclusion as component units of the Housing Authority.

RR, Cimmaron I, Cimmaron II, DP, FR, MSV, MSV II, and SMP, have a December 31 fiscal year-end, and in accordance with GASB Statement No. 14, the reporting entity (which reports using the Housing Authority's fiscal year) should incorporate financial statements for the component unit's fiscal year ending during the reporting entity's fiscal year. Accordingly, these financial statements do not include the first six months of the calendar year of 2019 of the financial operations of the component units. See Note N for more information.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Accounting and Measurement Focus

The Housing Authority's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as set forth or adopted by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), and their predecessors, the National Council on Governmental Accounting ("NCGA") and the Accounting Principles Board ("APB"), respectively. Generally accepted accounting principles for local governments include those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*.

The accounting and financial reporting treatment applied to the Housing Authority is determined by its measurement focus. The Housing Authority's proprietary (enterprise) funds are accounted for on the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets plus deferred outflows net of total liabilities plus deferred inflows) are segregated into net investment in capital assets; restricted; and unrestricted components.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are operating subsidies and grants, and charges to customers for rent and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash flow statements for the component units reconcile to operating cash only and do not include changes in restricted cash and cash equivalents. The Housing Authority's cash flow statement includes changes in both operating cash and restricted cash and cash equivalents.

### Revenue Recognition

Dwelling rental revenues are recorded as rents become due. Rental payments received in advance are deferred until earned.

Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Accounting and Measurement Focus – Continued

The Housing Authority has entered into contracts with U.S. Department of Housing and Urban Development (HUD) to develop, manage and own public housing projects. HUD makes monthly operating subsidy contributions within the public housing program. Such contributions are reflected as operating grants revenue. Contributions received from HUD for capital additions and improvements are reported as capital grants revenue.

**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 certain reported amounts and disclosures such as the lives of capital assets. Accordingly, actual results could differ from those estimates. Significant estimates in the Housing Authority's financial statements include depreciation on capital assets, the current portion of accrued compensated absences, the net pension liability and related deferred inflows/outflows, and the allowance for uncollectible mortgage, component unit receivables, and accounts receivable.

3. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

**Deposits and Investments**

The Housing Authority is authorized under the provision of 6-10-10 NMSA 1978, as amended, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an Agency of the United States. The Housing Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to Section 6-10-10.1 NMSA 1978, as amended, the local public body finance official shall notify and make such funds available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the state treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

State regulations require that uninsured demand deposits and deposit-type investments, such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized. However, any portion of Public Housing/Indian Housing (PH/IH) funds not insured by a Federal insurance organization shall be fully (100%) and continuously collateralized with specific and identifiable U.S Government or Agency securities prescribed by HUD. If the securities pledged are United States government securities, they are pledged at market value.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Continued

### Cash and Cash Equivalents

Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand, and investments in highly liquid debt instruments with an original maturity of three months or less. Financial Institutions are required by state statute to pledge collateral for any deposits that exceed the FDIC limit of $250,000.

### Restricted Cash

Restricted cash consists of those amounts required by contractual agreement for tenant security deposits and reserve for replacements. This money is a damage deposit held on behalf of tenants as well as reserve funds used to make capital repairs and replacements and, as such, the year-end balance is classified as restricted.

### Fair Value Measurements

The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). As of June 30, 2019, there are no items required to be valued using valuation techniques.

### Accounts Receivable

All trade receivables are shown net of an allowance for doubtful accounts. The allowance is comprised of all accounts receivable which management estimates to be uncollectible. Mortgage receivables are shown net of an allowance for doubtful accounts which is comprised of all mortgages receivable where the Authority is in a subordinate position. Component unit receivables are shown net of an allowance for doubtful accounts which is composed of component unit receivables which management has estimated to be uncollectable.

### Inventory

The inventory held consists of expendable supplies held for consumption and recorded at cost. The cost is recorded as expenditures at the time of consumption. Inventory for the Housing Authority is valued at the lower of cost or net realizable value using the First In, First Out Method.

### Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and detail financial statements.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Continued

### Capital Assets

Capital assets, which include property and equipment, are defined by the Housing Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. The Housing Authority does have an exception for ranges and refrigerators, which are capitalized regardless of the cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of fixed assets (retroactive to 1979) are included as part of the governmental capital assets reported in the government-wide statements. Information Technology Equipment including software is being capitalized and included equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

| Assets | Years |
|---|---|
| Site improvements | 40-50 |
| Structures | 40-50 |
| Equipment | 5-10 |

### Deferred Outflows of Resources

In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time.

The Housing Authority has five types of items that qualify for reporting in this category. Accordingly, the items, contributions subsequent to measurement date of $89,753, change in assumptions of $155,972, net difference between projected and actual investment earnings of $127,588, difference between expected and actual experience of $49,721, and change in proportion of $87,091 are reported in the Statement of Net Position. These amounts are deferred and recognized as outflows of resources in the appropriate future period when the outflow occurs.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Continued

### Compensated Absences

Housing Authority employees are entitled to be compensated for accrued vacation and sick leave time off, which is reported as an expense and a liability of the program that will fund it. When an employee separates from employment with the Housing Authority in good standing, the employee is eligible to receive 1/8 of accumulated sick leave between 160 to 320 hours. If the employee has accumulated less than 160 hours, they are not entitled to any pay out of sick leave at separation of employment. Any hours accumulated over 320 are also not compensated. The number of annual leave hours that are paid out when an employee in good standing separates from employment is limited to 240 hours.

### Deferred Inflows of Resources

In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding deferred inflow of resources. The Housing Authority has four types of items that qualify for reporting in this category.

Accordingly, change in assumptions of $9,891, difference between expected and actual experience of $45,168, and change in proportion of $235 are reported in the Statement of Net Position. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position – Continued

**Net Position**

Net position is reported in three categories: net investment in capital assets, restricted, and unrestricted:

*Net Investment in Capital Assets* – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* – Net position is reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

*Unrestricted and Restricted Revenues* – Net position that does not meet the definition of “restricted” or “net investment in capital assets.”

**Unrestricted and Restricted Revenues**

When both restricted and unrestricted resources are available for use, it is the Housing Authority’s policy to use restricted resources first, then unrestricted resources as they are needed.

4. Budgets

The Housing Authority’s budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of the anticipated revenue and expenditures. Annual budgets of the Housing Authority are prepared prior to June 1 and must be approved by resolution of the Board of Commissioners. Once the budget has been formally approved, any amendments must also be approved by the Board of Commissioners.

5. GASB Statement No. 77

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources came from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time – by including information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. GASB Statement No. 77 – Continued

the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

This statement does not have a material effect on the financial statements of the City of Las Cruces.

6. GASB Statement No. 88

During FY19, the Housing Authority adopted Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 is intended to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. GASB Statement No. 88 – Continued

GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, GASB 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

## NOTE B – DEPOSITS AND INVESTMENTS

State Statutes authorize the investment of Housing Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Housing Authority properly followed State investment requirements as of June 30, 2019.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Housing Authority. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution. The only funds held in a non-interest bearing account are the funds in the rent account, which are then transferred to an interest-bearing account on a monthly basis.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asking price on United States treasury bills of the same maturity on the day of deposit.

Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

All of the Housing Authority's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of $250,000 for demand deposit accounts and $250,000 for time and savings accounts.

## NOTE B – DEPOSITS AND INVESTMENTS – (CONTINUED)

### Custodial Credit Risk – Deposits

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of bank failure, the Housing Authority's deposits may not be returned to it. The Housing Authority does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978) and requirements set forth by HUD.

At June 30, 2019, $5,799,224 of the Housing Authority's bank balance of $6,049,224 was exposed to custodial credit risk. Although the $5,799,224 was uninsured, all of this amount was collateralized by collateral held by the pledging bank's trust department, not in the Housing Authority's name.

Section 6-10-17, New Mexico Statues Annotated, 1978 Compilation states the type of collateral allowed is limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. All depositories had collateral exceeding the amount required by law.

| | Wells Fargo Bank, N.A. |
|---|---|
| Total amount of deposits | $ 6,049,224 |
| FDIC coverage | (250,000) |
| Total uninsured public funds | 5,799,224 |
| Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Housing Authority's name | 6,376,073 |
| Over (under) collateralization | $ 576,849 |

### Reconciliation to Statement of Net Position

The carrying amount of deposits and investments shown above are included in the Housing Authority's statement of net position as follows:

| | |
|---|---|
| Cash and cash equivalents | $ 5,629,213 |
| Restricted cash and cash equivalents | 252,417 |
| | 5,881,630 |
| Add: Outstanding checks and other reconciling items | 168,344 |
| Less: Petty cash | (750) |
| Bank balance of deposits | $ 6,049,224 |

## NOTE C – COMPONENT UNIT AND OTHER RECEIVABLES

The following is a reconciliation of amounts due to the Housing Authority from its component units and the New Mexico Housing Coalition (NMHC) from December 31, 2018 (component units' year-end) to June 30, 2019 (Housing Authority's year-end). Reconciling items include timing differences and an allowance for doubtful accounts based on management's assessment of the collection of certain receivables:

| | |
|---|---|
| Component Unit Receivables: | |
| MSV liabilities owed to the Housing Authority (December 31, 2018) | |
| Note receivable | $ 487,250 |
| Land note receivable | 40,520 |
| | 527,770 |
| MSV II liabilities owed to the Housing Authority (December 31, 2018) | |
| Loan receivable | 800,000 |
| AHP loan receivable | 500,000 |
| SMP liabilities owed to the Housing Authority (December 31, 2018) | |
| Developer fees receivable | 154,946 |
| Falcon Ridge liabilities owed to the Housing Authority (December 31, 2018) | |
| Developer fees receivable | 18,317 |
| Cimmaron I liabilities owed to the Housing Authority (December 31, 2018) | |
| Developer fees receivable | 70,000 |
| Cimmaron II liabilities owed to the Housing Authority (December 31, 2018) | |
| Developer fees receivable | 33,013 |
| Desert Palms liabilities owed to the Housing Authority (December 31, 2018) | |
| Developer fees receivable | - |
| Robledo Ridge liabilities owed to the Housing Authority (December 31, 2018) | |
| Developer fees receivable | 309,887 |
| Notes receivable | 102,500 |
| Notes receivable | 543,476 |
| Total component unit liabilities owed to the Housing Authority (December 31, 2018) | 3,059,909 |
| Reconciling items: | |
| Less: Allowance for doubtful accounts related to Robledo Ridge and MSV II loans | (2,882,166) |
| Add: Accrued interest through June 30, 2019 | 448,940 |
| Net receivables owed to the Housing Authority due from component units at June 30, 2019 | $ 626,683 |
| Other Receivables: | |
| NMHC receivable of $460,000 owed to the Housing Authority (December 31, 2018) | |
| Loan made to NMHC net of allowance for doubtful accounts of $460,000 | $ - |
| SNAP and other notes receivable | 13,988 |
| Net receivables owed to the Housing Authority due from third parties at June 30, 2019 | $ 13,988 |

## NOTE D – CAPITAL ASSETS

The following summarizes changes in capital assets activity for the year ended June 30, 2019:

| | Balance June 30, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|---|---|---|---|
| Public housing | $ 9,126,081 | $ 23,396 | $ (90,561) | $ 9,058,916 |
| Less accumulated depreciation | (7,403,430) | (178,675) | 91,940 | (7,490,165) |
| Net public housing | 1,722,651 | (155,279) | 1,379 | 1,568,751 |
| Section 8 housing | 21,544 | - | - | 21,544 |
| Less accumulated depreciation | (9,940) | (2,839) | - | (12,779) |
| Net section 8 housing | 11,604 | (2,839) | - | 8,765 |
| Section 8 new construction | 1,934,890 | - | - | 1,934,890 |
| Less accumulated depreciation | (572,851) | (13,105) | - | (585,956) |
| Net section 8 new construction | 1,362,039 | (13,105) | - | 1,348,934 |
| Local housing projects | 2,584,749 | - | - | 2,584,749 |
| Less accumulated depreciation | (798,797) | (66,832) | - | (865,629) |
| Net local housing projects | 1,785,952 | (66,832) | - | 1,719,120 |
| Net capital assets | $ 4,882,246 | $ (238,055) | $ 1,379 | $ 4,645,570 |

| | Balance June 30, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|---|---|---|---|
| Capital assets | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 1,407,505 | $ - | $ (3,885) | $ 1,403,620 |
| Total capital assets not being depreciated | 1,407,505 | - | (3,885) | 1,403,620 |
| Other capital assets | | | | |
| Site improvements | 2,541,505 | 9,749 | (19,473) | 2,531,781 |
| Structures | 9,183,133 | 13,647 | (67,203) | 9,129,577 |
| Equipment | 535,120 | - | - | 535,120 |
| Total other capital assets at cost | 12,259,758 | 23,396 | (86,676) | 12,196,478 |
| Less accumulated depreciation: | | | | |
| Site improvements | (1,844,934) | (100,592) | 8,314 | (1,937,212) |
| Structures | (6,434,124) | (149,995) | 83,626 | (6,500,493) |
| Equipment | (505,959) | (10,864) | - | (516,823) |
| | (8,785,017) | (261,451) | 91,940 | (8,954,528) |
| Net capital assets being depreciated | 3,474,741 | (238,055) | 5,264 | 3,241,950 |
| Net capital assets | $ 4,882,246 | $ (238,055) | $ 1,379 | $ 4,645,570 |

Depreciation and amortization expense for the year ended June 30, 2019, totaled $261,451.

## NOTE E – LONG-TERM LIABILITIES

The following summarizes changes in long-term debt activity for the year ended June 30, 2019:

| Description | Issue Date | Interest Rates (%) | Maturity Date | Balance June 30, 2018 | Additions | Retirements | Balance June 30, 2019 | Amount Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Note payable Wells Fargo | 9/10/2012 | 6.00% | 9/15/2027 | $ 251,612 | $ - | $ (20,958) | $ 230,654 | $ 22,234 |
| Note payable Wells Fargo | 4/15/2005 | 8.13% | 4/15/2025 | 214,901 | - | (22,444) | 192,457 | 24,447 |
| Note payable Wells Fargo | 8/15/2013 | 6.00% | 11/15/2027 | 182,578 | - | (14,756) | 167,822 | 15,654 |
| Note payable Wells Fargo | 8/15/2013 | 6.00% | 7/15/2027 | 511,112 | - | (43,419) | 467,694 | 46,065 |
| Note payable City of Las Cruces | 12/2/1998 | 2.00% | 12/1/2027 | 45,000 | - | (5,000) | 40,000 | 5,000 |
| Total | | | | $ 1,205,203 | $ - | $ (106,577) | $ 1,098,627 | $ 113,400 |

Debt service requirements on long-term debt at June 30, 2019, are as follows:

| Year Ended June 30, | Notes Payable Principal | Notes Payable Interest |
|---|---|---|
| 2020 | $ 113,400 | $ 65,781 |
| 2021 | 121,006 | 58,254 |
| 2022 | 128,876 | 50,384 |
| 2023 | 137,291 | 41,969 |
| 2024 | 146,204 | 33,056 |
| Thereafter | 451,850 | 43,624 |
| | $ 1,098,627 | $ 293,068 |

The Housing Authority's outstanding notes from direct borrowings and direct placements related to business-type activities of $1,058,627 contain a due on sale provision that in an event of sale or transfer, outstanding amounts become immediately due, except as otherwise provided in Section 48-7-20 NMSA 1978, as amended.

The Housing Authority's outstanding notes payable from direct borrowings related to business-type activities of $1,058,627 are secured with collateral of the property purchased with the funds zoned for residential use as well as rental revenues. One of the outstanding notes payable from direct borrowings related to business-type activities of $467,694 contains a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due if net

## NOTE E – LONG-TERM LIABILITIES – CONTINUED

operating income during the year is less than 115% of debt service coverage. The Housing Authority's outstanding notes from direct borrowings and direct placements related to business-type activities of $1,058,627 contain a provision that if the Housing Authority is unable to make payment, outstanding amounts are due immediately. Three of the Housing Authority's outstanding notes from direct borrowings related to business-type activities of $590,933 contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs or prospect of payment of performance of the indebtedness is impaired.

Several of the agreements require the Housing Authority to maintain certain financial and non-financial covenants. As of June 30, 2019, the Housing Authority was in compliance with these financial and non-financial covenants or had received a waiver from the financial institution.

**Compensated Absences**

The Housing Authority considers accrued compensated absences to be a long-term liability. Compensated absences liability at June 30, 2019, was $64,725.

## NOTE F – CONTINGENT LIABILITIES

1. Legal Proceedings

The Housing Authority is subject to various legal proceedings that arise in the ordinary course of the Housing Authority's operations. In the opinion of the Housing Authority's management, the ultimate resolution of the matters will not have a material adverse impact on the financial position or results of operations of the Housing Authority.

2. Federal Grants

The Housing Authority receives federal grants for various specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowance, if any, will not be material to the financial statements.

## NOTE G – MORTGAGE RECEIVABLES AND OTHER NONCURRENT ASSETS

The Housing Authority owns mortgages on fourteen properties which they sold and originated the mortgage. These mortgages, in the amount of $1,091,140, carry interest rates ranging from 0% to 4.5% and mature during the period 2039 through 2042. Additionally, the Housing Authority has accrued interest receivable in the amount of $448,940, which is deemed fully collectible. They are all collateralized by the mortgaged property.

The Housing Authority also owns subordinate mortgages on other properties totaling $1,236,594. The Housing Authority's total mortgages receivable is $2,332,201, and there is a current allowance on the mortgage receivables in the amount of $1,236,594, leaving a net receivable of $1,091,607.

## NOTE G – MORTGAGE RECEIVABLES AND OTHER NONCURRENT ASSETS – CONTINUED

Other assets consist of the other receivables (SNAP and other notes payable – $13,988) and non-current receivables (NMHC note payable, net – $297,735) listed in Note C.

## NOTE H – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN

1. Plan Description

The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund, unless specifically excluded.

2 Benefits Provided

Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available

**TIER II**

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013, with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of

## NOTE H – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN – (CONTINUED)

2 Benefits Provided – Continued

service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans; however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, per employee. Contribution increased 1.5% and effective July 1, 2014, employer contributions were raised .05%. The computation of final average salary increased as the average of salary for 60 consecutive months.

3. Contributions

The contribution requirements of defined benefit plan members and the Mesilla Valley Public Housing Authority are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY19 for the various PERA coverage options, for both Tier I and Tier II, see the tables available at http://www.nmpera.org/for-employers/plan-information. The PERA coverage option that applies to Mesilla Valley Public Housing Authority is the Municipal General Division. Statutorily required contributions to the pension plan from Mesilla Valley Public Housing Authority were $90,999 for the year ended June 30, 2019, and there was $63,250 in employer paid members benefits that were “picked up” by the employer for the year ended June 30, 2019.

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Housing Authority reported a liability of $1,720,325 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The total pension liability was rolled forward from the valuation date to the plan year ending June 30, 2018 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2018. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2018. The Housing Authority’s proportion of the net pension liability was based on a projection of the Housing Authority‘s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the Housing Authority’s proportion was 0.1079%, which was an increase of 0.0043% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Mesilla Valley Public Housing Authority recognized pension expense of $246,116. At June 30, 2019, the Housing Authority reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

## NOTE H – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN – (CONTINUED)

4. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes of assumptions | $ 155,972 | $ 9,891 |
| Net difference between projected and actual earnings on pension plan investments | 127,588 | - |
| Changes in proportion and differences between Mesilla Valley Public Housing Authority contributions and Proportionate share of contributions | 87,091 | 235 |
| Difference between expected and actual experience | 49,721 | 45,168 |
| Mesilla Valley Housing Authority contributions subsequent to the measurement date | 89,753 | - |
| Total | $ 510,125 | $ 55,294 |

$89,753 reported as deferred outflows of resources related to pensions resulting from Mesilla Valley Public Housing Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30, | |
|---|---|
| 2019 | $ (226,333) |
| 2020 | (102,254) |
| 2021 | (29,958) |
| Thereafter | (6,534) |

## NOTE H – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN – (CONTINUED)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Actuarial valuation date | June 30, 2017 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of pay |
| Amortization period | Solved for based on statutory rates |
| Asset Valuation Method | 4-year smoothed Market Value |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% annual rate, net of investment experience |
| Projected benefit payment | 100 years |
| Payroll growth | 2.75% for the first 9 years, then 3.25% annual rate |
| Projected salary increases | 2.75% to 14.00% annual rate, Includes inflation at 2.25% annual rate for the first 9 years, then 2.75% |
| Mortality assumption | RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2019 using Scale AA. |
| Experience study dates | July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic) |

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2017. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2018. These assumptions were adopted by the Board use in the June 30, 2017 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 43.50% | 7.48% |
| Risk reduction & mitigation | 21.50% | 2.37% |
| Credit oriented fixed income | 15.00% | 5.74% |
| Real assets | 20.00% | 6.48% |
| Total | 100.00% | |

## NOTE H – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN – (CONTINUED)

6. Discount Rate

A discount rate of 7.25% was used to measure the total pension liability as of June 30, 2018. This discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

7. Sensitivity of the Housing Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Housing Authority's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Housing Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Mesilla Valley Public Housing Authority's Proportionate share of the net pension liability | $ 2,650,906 | 1,720,325 | 951,052 |

8. Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in separately issued PERA'S financial reports.

9. Payables to the pension plan

The Housing Authority had payables to PERA totaling $7,452 as of June 30, 2019.

## NOTE I – RESTRICTED CASH

The following table provides a reconciliation of restricted cash reported within the balance sheet as of December 31:

| | 2019 | 2018 |
|---|---|---|
| Restricted cash for tenants' security and FSS deposits | $ 80,096 | $ 99,490 |
| Restricted cash for HAP and FSS escrow deposits | 173,552 | 26,157 |
| Unrestricted cash overdraft | (1,231) | (16,504) |
| Total cash and restricted cash shown in the statement of cash flows | $ 252,417 | $ 109,143 |

Amounts included in restricted cash primarily represent those required to be set aside by HUD regulations for funding HAP and FSS escrow deposits and for contractual agreements (i.e. tenant leases) for the funding of tenants' security deposits. The restriction will lapse when funds are approved for disbursement to pay for necessary repairs.

## NOTE J – RISK MANAGEMENT

The Housing Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters for which the Housing Authority carries commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the previous three years.

## NOTE K – CONCENTRATIONS

A significant portion of the revenues of the Housing Authority are received from programs directed by the United States Department of Housing and Urban Development. Receipt of these funds is contingent upon the Housing Authority's continued compliance with grant provisions and the continuance of the grant programs by this United States Governmental agency.

## NOTE L – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is September 27, 2019, which is the date on which the financial statements were available to be issued. No issues were noted for accrual or disclosure at September 27, 2019.

## NOTE M – NEW ACCOUNTING STANDARDS

GASB Statement No. 87, *Leases* (GASB 87) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 is effective for periods beginning after December 15, 2019 (FY 21) with earlier application encouraged. This statement may have some impact on the assets and liabilities of the Housing Authority.

## NOTE N – COMPONENT UNITS

As described in Note A, the reporting entity includes several component units as defined under GASB Statement No. 14, amended by No. 39 and No. 61. The component units have a calendar year end and are comprised of Montana Senior Village, LLC (MSV), MSV II, LP (MSV II), Stone Mountain Place, LP (SMP), Falcon Ridge, LP (FR), Cimmaron, LP (Cimmaron I), Cimmaron II Apartments, LP (Cimmaron II), Desert Palms Apartments, LP (DP) and Robledo Ridge, LLLP (RR). The Housing Authority is the managing member of MSV, is the sole member of Montana Street, LLC (MSV II's general partner), is the sole member of Stone Mountain Place, LLC (SMP's general partner), is the sole member of Falcon Ridge, LLC (FR's general partner), is the sole member of Cimmaron Apartments I, LLC (Cimmaron I's general partner), is the sole member of Cimmaron Apartments, LLC (Cimmaron II's general partner), is the sole member of Desert Palms Apartments, LLC (DP's general partner) and is a partner of Robledo Ridge, LLLP.

The criteria provided in GASB Statement No. 14, amended by GASB Statements No. 39 and No. 61, has been considered and MSV, MSV II, SMP, FR, Cimmaron I, Cimmaron II, DP and RR meet the criteria for inclusion as component units of the Housing Authority. The component units continued operations for the first six months of 2018 and that financial information is not included within the basic financial statements of the Housing Authority. The last issued audited financial statements of the component units were as of December 31, 2018. MSV, MSV II, SMP, FR, Cimmaron I, Cimmaron II, DP and RR do not meet the requirements for blending and will be reported as discretely-presented component units. The following notes to component unit financial statements represent the disclosures from the audited financial statements of each entity that include specifics about operating deficits and other guarantee obligations.

## NOTE O – FUND BALANCE

The fund balance per the issued financial statements did not agree to the trial balance that we received from the prior auditors by $21,338. Our financial statements were prepared using the client's trial balance from the prior year which was deemed to be more accurate when compared to the predecessor trial balance. The amount is immaterial to the financial statements as a whole and is believed to be reported properly at September 27, 2019.

# NOTES TO COMPONENT UNITS FINANCIAL STATEMENTS

## NOTE A – ORGANIZATION

Robledo Ridge Limited Liability Limited Partnership was organized in 2011 as a Limited Partnership to develop, construct, own, maintain, and operate a 71-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 Robledo Ridge Apartments. The Partnership provides housing to low income families and receives payments from the Department of Housing and Urban Development (HUD) in the form of housing assistance payments pursuant to a Section 8 Housing Assistance Payment Contract. The Project is regulated by the Department of Housing and Urban Development (HUD) as to rent charges and operating methods pursuant to the provisions of the mortgage, Housing Assistance Program Contract, and related Regulatory Agreement. 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 Robledo Ridge Apartments are vested in the Partners. The Partnership has hired Mesilla Valley Public Housing Authority (MVPHA) to provide management functions for the property. MVPHA has hired a subcontractor, UAH Property Management, to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement, Management Agreement, and Management Subcontractor Agreement.

The Project obtained permanent financing under Section 542(c) of the Housing and Community Development Act, as amended, administered by the New Mexico Mortgage Finance Authority (MFA) during 2014. Under this program, the Company 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 the Mesilla Valley Public Housing Authority because the MVPHA is a member of the General Partner of the Partnership. The Partnership has no component units.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. 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.

3. Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Cash and Cash equivalents in excess of FDIC limits were $32,670 and $0 at December 31, 2018 and 2017, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

5. 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.

6. 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 established an allowance for doubtful accounts and uses the reserve method for recognizing bad debts. Bad debts are expensed in the period management determines that collection is not probable.

7. Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

| | Estimated Life |
|---|---|
| Buildings | 27.5-40 |
| Land Improvements | 10-20 |
| Furniture, Fixtures & Equipment | 10 |

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Deferred Fees and Amortization

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

10. Property Taxes

The General Partner is owned by a public housing authority which qualifies the Partnership for full exemption for property taxes. The tax exemption is subject to change by an act of State Legislature. Such change may occur with little notice and could materially impact the rental operations of the Project.

11. Income Taxes

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

12. 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.

13. Rental Income

Rental Income is recognized as rents 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.

14. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

15. Advertising Costs

Advertising Costs are expensed as incurred.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Robledo Ridge, LLLP and their respective profit and loss percentages are as follows as of December 31, 2018 and 2017:

| | |
|---|---|
| General Partner: | |
| *Robledo Ridge, LLC* | 0.01% |
| Limited Partner: | |
| *Enterprise Multi-State LIHTC Fund, LLLP* | 99.99% |
| Total | 100.00% |

As of December 31, 2018 and 2017, the General Partner has contributed $71,000. The Limited Partner is required to make capital contributions of $6,778,399. In previous years an upward adjuster of $127,800 was reported, and a downward Lease-Up Tax Credit adjuster of $345,800 was reported. As of December 31, 2018 and 2017, the Limited Partners have contributed a total of $6,358,608 and $6,358,608. There were no capital contributions made during the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, $201,791 is due to the property.

## NOTE D – LONG TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a mortgage payable to New Mexico Mortgage Finance Authority in the original amount of $2,000,000, with an interest rate of 5.50%. The mortgage is secured by real property of the Project. The mortgage is payable in monthly installments of $10,740 through May 1, 2049, at which time the final payment will be due on all outstanding principal and accrued interest. The accrued interest was $8,717 and $8,825 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $105,200 and $106,465 as of December 31, 2018 and 2017, respectively. | $1,901,817 | $1,925,392 |

## NOTE D – LONG-TERM DEBT – CONTINUED

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed by a mortgage payable to New Mexico Mortgage Finance Authority in the original amount of $500,000. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 3.00%. Monthly payments of principal and accrued interest, paid in arrears, are due and payable in monthly installments of $2,108. Maturity of the loan occurs at the sale, refinance, and transfer of the property or on September 1, 2043. Accrued interest was $1,104 and $1,133 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $13,410 and $13,761 as of December 31, 2018 and 2017, respectively. | 441,534 | 453,391 |
| On April 3, 2014, the Project obtained a nonrecourse loan from the General Partner, Mesilla Valley Public Housing Authority, in the amount of $543,476. The note is secured by the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing. Interest is accrued at 1% per annum and payments of principal and interest compounded monthly on the outstanding balance are due and payable in arrears from Cash Flow as defined in the partnership agreement. The entire outstanding principal and accrued and unpaid interest are payable in full by the maturity date, which is the earlier of the 35th anniversary date upon which the City of Las Cruces issues a final certificate of occupancy or equivalent for the Project or December 31, 2048. The long-term accrued interest was $27,435 and $22,000 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $5,435 and $5,434 as of December 31, 2018 and 2017, respectively. | 543,476 | 543,476 |
| On April 3, 2014, the Project obtained a nonrecourse loan from the General Partner, Mesilla Valley Public Housing Authority, in the amount of $95,000. Interest is accrued at 1% per annum and payments of principal and interest compounded monthly on the outstanding balance are due and payable in arrears from Cash Flow as defined in the partnership agreement. The entire outstanding principal and accrued and unpaid interest are payable in full by the maturity date on April 3, 2049. The long-term accrued interest was $3,425 and $2,475 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $950 and $950 as of December 31, 2018 and 2017, respectively. | 95,000 | 95,000 |
| Less: Unamortized Debt Issuance Costs | (51,702) | (53,346) |
| | 2,930,125 | 2,963,913 |
| Less Current Portion | (37,123) | (35,432) |
| Long-term notes payable | $2,893,002 | $2,928,481 |

## NOTE D – LONG-TERM DEBT – CONTINUED

Aggregate maturities of the notes are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 37,123 | $ 123,442 |
| | 2020 | 38,899 | 121,666 |
| | 2021 | 40,766 | 119,799 |
| | 2022 | 42,729 | 117,836 |
| | 2023 | 44,792 | 115,773 |
| | 2024-2028 | 258,808 | 544,017 |
| | 2029-2033 | 328,895 | 473,930 |
| | 2034-2038 | 419,231 | 383,594 |
| | 2039-2043 | 529,565 | 266,936 |
| | 2044-2048 | 549,578 | 126,766 |
| | Thereafter | 691,441 | 2,864 |
| Less: Unamortized Debt Issuance Costs | | (51,702) | - |
| | Total | $ 2,930,125 | $ 2,396,623 |

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

## NOTE E – RESERVE FUNDS

1. Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve in the amount of $85,329 at the time of the limited partner's fourth capital contribution installment to fund major repairs or replacements. The Partnership shall make deposits into the Replacement Reserve fund of $31,630, increasing 3% annually, commencing on the second full month after completion of the Project. The Replacement Reserve was funded through a mortgage escrow and the balance was $150,471 and $116,547 as of December 31, 2018 and 2017.

2. Operating Reserve

The General Partner is required to establish and maintain an Operating Reserve on the date of the fourth capital contribution in the amount of $208,910. The Operating Reserve balance was $208,839 and $2,594 as of December 31, 2018 and 2017.

## NOTE F – COMMITMENTS AND CONTINGENCIES

1. <u>Housing Tax Credits</u>

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 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 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.

2. <u>Regulatory Agreement Provisions</u>

On February 5, 2001, the Company 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 Company 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.

3. <u>Housing Assistance Agreement</u>

The Partnership receives a significant portion of its rental income from the Department of Housing and Urban Development pursuant to a Section 8 Housing Assistance Payment Contract (HAP) for the 71 units in the project. Under the Section 8 Program a tenant is required to pay 30% of their adjusted income toward housing with the Federal Government subsidizing the difference between what the tenant pays and the fair market rent established by the Department of Housing and Urban Development.

4. <u>Operating Deficit Contribution</u>

If at any time after the completion date, an Operating Deficit exists, the General Partner shall contribute funds (an "Operating Deficit Contribution") to the Partnership as a contribution to capital in an amount equal to the amount of the Operating Deficit which is unlimited through the stabilization date, and after limited to $228,000. The obligation of the General Partner to make Operating Deficit Contributions shall terminate on the date that the following have occurred simultaneously: 1) the Project has operated at the Required Debt Service Coverage for a period of at least twelve consecutive months, which shall have commenced no earlier than four years after the achievement of the Stabilization Date, and 2) the balance in the Operating Reserve equals or exceeds the sum of the Operating Reserve Amount. If Operating Deficit Contributions are required, they shall be repayable, without interest, solely from Cash Flow or as provided in the partnership agreement. There are no amounts due related to Operating Deficit Contributions as of December 31, 2018 and 2017.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. Management Fee

In accordance with the Subcontractor 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 $42,449 and $39,104 during 2018 and 2017. The amounts included in accounts payable that are due to UAH Property Management LP related to Management Fees were $3,802 and $3,971 as of December 31, 2018 and 2017, respectively.

2. 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. The fee shall increase at a rate of 3% per year. 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 $4,776 and $4,637 were recognized during 2018 and 2017. The amounts due to the Limited Partner related to Investor Services Fees were $0 and $0 as of December 31, 2018 and 2017, respectively.

3. 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 $13,000. 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. Partnership Administrative Fees of $15,523 and $15,071 were recognized during 2018 and 2017. The amounts due to the General Partner related to Partnership Administrative Fees were $99,613 and $84,090 as of December 31, 2018 and 2017, respectively.

4. Development Fee

The Partnership has incurred a Development Fee due to Mesilla Valley Public Housing Authority, rendered to the Partnership for overseeing the construction of the Project. The full development fee amount for the project is $1,132,639. This Development Fee has been capitalized into the basis of the building. As of December 31, 2017, $331,756 of this fee has been paid. The amounts due related to Development Fees were $800,883 and $800,883 as of December 31, 2018 and 2017, respectively. Per the original agreement, the deferred portion of the development fee was expected to be $494,711; however, due to the downward adjuster referenced in the limited partner contribution footnote an additional amount of the fee will be deferred. All deferred development fees will accrue interest of 1% of the unpaid balance per the developer service agreement. Any unpaid amounts of the development fees are due on or before December 31, 2028. The long-term accrued interest was $24,735 and $19,788 as of December 31, 2018 and 2017, respectively.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

5. Reimbursed Expenses

The Contractor and Subcontractor are reimbursed for some expenses that are directly related to this property. Due to the nature and function of the Subcontractor, some expenses are incurred for the property by the Subcontractor. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. The Subcontractor processes payroll for the property. The Property paid the Subcontractor for all payroll and benefits of $95,988 and $90,493 during 2018 and 2017. The Property also paid the Subcontractor for other fees related to compliance monitoring and payroll processing fees. These other Subcontractor fees were $7,844 and $7,031 during 2018 and 2017. The Subcontractor is also reimbursed for a few other expenses that are directly related to this property. Due to the nature and function of the Subcontractor, some expenses are incurred for the property by the Subcontractor. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. There are no amounts due to the Contractor or Subcontractor related to reimbursed expenses, including payroll, as of December 31, 2018 and 2017.

## NOTE H – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Robledo Ridge Apartments. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by federal and state agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

The Project's major source of revenue is from subsidy received through Section 8 Housing Assistance Payment Contract (HAP). HUD may terminate the rental assistance agreement if it determines that no subsidy is necessary or if the Project is determined to be in violation of HUD rules or regulations.

## NOTE I – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Miscellaneous | $ 3,476 | $ - |
| Accrued Audit Fees | - | - |
| Total Accrued Expenses | $ 3,476 | $ - |

## NOTE J – SUBSEQUENT EVENTS

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

## NOTE A – ORGANIZATION

Cimmaron Limited Partnership was organized in 2004 as a Limited Partnership to develop, construct, own, maintain, and operate a 60-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Anthony, New Mexico, and is currently known as Cimmaron 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 Cimmaron 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 Company 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. <u>Basis of Accounting</u>

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

2. <u>Cash and Cash Equivalents</u>

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.

3. <u>Cash and Other Deposits</u>

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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

5. 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.

6. 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.

7. Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Property and Equipment with a unit cost of $5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets. Property and Equipment purchases less than $5,000 or with lives of one year or less, and maintenance and repairs which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

| | Estimated Life |
|---|---|
| Buildings | 40 |
| Site Improvements | 7-20 |
| Furnishings | 3-10 |

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Income Taxes

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

10. 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.

11. Rental Income

Rental Income is recognized as rents 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.

12. Deferred Fees and Amortization

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

13. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

14. Advertising Costs

Advertising Costs are expensed as incurred.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Cimmaron Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2018 and 2017:

| | |
|---|---|
| General Partner: | |
| *CIMMARON APARTMENTS ONE LLC* | 0.01% |
| Limited Partner: | |
| *NEF Assignment Corporation* | 99.99% |
| Total | 100.00% |

Distributable cash flow is defined in the Partnership Agreement as the sum of all cash receipts less cash disbursements for operating activities and Replacement Reserve funding.

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a 40-year mortgage payable to New Mexico Mortgage Finance Authority in the original amount of $1,042,000, with an interest rate of 6.42%. The mortgage is payable in monthly installments of $6,041 including interest through the maturity date. The loan payments are based on a 40-year amortization schedule. The unpaid principal of the loan is due November 2046. In addition, monthly deposits for taxes, insurance and replacement of depreciable assets are required. The accrued interest was $5,031 and $5,093 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $60,709 and $61,440 as of December 31, 2018 and 2017, respectively. | $940,184 | $951,908 |
| The Project also has a 40-year mortgage payable to New Mexico Mortgage Finance Authority Home Program in the original amount of $240,000. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 4.91% per annum. Interest only payments shall be made monthly in the amount of 1% of the outstanding principal plus accrued and unpaid interest (per amortization schedule) beginning in 2006. Principal and unpaid interest are due November 2046. The short-term accrued interest was $2,489 and $1,506 as of December 31, 2018 and 2017, respectively. The long-term accrued interest was $142,736 and $128,083 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $18,460 and $17,754 as of December 31, 2018 and 2017, respectively. | 240,000 | 240,000 |

### NOTE D – LONG-TERM DEBT – CONTINUED

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Less: Unamortized Debt Issuance Costs | (80,570) | (83,553) |
| | 1,099,614 | 1,108,355 |
| Less Current Portion | (12,497) | (11,723) |
| Long-term notes payable | $1,087,117 | $1,096,632 |

Aggregate maturities of the mortgage notes are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 12,497 | $ 63,893 |
| | 2020 | 13,324 | 63,222 |
| | 2021 | 14,205 | 62,502 |
| | 2022 | 15,144 | 61,730 |
| | 2023 | 16,146 | 60,903 |
| | 2024-2028 | 98,227 | 289,888 |
| | 2029-2033 | 135,290 | 258,352 |
| | 2034-2038 | 186,339 | 214,022 |
| | 2039-2043 | 256,650 | 151,878 |
| | Thereafter | 432,362 | 49,463 |
| Less: Unamortized Debt Issuance Costs | | (80,570) | - |
| | Total | $ 1,099,614 | $ 1,275,853 |

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

## NOTE E – RESERVE FUNDS

1. Replacement Reserve

In accordance with the Partnership Agreement, the General Partner shall establish a Replacement Reserve account. The General Partner shall make monthly deposits of $300 per unit per year, totaling $18,000 annually. The Replacement Reserve shall be used to make capital improvements and repairs to the Project. The Replacement Reserve balance was $194,459 and $176,176 as of December 31, 2018 and 2017, respectively.

2. Operating Reserve

In accordance with the Partnership Agreement, the General Partner shall establish an Operating Reserve fund in the amount of $92,284. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was $97,602 and $97,572 as of December 31, 2018 and 2017, respectively.

## NOTE F – COMMITMENTS AND CONTINGENCIES

1. 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 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 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.

2. 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, three units shall be designated as floating HOME assisted units.

## NOTE F – COMMITMENTS AND CONTINGENCIES – CONTINUED

3. Regulatory Agreement Provisions

On February 5, 2001, the Company 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 Company 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.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. 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 5.5% of gross rental collections. Property Management Fees expensed were $21,138 and $21,336 during 2018 and 2017, respectively. The amounts due to the Management Agent related to Management Fees were $392 and $237 as of December 31, 2018 and 2017, respectively.

2. Owner Distribution – Asset Management Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the Limited Partner an Asset Management Fee in the amount of $3,500, increasing annually by three percent (3%), for property management oversight, tax credit compliance monitoring, and related services. Asset Management Fees of $4,990 and $4,845 were recognized during 2018 and 2017, respectively. The amounts due to the Limited Partner related to Asset Management Fees were $4,990 and $4,845 as of December 31, 2018 and 2017, respectively.

3. Owner Distribution – Partnership Management Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the General Partner a Partnership Management Fee in the amount of $25,000 for the managing of the Partnership'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. There were no Partnership Management Fees accrued during 2018 and 2017, respectively. There were no amounts due to the General Partner related to Partnership Management Fees as of December 31, 2018 and 2017.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

4. Development Fee

The Partnership has incurred a Development Services Agreement with CAASNM and JL Gray Company. Fees for these services are based on a percentage of the Total Development Cost, as defined by the Agreement, for a total projected Development Fee of $659,093 rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2018 and 2017, $589,093 and $579,093 of this fee has been paid, respectively. The amounts due related to Development Fees were $70,000 and $80,000 as of December 31, 2018 and 2017, respectively.

5. Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received laundry income of $0 and $78 for the years ended December 31, 2018 and 2017, respectively.

6. 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. There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2018 and 2017.

7. Operating Deficit Guaranty

Pursuant to the Partnership Agreement, the General Partner shall be obligated to provide any funds needed by the Partnership, after all funds in the Operating Reserve account have been used, to fund operating deficits through the later of the closing or conversion to the Permanent Loan and achievement of a Debt Service Coverage Ratio of 1.15:1, as defined. The amount guaranteed is limited to $147,899. If this amount reaches zero, the General Partner is required to provide the funds to the Partnership for operating deficits. The requirement to fund additional operating deficits will terminate on the date the following occurs:

1) The Project has operated at Break-even three consecutive calendar years following the stabilization date of the Project; or
2) The Project has met the required Debt Service Coverage Ratio for three years.

## NOTE H – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Cimmaron 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 I – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 2,363 | $ 2,190 |
| Accrued Audit Fees | 8,803 | 5,640 |
| Unclaimed Resident Property | 383 | 381 |
| Total Accrued Expenses | $ 11,549 | $ 8,211 |

## NOTE J – LITIGATION

A maintenance worker from the Project has filed a lawsuit for wrongful termination against the entity. The Company is vigorously defending this claim. There appears to be 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 the date of this report.

## NOTE K – SUBSEQUENT EVENTS

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

## NOTE A – ORGANIZATION

Cimmaron II Apartments Limited Partnership was organized in 2004 as a Limited Partnership to develop, construct, own, maintain, and operate an 84-unit rental housing project for mixed income tenants with both tax credit and market rate units. Twenty-four of the units were acquired through the purchase of an adjacent apartment complex and the remaining sixty units entered into substantial completion during April of 2011. The Project is located in the city of Anthony, New Mexico, and is currently known as Cimmaron II Apartments. The major activities of the Partnership are governed by the Partnership Agreement and the Internal Revenue Service Code Section 42.

The management of the Partnership and the ongoing management of Cimmaron II Apartments are vested in the Partners. The Partnership has hired JL Gray Company, an affiliate of one of the Partners, to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

The 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 Company 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. 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.

2. 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. 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. Accounts held in escrow for developer fees and the operating deficit reserve are invested without any federal deposit insurance. The amounts held without insurance are $314,437 and $341,689 as of December 31, 2018 and 2017, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

5. 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.

6. 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.

7. 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Property and Equipment – Continued

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

| | Estimated Life |
|---|---|
| Buildings | 40 |
| Site Improvements | 5-20 |
| Furnishings | 7-10 |

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Income Taxes

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

10. 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.

11. Rental Income

Rental Income is recognized as rents 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

13. Advertising Costs

Advertising Costs are expensed as incurred.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

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

General Partner:
*Cimmaron Apartments LLC to receive Net Income at 100.00%*
Limited Partner:
*JLG Properties, LLC to receive Net Loss at 100.00%*

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a 480-month note payable to New Mexico Mortgage Finance Authority under the 542(c) FHA-Insured Multifamily Loan Program in the original amount of $1,420,000, with an interest rate of 6.7%. The note is payable in monthly installments of $8,517 including interest through the maturity date. The unpaid principal of the loan is due January 2052. The accrued interest was $7,583 and $7,643 as of December 31, 2018 and 2017, respectively. Interest expensed on this note was $92,329 and $92,031 as of December 31, 2018 and 2017, respectively. | $1,358,102 | $1,368,913 |
| Less: Unamortized Debt Issuance Costs | (41,617) | (43,973) |
| | 1,316,485 | 1,324,940 |
| Less Current Portion | (11,557) | (10,810) |
| Long-term notes payable | $1,304,928 | $1,314,130 |

## NOTE D – LONG-TERM DEBT – CONTINUED

Aggregate maturities of the loans are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 11,557 | $ 90,642 |
| | 2020 | 12,356 | 89,844 |
| | 2021 | 13,210 | 88,990 |
| | 2022 | 14,122 | 88,077 |
| | 2023 | 15,098 | 87,101 |
| | 2024-2028 | 92,658 | 418,340 |
| | 2029-2033 | 129,409 | 381,589 |
| | 2034-2038 | 180,738 | 330,260 |
| | 2039-2043 | 252,425 | 258,572 |
| | 2044-2048 | 352,547 | 158,451 |
| | Thereafter | 283,982 | 31,133 |
| Less: Unamortized Debt Issuance Costs | | (41,617) | - |
| | Total | $ 1,316,485 | $ 2,022,999 |

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

## NOTE E – TCEP FUNDS

On December 18, 2009, the Partnership executed a $9,525,110 TCEP Mortgage Note to New Mexico Mortgage Finance Authority. The terms of the loan begin upon its execution and end 180 months after commencement of the Compliance Period. There are no interest or scheduled principal payments due with respect to this loan. The amount subject to recapture shall be reduced by 6.67% of the original loan amount for each compliant year. In the event there is no uncured Recapture Event of Default at the time of termination, this TCEP Mortgage Note shall be forgiven. Due to the fact that the repayment of the loan is considered less than remote, the liability was reclassified to a capital contribution as of December 31, 2011.

## NOTE F – RESERVE FUNDS

1. Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were $111,454 and $137,598 as of December 31, 2018 and 2017, respectively.

2. Replacement Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Replacement Reserve. The Partnership shall make deposits into the Replacement Reserve fund of $25,200 annually, commencing upon permanent financing. Replacement Reserve balance was $178,777 and $153,324 as of December 31, 2018 and 2017, respectively.

3. Operating and Operating Deficit Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership funded an Operating Deficit Reserve fund in the amount of $202,883. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was $202,883 and $202,883 as of December 31, 2018 and 2017, respectively.

## NOTE G – COMMITMENTS AND CONTINGENCIES

1. Tax Credit Exchange Program

The Low Income Housing Tax Credit Exchange Program Agreement entered into with New Mexico Mortgage Finance Authority states that no interest or scheduled principal payments are due with respect to the loan listed above. However, the entire principal of the loan will become due and payable if an event of default under the TCEP Agreement is failed to be cured. The Events of Default that would cause the loan to become due and payable include, but are not limited to the following:

1. A Recapture Event of Default;
2. Failure to comply with the requirements of Section 42 of the Code;
3. Failure to observe or perform any term, condition or covenant in the TCEP Agreement;
4. A default under any of the Loan Documents;
5. Any representation or warranty made by the Owner or on behalf of Owner becomes materially incorrect or incomplete;
6. Failure by owner to commence construction of the project within the specified time period;
7. The Project is damaged or destroyed and cannot be restored for completion by the Completion Date and within the other terms;

## NOTE G – COMMITMENTS AND CONTINGENCIES – CONTINUED

1. Tax Credit Exchange Program – Continued

8. Failure by owner to construct the project according to the contract documents;
9. For any cause (other than acts of God) that would suspend construction for a period of 20 consecutive days, construction is not carried on to permit completion by completion date, or construction is not progressing in accordance with the contract documents;
10. Failure by owner to pay the general contractor, mechanic, or supplier;
11. Property, Project or any part thereof are subject to a lien or security agreement except as provided in the TCEP Agreement;
12. Failure by owner to discharge, bond over or obtain title insurance against any mechanics' lien; or
13. The General Contractor or Owner shall become insolvent or be adjudicated bankrupt.

2. Regulatory Agreement Provisions

On December 14, 2011, the Company 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 Company 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.

## NOTE H – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. 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 twenty-four units in operation for the Project. The current year management fee is equal to 6% of gross rental collections. Property Management Fees expensed were $32,757 and $32,596 during 2018 and 2017, respectively. The amounts due to the Management Agent related to Management Fees were $537and $697 as of December 31, 2018 and 2017, respectively.

2. Development Fee

The Partnership has incurred a Development Fee of $825,405 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. As of December 31, 2018 and 2017, $660,392 and $687,905 of this fee has been paid, respectively. The amounts due related to Development Fees were $100,987 and $137,500 as of December 31, 2018 and 2017, respectively.

## NOTE H – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

3. Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received laundry income of $0 and $78 for the years ended December 31, 2018 and 2017, respectively.

4. Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee.

There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2018 and 2017, respectively.

## NOTE I – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Cimmaron II 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 J – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 3,654 | $ 3,214 |
| Accrued Expenses - Audit Fees | 6,796 | 5,640 |
| Unclaimed Resident Property | 133 | 75 |
| Total Accrued Liabilities | $ 10,583 | $ 8,929 |

## NOTE K – LITIGATION

A maintenance worker from the Project has filed a lawsuit for wrongful termination against the entity. The Company is vigorously defending this claim. There appears to be 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 the date of this report.

## NOTE L – SUBSEQUENT EVENTS

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

## NOTE A – 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 Company 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. <u>Basis of Accounting</u>

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

2. <u>Cash and Cash Equivalents</u>

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.

3. <u>Cash and Other Deposits</u>

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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

5. 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.

6. 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.

7. 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 in years using the straight-line method.

| | Estimated Life |
|---|---|
| Buildings | 10-40 |
| Site Improvements | 5-15 |
| Furnishings | 3-7 |
| Maintenance Equipment | 5 |

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Income Taxes

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

10. 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.

11. Rental Income

Rental Income is recognized as rents 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.

12. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

13. Advertising Costs

Advertising Costs are expensed as incurred.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

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

| | |
|---|---|
| General Partner: | |
| *Desert Palms Apartments LLC* | 0.01% |
| Limited Partner: | |
| *Freddie Mac Equity Plus II, ESIC* | 99.99% |
| Total | 100.00% |

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| 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. | $1,468,078 | $1,495,310 |
| 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) |
| | 1,776,039 | 1,801,770 |
| Less Current Portion | (29,050) | (27,232) |
| Long-term notes payable | $1,746,989 | $1,774,538 |

## NOTE D – LONG-TERM DEBT – CONTINUED

Aggregate maturities of the mortgage notes are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 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 | $ 1,541,736 |

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 E – RESERVE FUNDS

1. 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. The Replacement Reserve balance was $110,419 and $90,532 as of December 31, 2018 and 2017, respectively.

2. Operating Reserve

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 Operating Reserve balance was $23,228 and $23,221 as of December 31, 2018 and 2017, respectively. The Partnership was also required to establish a separate Operating Deficit Reserve with New Mexico Mortgage Finance Authority. The Operating Deficit Reserve balance was $15,540 and $15,516 as of December 31, 2018 and 2017, respectively.

## NOTE F – COMMITMENTS AND CONTINGENCIES

1. 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 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 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.

2. 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.

3. Regulatory Agreement Provisions

On February 5, 2001, the Company 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 Company 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.

4. 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 G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. 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 $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.

2. 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 $59,346 as of December 31, 2018 and 2017, respectively.

3. 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.

4. 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. As of December 31, 2018 and 2017, $60,098 and $9,291 of this fee has been paid, respectively. The amounts due related to Development Fees were $143,132 and $193,939 as of December 31, 2018 and 2017, respectively. On May 7, 2019, the General Partner paid $143,132 directly to JL Gray Company on behalf of the Partnership pursuant to its funding requirement to cover operating deficits. See Note G7.

5. Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received laundry income of $0 and $529 for the years ended December 31, 2018 and 2017, respectively.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

6. 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.

7. Operating Deficit Obligations

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 Project has operated at Break-even three consecutive calendar years following the stabilization date of the Project;
2. The Project 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.

## NOTE H – 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 I – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 3,940 | $ 3,441 |
| Accrued Audit Fees | 8,000 | 16,000 |
| Unclaimed Resident Property | 311 | 719 |
| Total Accrued Expenses | $ 12,251 | $ 20,160 |

## NOTE J – SUBSEQUENT EVENTS

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

## NOTE A – ORGANIZATION

Falcon Ridge Limited Partnership was organized in 2007 as a Limited Partnership to develop, construct, own, maintain, and operate a 72-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Hatch, New Mexico, and is currently known as Falcon Ridge Apartments. The project property assumed loans regulated under Sections 515(b) and 521 of the Housing Act of 1949, as amended, which provides for interest subsidies and is regulated by the USDA Rural Development. In addition the Partnership obtained a loan guarantee and interest credit subsidy under the Guaranteed Rural Rental Housing Section 538 Program which is also regulated by the USDA Rural Development. The major activities of the Partnership are governed by the Partnership Agreement, USDA Rural Development (RD), and the Internal Revenue Service Code Section 42.

In August 2006, three properties known as Los Caballos I, II, & III were destroyed and rendered uninhabitable by a flood in Hatch, NM. The properties were originally funded by three different RD 515 loans. A new project in a different location, but also in Hatch, NM was built. On December 22, 2009, the transfer of the loans was made to the new entity, Falcon Ridge Apartments. The total of the loans assumed was $2,259,317. Interest was paid on the loan prior to assumption in the amount of $132,229. In addition, the remaining insurance proceeds in the amount of $1,778,290 received from the Los Caballos property insurance settlement were also transferred, along with the remaining development costs of $414,551 related to this transfer.

The management of the Partnership and the ongoing management of Falcon Ridge Apartments are vested in the Partners. The Partnership has hired JL Gray Company, an affiliate of the General and Limited Partners, to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

The Partnership is reported as a component unit of the Mesilla Valley Public Housing Authority (MVPHA) because the MVPHA is the sole member of the General Partner of the Partnership. The Partnership has no component units.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. <u>Basis of Accounting</u>

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

2. <u>Cash and Cash Equivalents</u>

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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Cash and Cash equivalents in excess of FDIC limits were $319,110 and $270,132 at December 31, 2018 and 2017, respectively. Accounts held in escrow for developer fees and the operating deficit reserve are invested without any federal deposit insurance. The amounts held without insurance are $313,340 and $340,534 as of December 31, 2018 and 2017, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. Collateralization of Deposits

Even though the Partnership is a component unit of the Mesilla Valley Public Housing Authority (MVPHA), it is not subject to the requirement to secure collateralization on cash deposits.

5. 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.

6. 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.

7. 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Property and Equipment – Continued

| | Estimated Life |
|---|---|
| Buildings | 40 |
| Site Improvements | 5-20 |
| Furnishings | 3-10 |

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Income Taxes

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

10. 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.

11. Return to Owner

In accordance with the Loan Agreement(s), the maximum annual cash return to owner allowable by RD for the Partnership is $15,000, and is allocated to the Partners as formulated in the Partnership Agreement.

12. Rental Income

Rental Income is recognized as rents 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. Deferred Fees and Amortization

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

14. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

15. Advertising Costs

Advertising Costs are expensed as incurred.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

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

General Partner:
*Falcon Ridge LLC to receive Net Income at 100.00%*
Limited Partner:
*JLG Properties, LLC to receive Net Loss at 100.00%*

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a 40-year mortgage payable dated December 2011, to Lancaster Pollard Mortgage Company in the original amount of $1,332,000, with an interest rate of 4.58%. The loan is under the USDA Section 538 Guaranteed Rural Rental Housing Program and has been awarded an interest credit by USDA to reduce the effective interest rate on the loan to 2.08% per annum. The mortgage is payable in monthly installments of $6,061 including interest through the maturity date. The unpaid principal of the loan is due December 1, 2051. The accrued interest was $4,720 and $4,784 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $56,976 and $57,680 as of December 31, 2018 and 2017, respectively. | $1,236,760 | $1,252,559 |

## NOTE D – LONG-TERM DEBT – CONTINUED

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| On December 22, 2009, Falcon Ridge Limited Partnership assumed the unpaid principal balance of the Rural Development Section 515 loans originally issued to Los Caballos I, Los Caballos II and Los Caballos III. The amount assumed and related interest and maturity dates were $728,506 at 9.00% matures February 1, 2037; $690,892 at 8.75% matures August 1, 2041; $839,902 at 7.75% matures July 1, 2043. The assumed loans are payable in monthly installments of $7,173, net of interest subsidy. The accrued interest was $13,997 and $14,654 as of December 31, 2018 and 2017, respectively. Interest expensed on these loans was $169,716 and $177,029 as of December 31, 2018 and 2017, respectively. | 1,991,345 | 2,032,904 |
| Less: Unamortized Debt Issuance Costs | (166,878) | (191,636) |
| | 3,061,227 | 3,093,827 |
| Less Current Portion | (56,910) | (52,483) |
| Long-term notes payable | $3,004,317 | $3,041,344 |

Aggregate maturities of the loans are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 56,910 | $ 222,650 |
| | 2020 | 61,252 | 218,262 |
| | 2021 | 66,002 | 213,512 |
| | 2022 | 71,145 | 208,370 |
| | 2023 | 76,713 | 202,801 |
| | 2024-2028 | 484,774 | 912,797 |
| | 2029-2033 | 684,438 | 684,563 |
| | 2034-2038 | 590,411 | 448,802 |
| | 2039-2043 | 649,549 | 209,558 |
| | 2044-2048 | 282,905 | 80,771 |
| | Thereafter | 204,006 | 14,684 |
| Less: Unamortized Debt Issuance Costs | | (166,878) | - |
| | Total | $ 3,061,227 | $ 3,416,770 |

## NOTE D – LONG-TERM DEBT – CONTINUED

The Rural Development loans assumed by the Partnership are Section 515. Interest Subsidy from Rural Development should reduce the interest paid to 1% over the term of the loan (See Interest Credit and Rental Assistance Agreement Footnote). The project also received interest subsidy from Rural Development Section 538. Interest subsidy payments of $152,184 and $153,528 were recognized as other income during 2018 and 2017, respectively.

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

## NOTE E – RESERVE FUNDS

1. <u>Developer Fee Holdback Escrow</u>

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were $111,477 and $138,411 as of December 31, 2018 and 2017, respectively.

2. <u>Replacement Reserve</u>

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve to fund major repairs or replacements of the Project Property, and shall make deposits to fund the Replacement Reserve account. The Replacement Reserve balance was $555,557 and $532,342 as of December 31, 2018 and 2017, respectively.

3. <u>Operating & Operating Deficit Reserve</u>

In accordance with the Partnership Agreement, the Partnership funded an Operating Reserve fund in the amount of $200,640. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was $201,863 and $200,881 as of December 31, 2018 and 2017, respectively.

4. <u>Lease-Up Reserve</u>

On December 18, 2009, at the time of the loan closing, a Lease-Up Reserve account was established in the amount of $25,000. The TCEP agreement states that the funds are required to be held by the New Mexico Mortgage Finance Authority (NMMFA) and only to be distributed by their approval. However, NMMFA did not retain these funds from the loan draws. When the project reaches stabilization, any remaining funds shall be applied first to pay any monies owed to NMMFA, then to satisfy any other reserve requirement of the project, then to the owners or any lender with a continuing loan on the project. The Lease-Up Reserve balance was $25,080 and $25,070 as of December 31, 2018 and 2017, respectively.

## NOTE E – RESERVE FUNDS – CONTINUED

4. Lease-Up Reserve – Continued

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

1. The project has achieved an occupancy of 93%;
2. The project has met the debt service coverage ratio for three consecutive months;
3. The owner has closed on and received permanent financing;
4. The owner has established and funded all required reserves; and
5. The owner had delivered to NMMFA satisfactory evidence that all low-income units have been occupied by qualifying tenants.

## NOTE F – TCEP FUNDS

On December 18, 2009, the Partnership executed a $6,976,074 TCEP Mortgage Note to New Mexico Mortgage Finance Authority. The terms of the loan begin upon its execution and end 180 months after commencement of the Compliance Period. There are no interest or scheduled principal payments due with respect to this loan. The amount subject to recapture shall be reduced by 6.67% of the original loan amount for each compliant year. In the event there is no uncured Recapture Event of Default at the time of termination, this TCEP Mortgage Note shall be forgiven. Due to the fact that the repayment of the loan is considered less than remote, the liability was reclassified to a capital contribution as of December 31, 2011.

## NOTE G – COMMITMENTS AND CONTINGENCIES

1. Tax Credit Exchange Program

The Low Income Housing Tax Credit Exchange Program Agreement entered into with New Mexico Mortgage Finance Authority states that no interest or scheduled principal payments are due with respect to the loan listed above. However, the entire principal of the loan will become due and payable if an event of default under the TCEP Agreement is failed to be cured. The Events of Default that would cause the loan to become due and payable include, but are not limited to the following:

1. A Recapture Event of Default;
2. Failure to comply with the requirements of Section 42 of the Code;
3. Failure to observe or perform any term, condition or covenant in the TCEP Agreement;
4. A default under any of the Loan Documents;
5. Any representation or warranty made by the Owner or on behalf of the Owner becomes materially incorrect or incomplete;
6. Failure by owner to commence construction of the project within the specified time period;
7. The Project is damaged or destroyed and cannot be restored for completion by the Completion Date and within the other terms;
8. Failure by owner to construct the project according to the contract documents;

## NOTE G – COMMITMENTS AND CONTINGENCIES – CONTINUED

1. <u>Tax Credit Exchange Program – Continued</u>

9. For any cause (other than acts of God) that would suspend construction for a period of 20 consecutive days, construction is not carried on to permit completion by completion date, or construction is not progressing in accordance with the contract documents;
10. Failure by owner to pay the general contractor, mechanic, or supplier;
11. Property, Project or any part thereof are subject to a lien or security agreement except as provided in the TCEP agreement;
12. Failure by owner to discharge, bond over or obtain title insurance against any mechanics' lien; or
13. The General Contractor or Owner shall become insolvent or be adjudicated bankrupt.

2. <u>Interest Credit and Rental Assistance Agreement</u>

Under an agreement with Rural Developments 515 loans, a mortgage subsidy is provided which reduces the effective interest rate on the mortgage to 1% over the life of the Loan Agreement. Rural Development may terminate the agreement if it determines that no subsidy is necessary or if the Partnership is determined to be in violation of the Loan Agreement(s) or Rural Development rules or regulations.

3. <u>Rental Assistance Agreement</u>

The Partnership has entered into a Rental Assistance Agreement with Rural Development providing rental assistance for 67 units. The Agreement provides for a maximum rental assistance commitment that expires automatically upon total disbursement, but is renewable under contract with Rural Development pending congressional approval of budget authority.

4. <u>Interest Credit Agreement</u>

Under the Guaranteed Rural Rental Housing Program the Partnership receives interest credit subsidy. The program is regulated by the USDA Rural Development Section 538.

## NOTE H – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. <u>Management Fee</u>

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the Project. The compensation for these services are based on the Management Certification. Property Management Fees expensed were $40,086 and $40,000 during 2018 and 2017, respectively. The amounts due to the Management Agent related to Management Fees were $0 and $54 as of December 31, 2018 and 2017, respectively.

## NOTE H – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

2. General Partner Distributions

In accordance with the Partnership Agreement, the General Partner shall receive 99.99% of Distributable Cash. Distributions of $15,000 and $15,000 were recognized during 2018 and 2017, respectively. Due to a clerical error, distributions were issued twice and a receivable was recorded. There were no amounts due to the General Partner related to Distributions as of December 31, 2018 or 2017. Partners' Distributions Receivable were $0 and $0 as of December 31, 2018 and 2017, respectively.

3. Development Fee

The Partnership has incurred a Development Fee of $1,107,346 due to JL Gray Company and the Mesilla Valley Public Housing Authority, rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2018 and 2017, $996,646 and $968,963 of this fee has been paid, respectively. The amounts due related to Development Fees were $110,700 and $138,383 as of December 31, 2018 and 2017, respectively. Current year payments were made from the Developer Fee Holdback Escrow. See Note E.

4. Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received laundry income of $962 and $1,997 for the years ended December 31, 2018 and 2017, respectively.

5. Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2018 and 2017.

## NOTE I – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Falcon Ridge Apartments. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by federal and state agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

## NOTE I – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS – CONTINUED

The Project's major source of revenue is from interest subsidy and rental assistance received from Rural Development. Rural Development may terminate the interest subsidy or rental assistance agreement if it determines that no subsidy is necessary or if the project is determined to be in violation of Rural Development rules or regulations.

## NOTE J – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 2,728 | $ 3,315 |
| Accrued Audit Fees | 8,080 | 9,988 |
| Unclaimed resident property | 217 | - |
| Total Accrued Expenses | $ 11,025 | $ 13,303 |

## NOTE K – SUBSEQUENT EVENTS

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

## NOTE L – RESTATEMENTS

The following summarizes the Partnership’s restatement:

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

## NOTE A – ORGANIZATION

Montana Senior Village, LLC was organized in 1998 as a Limited Liability Company to develop, construct, own, maintain, and operate a 49-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 Montana Senior Village Apartments. The major activities of the Company are governed by the Management and Operating Agreements and the Internal Revenue Code Section 42.

The management of the Company and the ongoing management of Montana Senior Village Apartments are vested in the Members. The Company has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the 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 Company 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 Company is reported as a component unit of Mesilla Valley Public Housing Authority (MVPHA), previously Housing Authority of the City of Las Cruces, because the MVPHA is the Managing Member of the Company. The Company has no component units.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Project's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. Basis of Accounting

The Project utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

2. 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.

3. Cash and Other Deposits

The Project maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Project has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

5. 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.

6. Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Project does not accrue interest on the tenant receivable balances. The Project 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.

7. 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.

For financial statement purposes the following estimate useful lives are used:

| | Estimated Life |
|---|---|
| Buildings | 27.5 |
| Site Improvements | 15-27.5 |
| Furnishings | 3-7 |

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Impairment

The Project reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Income Taxes

No tax provisions have been recorded in the financial statements since income or loss of the Company is disregarded from an income tax basis because the Company is a single-member LLC.

10. 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.

11. Rental Income

Rental Income is recognized as rents become due. Rental payments received in advance are deferred until earned. All leases between the Company and the tenants of the property are operating leases.

12. Amortization

Permanent loan fees are amortized on a straight-line basis over the life of the respective loan.

13. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

14. Advertising Costs

Advertising costs are expensed as incurred.

## NOTE C – MEMBERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Members of Montana Senior Village, LLC and their respective profit and loss percentages are as follows as of December 31, 2017 and 2016:

| | |
|---|---|
| Managing Member: | |
| *Mesilla Valley Public Housing Authority* | 0.01% |
| Investor Member: | |
| *The Bank of America Housing Fund II LP thru 12/05/16* | 99.99% |
| *MV Housing Development, LLC after 12/05/16* | 0.00% |
| Total | 100.00% |

1. Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow

The Investor Member contributed $1,235,342 for a 99.99% interest in the Company. The Managing Member contributed $170,000 for a 0.01% interest in the Company.

Profits, losses, and Tax Credits generally are to be allocated to the Members in accordance with their ownership interests. In the event the Managing Member makes an operating deficit contribution, the Managing Member receives a special allocation equal to the amount of the contribution.

Net cash flow from operations, as defined, is to be distributed annually as follows:

1) To the Managing Member to pay the Deferred Development Fee in accordance with the Development Services Agreement;

2) To the Managing Member to pay the annual Company Management Fee in accordance with the Company Administration Agreement;

3) To the Managing Member to pay the Incentive Management Fee in accordance with the Company Administration Agreement;

4) To the Managing Member to repay any Operating Deficit Contribution;

The balance, .01% to the Managing Member and 99.99% to the Investor Member.

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a 39-year mortgage payable to New Mexico Mortgage Finance Authority under the 542(c) FHA-Insured Multifamily Loan Program in the original amount of $1,030,000, with an interest rate of 8.15%. The mortgage is payable in monthly installments of $7,303 including interest through the maturity date. The unpaid principal of the loan is due February 2040. The accrued interest was $5,994 and $6,096 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $72,500 and $73,681 as of December 31, 2018 and 2017, respectively. | $882,580 | $897,612 |
| The Project also has a 15-year mortgage payable to Mesilla Valley Public Housing Authority (MVPHA), previously Housing Authority of the City of Las Cruces, in the original amount of $99,000. The loan is subordinate to the First Mortgage Loan and payment is subject to available cash flow. During 2004, the terms of the Land Loan were changed and previously paid interest was applied to principal. The terms were amended again during 2016 to change the maturity date from December 1, 2015 to December 1, 2027. The new terms were retroactively effective as of December 1, 2015, and state Montana Senior Village Apartments shall pay the total sum of $11,232 by December 1, 2016. Thereafter, Montana Senior Village Apartments shall pay $5,000 annually beginning in 2017 for a period of ten years. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 2% per annum. | 40,000 | 31,127 |
| The Project also has a 17-year mortgage payable to Mesilla Valley Public Housing Authority (MVPHA), previously Housing Authority of the City of Las Cruces, in the original amount of $487,250. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 4% per annum. Maturity of the loan occurs at the sale, refinance, or transfer of the property or on December 2017. During 2017, the loan was extended and the maturity date changed to December 2022. The loan is subordinate to the First Mortgage Loan and payment is subject to available cash flow. The long-term accrued interest was $329,706 and $329,706 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $0 and $17,866 as of December 31, 2018 and 2017, respectively. | 487,250 | 487,250 |
| Less: Unamortized Debt Issuance Costs | (30,899) | (32,364) |
| | 1,378,931 | 1,383,625 |
| Less Current Portion | (21,304) | (21,264) |
| Long-term notes payable | $1,357,627 | $1,362,361 |

## NOTE D – LONG-TERM DEBT – CONTINUED

Aggregate maturities of the mortgage notes in each of the next five years are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 21,304 | $ 72,130 |
| | 2020 | 22,684 | 70,651 |
| | 2021 | 24,180 | 69,054 |
| | 2022 | 513,053 | 67,331 |
| | 2023 | 27,563 | 65,471 |
| | 2024-2028 | 159,895 | 63,462 |
| | 2029-2033 | 217,486 | 61,291 |
| | 2034-2038 | 326,443 | 58,945 |
| | Thereafter | 87,627 | - |
| Less: Unamortized Debt Issuance Costs | | (21,304) | - |
| | Total | $ 1,378,931 | $ 528,335 |

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

## NOTE E – RESERVE FUNDS

1. Replacement Reserve

A Replacement Reserve is required to be funded from the Project's gross revenue to fund major repair and capital expenditures. The Replacement Reserve balance was $76,560 and $65,452 as of December 31, 2018 and 2017, respectively.

2. Operating Reserve

In accordance with the Operating Agreement, the Operating Reserve should maintain a balance of at least $60,000. The Managing Member may use funds in the Operating Reserve with the consent of the Investor Member, for any Company purpose, but only to the extent the revenues of the company are insufficient to accomplish such purposes. The Operating Reserve balance was $32,437 and $32,427 as of December 31, 2018 and 2017, respectively. The additional accumulation of funds required are held in the Operating Deficit Reserve account.

## NOTE E – RESERVE FUNDS – CONTINUED

3. Operating Deficit Reserve

NMMFA required that an amount equal to three monthly first mortgage payments, or $30,327, be retained in escrow as the Operating Deficit Reserve Account. The Managing Member has established an Operating Deficit Reserve account to accumulate the additional funds required by the Operating Agreement. The Operating Deficit Reserve balance was $35,492 and $35,385 as of December 31, 2018 and 2017, respectively.

The combined balance for the Operating Reserve and the Operating Deficit Reserve was $67,939 and $67,875 as of December 31, 2018 and 2017, respectively.

## NOTE F – COMMITMENTS AND CONTINGENCIES

1. Guaranty of Tax Credits

Under the terms of the Operating Agreement, the Managing Member has the duty to use its best efforts to ensure that the Company qualifies for the maximum lawful Low Income Housing Tax Credits. In the event that actual Low Income Housing Tax Credits accruing to the benefit of the Investor Member are less than the amount of Credits that were projected at the formation of the Company, the contributions of capital otherwise required of the Investor Member may be reduced, or constructive advances deemed made, in accordance with applicable provisions of the Operating Agreement.

2. Operating Deficit Contributions

The Managing Member is obligated to make contributions to the Company as necessary to fund operating expenses, debt service payments, reserve and escrow accounts, capital improvements, and maintenance expenses that occur during certain specified periods, as defined. The Managing Member's obligation to make operating deficit contributions after the lease-up date, as defined, is limited to $100,000 and terminates upon achievement of certain operating milestones. Per the Operating Agreement, losses equal to the deficit payments are allocated to the Managing Member.

3. Regulatory Agreement Provisions

On February 5, 2001, the Company 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 Company 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.

## NOTE F – COMMITMENTS AND CONTINGENCIES – CONTINUED

4. Housing Tax Credits

As incentive for investment equity, the Company 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 Company 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 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 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.

5. Long-Term Contract

The Company 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 Company a one-time fee of $4,800 as consideration for entering into a long-term service agreement. The total fee was received by the Company upon execution of the agreements.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. Property Management Fee

The Company has entered into a Management Agreement with JL Gray Company to manage the rental operations of the apartment community. The compensation for this service is based on the Management Agreement. The Management Fee shall equal 5.25% of monthly gross rental collections excluding any service or laundry income. Property Management Fees expensed were $15,929 and $15,296 during 2018 and 2017, respectively. The amounts due to the Management Agent related to Management Fees were $311 and $221 as of December 31, 2018 and 2017, respectively.

2. Company Administration Fee

In accordance with the Operating Agreement and the Company Administrative Agreement, the Project shall pay to the Managing Member a non-accruing Company Administration Fee for its services in managing the business of the Project in the amount of $15,000. There were no amounts recognized or due to the Managing Member related to Company Administration Fees as of December 31, 2018 and 2017, respectively.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

3. Incentive Management Fee

In accordance with the Operating Agreement and the Company Administrative Agreement, the Project shall pay to the Managing Member an Incentive Management Fee equal to 75% of net cash flow subject to available cash flow, as defined. There were no Incentive Management Fees recognized or due to the Managing Member related to Incentive Management Fee as of December 31, 2018 and 2017, respectively.

4. 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. There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2018 and 2017, respectively.

## NOTE H – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Company's sole asset is Montana Senior Village Apartments. The Company's operations are concentrated in the multifamily real estate market. In addition, the Company operates in a heavily regulated environment. The operations of the Company 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 an act of Congress or 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.

## NOTE I – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 1,459 | $ 1,585 |
| Accrued Audit Fees | 6,030 | 5,640 |
| Unclaimed Rental Property | 182 | - |
| Total Accrued Expenses | $ 7,671 | $ 7,225 |

## NOTE J – SUBSEQUENT EVENTS

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

## NOTE K – RESTATEMENTS

The following summarizes the Partnership's restatement:

| Description | Amount |
|---|---|
| To adjust mortgage payable | $ 15,000 |

## NOTE A – ORGANIZATION

MSV II Limited Partnership was organized in January 2001 as a Limited Partnership to develop, construct, own, maintain, and operate an 84-unit rental housing project for low income senior tenants. The Project is located in the City of Las Cruces, New Mexico, and is currently known as Montana Senior Village II 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 Montana Senior Village II 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 Partnership is reported as a component unit of Mesilla Valley Public Housing Authority (MVPHA), previously known as Housing Authority of the City of Las Cruces. Mesilla Valley Public Housing Authority has an ownership interest in the General Partner of the Partnership. The Partnership has no component units.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. 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.

2. 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.

3. Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Cash and Cash equivalents in excess of FDIC limits were $133,268 and $255,300 at December 31, 2018 and 2017, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. 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.

6. 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.

7. Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Property and Equipment with a unit cost of $5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets. Property and Equipment purchases less than $5,000 or with lives of one year or less, and maintenance and repairs which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

| | Estimated Life |
|---|---|
| Buildings | 27.5 |
| Site Improvements | 15-20 |
| Furnishings | 3-7 |

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. Income Taxes

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

10. 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.

11. Rental Income

Rental Income is recognized as rents 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.

12. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

13. Advertising Costs

Advertising costs are expensed as incurred.

14. Concentrations of Risk

The Partnership deposits cash in financial institutions. At times, the account balances may exceed the institution's federally insured limits. The Partnership has not experienced any losses on such accounts.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of MSV II Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2018 and 2017:

| | |
|---|---|
| General Partner: | |
| *Montana Street, LLC* | 0.01% |
| Limited Partner: | |
| *The Housing Outreach Fund IX, LP* | 99.99% |
| Total | 100.00% |

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS – CONTINUED

1. Capital Contributions and Allocations of Profit, Loss, Tax Credits, and Cash Flow

The Limited Partner contributed $2,285,313 for a 99.99% interest in the Partnership. The General Partner contributed $300,000 for a 0.01% interest in the Partnership.

Profits, losses, and Tax Credits generally are to be allocated to the Partners in accordance with their ownership interests. In the event the General Partner makes an operating deficit contribution, the General Partner receives a special allocation equal to the amount of the contribution.

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with an 18-year mortgage payable to Enterprise Mortgage Investments, Inc., an affiliate of the Limited Partner, in the original amount of $1,790,000, with an interest rate of 7.03%. The mortgage is payable in monthly installments of $11,945 including interest through the maturity date. The unpaid principal of the loan is due October 2022. The accrued interest was $8,008 and $8,274 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $89,111 and $91,920 as of December 31, 2018 and 2017, respectively. | $1,366,920 | $1,412,416 |
| The Project also has a 32-year mortgage payable to the City of Las Cruces, NM in the original amount of $275,000 with an interest rate of 1% for 17 years. Beginning in year 18, the outstanding interest becomes principal and the balance accrues interest at the rate of 3% per year payable in 180 monthly installments of $2,243. The loan matures at the end of year 32. The long-term accrued interest was $44,558 and $41,808 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $2,750 and $2,750 as of December 31, 2018 and 2017, respectively. | 275,000 | 275,000 |
| The Project is financed with a 32-year promissory note with MVPHA, previously known as HACLC, an affiliate of the General Partner, in the original amount of $700,000, with an interest rate of 0.25%, to partially finance the predevelopment and construction costs. The mortgage payment is subject to available cash flow. During 2004, $100,000 of development advances were added to this loan balance. The unpaid principal of the loan is due November 2034. The long-term accrued interest was $31,861 and $29,861 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $2,000 and $2,000 as of December 31, 2018 and 2017, respectively. | 800,000 | 800,000 |

## NOTE D – LONG-TERM DEBT – CONTINUED

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a 32-year promissory note with MVPHA, previously known as HACLC, an affiliate of the General Partner, in the original amount of $500,000, with an interest rate of 0.25%, to partially finance the predevelopment and construction costs. The mortgage payment is subject to available cash flow. The unpaid principal of the loan is due November 2034. The long-term accrued interest was $20,209 and $18,959 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $1,250 and $1,250 as of December 31, 2018 and 2017, respectively. | 500,000 | 500,000 |
| Less: Unamortized Debt Issuance Costs | (3,979) | (9,286) |
| | 2,937,941 | 2,978,130 |
| Less Current Portion | (51,700) | (45,516) |
| Long-term notes payable | $2,886,241 | $2,932,614 |

Aggregate maturities of the mortgage notes in each of the next five years are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 51,700 | $ 101,966 |
| | 2020 | 69,816 | 103,696 |
| | 2021 | 74,148 | 99,344 |
| | 2022 | 1,177,359 | 95,439 |
| | 2023 | 19,116 | 11,056 |
| | 2024-2028 | 104,666 | 46,194 |
| | 2029-2033 | 121,582 | 29,278 |
| | Thereafter | 1,323,533 | 1,591 |
| Less: Unamortized Debt Issuance Costs | | (3,979) | - |
| | Total | $ 2,937,941 | $ 488,564 |

Long-term accrued interest on the HOME loan in the amount of $50,789 becomes principal in 2019.

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

## NOTE E – RESERVE FUNDS

1. 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 $16,800 annually (to be increased annually by 3%) commencing with the completion of the Project. The Replacement Reserve balance was $202,730 and $170,670 as of December 31, 2018 and 2017, respectively.

2. Operating Reserve

In accordance with the Partnership Agreement, the Partnership funded an Operating Reserve fund in the amount of $89,000. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was $94,661 and $94,632 as of December 31, 2018 and 2017, respectively.

3. Guaranty Reserve

The General Partner is required to fund a Guaranty Reserve in the amount of $300,000 in order to guarantee its construction, operating deficit, and Partnership obligations. Upon termination and winding-up of the Partnership, this Reserve shall be disbursed to the General Partner. The Guaranty Reserve balance was $314,471 and $315,403 as of December 31, 2018 and 2017, respectively.

## NOTE F – COMMITMENTS AND CONTINGENCIES

1. 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 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 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.

## NOTE F – COMMITMENTS AND CONTINGENCIES – CONTINUED

2. Guaranty of Tax Credits

Under the terms of the Operating Agreement, the General Partner has the duty to use its best efforts to ensure that the Partnership qualifies for the maximum lawful Low Income Housing Tax Credits. In the event that actual Low Income Housing Tax Credits accruing to the benefit of the Limited Partner are less than the amount of Credits that were projected at the formation of the Partnership, the contributions of capital otherwise required of the Limited Partner may be reduced, or constructive advances deemed made, in accordance with applicable provisions of the Operating Agreement.

3. Operating Deficit Contributions

The General Partner is obligated to make contributions to the Partnership as necessary to fund operating expenses, debt service payments, reserve and escrow accounts, capital improvements, and maintenance expenses that occur during certain specified periods, as defined. The General Partner's obligation to make operating deficit contributions after the lease-up date, as defined, is limited to $250,000 and terminates upon achievement of certain operating milestones. Per the Operating Agreement, losses equal to the deficit payments are allocated to the General Partner.

4. Long-Term Contract

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

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. 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 5.25% of gross rental collections. Property Management Fees expensed were $26,231 and $25,586 during 2018 and 2017, respectively. The amounts due to the Management Agent related to Management Fees were $478 and $546 as of December 31, 2018 and 2017, respectively.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

2. 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 $3,000, beginning in 2003, increasing at a rate of 3% each year. The Investor Services Fee is payable subject to available cash flow. If cash flow is insufficient in any year, the unpaid fees shall be deferred and shall be payable out of the next available cash flow. Investor Services Fees of $4,674 and $4,538 were recognized during 2018 and 2017, respectively. The amounts due to the Limited Partner related to Investor Services Fees were $4,674 and $4,538 as of December 31, 2018 and 2017, respectively.

3. Partnership Administration Fee

In accordance with the Partnership Agreement, the Partnership shall pay to MVPHA, previously known as HACLC, an affiliate of the General Partner, a non-cumulative Partnership Administration Fee in the amount of $20,000 for the managing of the Partnerships assets and operations. Partnership Administration Fees of $20,000 and $20,000 were recognized during 2018 and 2017, respectively. There were no amounts due to the General Partner related to Partnership Administration Fees as of December 31, 2018 and 2017, respectively.

4. Tenant Services Fee

The Partnership executed a Tenant Services Agreement with an affiliate of the General Partner, MVPHA, previously known as HACLC, for social services provided to tenants of the Project. An annual non-cumulative Tenant Services Fee of $20,000 beginning in 2003, increasing at a rate of 3% each year, is payable subject to available cash flow. There were no Tenant Services Fees recognized during 2018 and 2017, respectively.

5. Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2018 and 2017, respectively.

## NOTE H – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Montana Senior Village II 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 I –ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 2,414 | $ 2,630 |
| Accrued Expenses - Audit Fees | 6,030 | 5,640 |
| Unclaimed Residential Property | 194 | - |
| Total Accrued Liabilities | $ 8,638 | $ 8,270 |

## NOTE J – SUBSEQUENT EVENTS

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

## NOTE A – ORGANIZATION

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

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

The Project is financed and constructed under Section 542(c) of the Housing and Community Development Act, as amended, and is administered by the New Mexico Mortgage Finance Authority (MFA). Under this program, the Company 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.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

1. <u>Basis of Accounting</u>

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

2. <u>Cash and Cash Equivalents</u>

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.

3. <u>Cash and Other Deposits</u>

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Cash and Cash equivalents in excess of FDIC limits were $68,032 and $55,352 at December 31, 2018 and 2017, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

5. 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.

6. 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.

7. Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Property and Equipment with a unit cost of $5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets. Property and Equipment purchases less than $5,000 or with lives of one year or less, and maintenance and repairs which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

| | Estimated Life |
|---|---|
| Buildings | 15-40 |
| Site Improvements | 5-15 |
| Furnishings | 3-10 |

## NOTE B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2018 or 2017.

9. Income Taxes

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

10. 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.

11. Rental Income

Rental Income is recognized as rents 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.

12. Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

13. Advertising Costs

Advertising costs are expensed as incurred.

## NOTE C – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Stone Mountain Place Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2018 and 2017:

| | |
|---|---|
| General Partner: | |
| *Stone Mountain Place, LLC* | 0.01% |
| Limited Partner: | |
| *TCIG Tax Credit Fund II, LLC* | 99.99% |
| Total | 100.00% |

## NOTE D – LONG-TERM DEBT

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| The Project is financed with a 40-year mortgage payable to New Mexico Mortgage Finance Authority in the original amount of $2,305,000, with an interest rate of 6.10%. The mortgage is payable in monthly installments of $12,843 including interest through the maturity date. The loan will be secured by a first lien position on the Project. The unpaid principal of the loan is due May 2048. The accrued interest was $10,721 and $10,846 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $129,343 and $130,805 as of December 31, 2018 and 2017, respectively. | $2,108,948 | $2,133,601 |
| The Project also has a 45-year mortgage payable to City of Las Cruces in the original amount of $419,116. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 1.00% per annum. Interest only payments shall be made monthly in the amount of $349 for the first 15 years; in year sixteen the note will be payable in 360 monthly installments of $1,348. Maturity of the loan occurs at the sale, refinance, or transfer of the property or on August 2051. The accrued interest was $349 and $349 as of December 31, 2018 and 2017, respectively. Interest expensed on this loan was $4,191 and $4,191 as of December 31, 2018 and 2017, respectively. | 419,116 | 419,116 |
| Less: Unamortized Debt Issuance Costs | (83,683) | (86,568) |
| | 2,444,381 | 2,466,149 |
| Less Current Portion | (26,200) | (24,654) |
| Long-term notes payable | $2,418,181 | $2,441,495 |

## NOTE D – LONG-TERM DEBT – CONTINUED

Aggregate maturities of the mortgage notes in each of the next five years are approximated as follows:

| | | Principal | Interest |
|---|---|---|---|
| December 31, | 2019 | $ 26,200 | $ 132,113 |
| | 2020 | 27,844 | 130,469 |
| | 2021 | 29,591 | 128,722 |
| | 2022 | 34,446 | 126,863 |
| | 2023 | 45,490 | 124,808 |
| | 2024-2028 | 263,502 | 587,989 |
| | 2029-2033 | 338,269 | 513,221 |
| | 2034-2038 | 438,652 | 412,839 |
| | 2039-2043 | 573,709 | 277,782 |
| | 2044-2048 | 690,847 | 96,426 |
| | Thereafter | 59,514 | 1,147 |
| Less: Unamortized Debt Issuance Costs | | (83,683) | - |
| | Total | $ 2,444,381 | $ 2,532,379 |

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

## NOTE E – RESERVE FUNDS

1. Replacement Reserve

In accordance with the Partnership Agreement and the New Mexico Mortgage Finance Authority Loan Agreement, the Partnership shall establish and maintain a Replacement Reserve. The Partnership shall make deposits into the Replacement Reserve fund of $25,200 annually. The Replacement Reserve balance was $165,357 and $139,924 as of December 31, 2018 and 2017, respectively.

2. Operating Reserve

In accordance with the Partnership Agreement, the Partnership shall establish and maintain an Operating Reserve fund in an amount not less than $205,000. The Operating Reserve balance was $210,788 and $210,578 as of December 31, 2018 and 2017, respectively.

## NOTE F – COMMITMENTS AND CONTINGENCIES

1. 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 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 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.

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

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

3. HOME Investment Partnerships Program

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

4. Regulatory Agreement Provisions

On February 5, 2001, the Company 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 Company 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.

## NOTE F – COMMITMENTS AND CONTINGENCIES – CONTINUED

5. Long-Term Contract

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

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

1. Property Management Fee

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the Project. The current year management fee is equal to 6% of gross rental income. Property Management Fees expensed were $35,393 and $34,410 during 2018 and 2017, respectively. The amounts due to the Management Agent related to Management Fees were $546 and $594 as of December 31, 2018 and 2017, respectively.

2. Asset Management Fee

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

3. Incentive Management Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the General Partner a noncumulative Incentive Management Fee. The fee shall equal 90% of cash flow remaining after the priorities set forth in the Partnership Agreement. In no event shall the Incentive Management Fee and the Property Management Fee exceed, in the aggregate, 12% of the gross revenues of the Project in any fiscal year. There were no Incentive Management Fees accrued during 2018 and 2017. There were no amounts due to the General Partner related to Incentive Management Fees as of December 31, 2018 and 2017.

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

4. Development Fee

The Partnership entered into a Development Services Agreement with the Housing Authority of the City of Las Cruces currently known as Mesilla Public Housing Authority (MVPHA), an affiliate of the General Partner and JL Gray Company (Developer). The Development Fee of $855,247 is payable 30% to the Owner and 70% to the Developer. The fee is payable out of available cash flow as further detailed in the Partnership Agreement. This Development Fee has been capitalized into the basis of the building. As of December 31, 2018 and 2017, $700,301 and $662,228 of this fee has been paid, respectively. Development Fees of $38,073 and $25,000 were paid during 2018 and 2017, respectively. The amounts due related to Development Fees were $154,946 and $193,019 as of December 31, 2018 and 2017, respectively.

5. Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty-one percent (51%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received no laundry income for the years ended December 31, 2018 and 2017.

6. Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. There were no amounts due to the Management Agent related to reimbursed expenses as of December 31, 2018 and 2017.

7. Guaranty of Tax Credits

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

## NOTE G – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES – CONTINUED

8. Operating Deficit and Completion Guarantees

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

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

## NOTE H –- CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Stone Mountain Place Apartments. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, 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 I – ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued Payroll Expenses | $ 3,965 | $ 3,599 |
| Accrued Audit Fees | 7,610 | 5,640 |
| Total Accrued Expenses | $ 11,575 | $ 9,239 |

## NOTE J – SUBSEQUENT EVENTS

The Project 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.

# REQUIRED SUPPLEMENTARY INFORMATION

Mesilla Valley Public Housing Authority

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABLITY**
**Public Employees Retirement Association (PERA) Plan**

Last 10 Fiscal Years*

See Independent Auditors' Report
See Notes to Required Supplementary Information

| | 2019 Measurement Date (As of and for the Year Ended June 30, 2018) | 2018 Measurement Date (As of and for the Year Ended June 30, 2017) | 2017 Measurement Date (As of and for the Year Ended June 30, 2016) | 2016 Measurement Date (As of and for the Year Ended June 30, 2015) | 2015 Measurement Date (As of and for the Year Ended June 30, 2014) |
|---|---|---|---|---|---|
| Mesilla Valley Public Housing Authority's proportion of the net pension liability | 0.1079% | 0.1036% | 0.0975% | 0.0926% | 0.0930% |
| Mesilla Valley Public Housing Authority's proportionate share of the net pension liability | $ 1,720,325 | $ 1,423,552 | $ 1,557,722 | $ 944,137 | $ 725,501 |
| Mesilla Valley Public Housing Authority's covered-employee payroll | $ 948,597 | $ 909,759 | $ 834,105 | $ 767,832 | $ 754,811 |
| Mesilla Valley Public Housing Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 181.35% | 156.48% | 186.75% | 122.96% | 96.12% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.13% | 73.74% | 69.18% | 76.99% | 81.29% |

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Mesilla Valley Public Housing Authority will present information for those years for which information is available.

Mesilla Valley Public Housing Authority

**SCHEDULE OF CONTRIBUTIONS**
**Public Employees Retirement Association (PERA) Plan**

Last 10 Fiscal Years*

See Independent Auditors' Report
See Notes to Required Supplementary Information

| | As of and for the Year Ended June 30, 2019 | As of and for the Year Ended June 30, 2018 | As of and for the Year Ended June 30, 2017 | As of and for the Year Ended June 30, 2016 | As of and for the Year Ended June 30, 2015 |
|---|---|---|---|---|---|
| Contractually required contribution | $ 90,997 | $ 90,591 | $ 86,882 | $ 79,657 | $ 73,328 |
| Contributions in relation to the contractually required contribution | 90,997 | 90,591 | 86,882 | 79,657 | 73,328 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| Mesilla Valley Public Housing Authority's covered-employee payroll | $ 952,848 | $ 948,597 | $ 909,759 | $ 834,105 | $ 767,832 |
| Contributions as a percentage of covered-employee paryoll | 9.55% | 9.55% | 9.55% | 9.55% | 9.55% |

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Mesilla Valley Public Housing Authority will present information for those years for which information is available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2019
See Independent Auditors' Report

## NOTE A – CHANGES OF BENEFIT TERMS

The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. https://www.saonm.org.

## NOTE B – ASSUMPTIONS.

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2018, report is available at http://www.nmpera.org.

# OTHER SUPPLEMENTAL INFORMATION

# COMBINING FINANCIAL STATEMENTS

Mesilla Valley Public Housing Authority

## STATEMENT OF NET POSITION – DETAIL

June 30, 2019
See Independent Auditors' Report

| | HUD Public Housing | HUD Section 8 Housing Choice Vouchers | HUD Resident Opportunity Supportive Services | New Contruction Housing | Local Housing Projects | Total |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | $ 1,904,823 | $ 938,536 | $ (1,231) | $ 394,038 | $ 2,393,047 | $ 5,629,213 |
| Restricted cash | 54,674 | 173,552 | - | 8,678 | 15,513 | 252,417 |
| Accounts receivable, net | 1,647 | - | - | 290 | (521) | 1,416 |
| Accounts receivable - other | 59,775 | - | - | - | - | 59,775 |
| Grants receivable | 66,799 | - | 1,231 | - | - | 68,030 |
| Inventory | 7,415 | - | - | - | - | 7,415 |
| Prepaid expenses | 117,054 | 4,785 | - | 17,546 | 30,315 | 169,700 |
| Total current assets | 2,212,187 | 1,116,873 | - | 420,552 | 2,438,354 | 6,187,966 |
| Noncurrent assets | | | | | | |
| Capital assets, net | 1,568,751 | 8,765 | - | 1,348,934 | 1,719,120 | 4,645,570 |
| Receivables from component units, net of allowance for doubtful accounts of $2,882,166 | - | - | - | - | 18,295 | 18,295 |
| Interest receivable | - | - | - | - | - | - |
| Deferred development fees receivable | - | - | - | - | 608,388 | 608,388 |
| Home mortgage receivables, noncurrent, net of allowance for doubtful accounts of $1,236,594 | - | - | - | - | 1,091,140 | 1,091,140 |
| Other receivables, net of allowance for doubtful accounts of $460,000 | - | - | - | - | 13,988 | 13,988 |
| Total noncurrent assets | 1,568,751 | 8,765 | - | 1,348,934 | 3,450,931 | 6,377,381 |
| Total assets | 3,780,938 | 1,125,638 | - | 1,769,486 | 5,889,285 | 12,565,347 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Employer contributions subsequent to the measurement date | 38,216 | 34,842 | - | 4,590 | 12,105 | 89,753 |
| Changes in assumptions | 66,412 | 60,548 | - | 7,977 | 21,035 | 155,972 |
| Net difference between projected and actual investment earnings on pension plan | 54,326 | 49,529 | - | 6,525 | 17,208 | 127,588 |
| Difference between expected and actual experience | 21,171 | 19,301 | - | 2,543 | 6,706 | 49,721 |
| Changes in proportion | 37,083 | 33,808 | - | 4,454 | 11,746 | 87,091 |
| Total deferred outflows of resources | 217,208 | 198,028 | - | 26,089 | 68,800 | 510,125 |
| Total assets and deferred outflows of resources | $ 3,998,146 | $ 1,323,666 | $ - | $ 1,795,575 | $ 5,958,085 | $ 13,075,472 |

Mesilla Valley Public Housing Authority

**STATEMENT OF NET POSITION – DETAIL – CONTINUED**

June 30, 2019
See Independent Auditors' Report

| | HUD Public Housing | HUD Section 8 Housing Choice Vouchers | HUD Resident Opportunity Supportive Services | New Contruction Housing | Local Housing Projects | Total |
|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | $ 62,123 | $ 22,185 | $ - | $ 4,240 | $ 21,573 | $ 110,121 |
| Prepaid tenant rent | 1,886 | - | - | 356 | 1,237 | 3,479 |
| Accrued payroll | 13,537 | 8,174 | 67 | 1,426 | 4,304 | 27,508 |
| Notes payable, current portion | - | - | - | 46,064 | 67,336 | 113,400 |
| Total current liabilities | 77,546 | 30,359 | 67 | 52,086 | 94,450 | 254,508 |
| Current liabilities (payable from restricted assets) | | | | | | |
| Tenant deposits | 54,674 | - | - | 8,678 | 15,513 | 78,865 |
| FSS deposits | - | 31,281 | - | - | - | 31,281 |
| Total current liabilities (payable from resricted assets) | 54,674 | 31,281 | - | 8,678 | 15,513 | 110,146 |
| Non-current liabilities | | | | | | |
| Compensated absences | 32,823 | 14,598 | 501 | 4,160 | 12,643 | 64,725 |
| Development fees/asset management fees | - | - | - | - | - | - |
| Notes payable, net of current portion | - | - | - | 421,630 | 563,597 | 985,227 |
| Accrued interest | - | - | - | - | - | - |
| Net pension liability | 732,501 | 667,825 | - | 87,985 | 232,014 | 1,720,325 |
| Total non-current liabilities | 765,324 | 682,423 | 501 | 513,775 | 808,254 | 2,770,277 |
| Total liabilities | 897,544 | 744,063 | 568 | 574,539 | 918,217 | 3,134,931 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Changes in assumptions | 4,212 | 3,839 | - | 506 | 1,334 | 9,891 |
| Difference between expected and actual experience | 19,232 | 17,534 | - | 2,310 | 6,092 | 45,168 |
| Changes in proportion | 99 | 92 | - | 12 | 32 | 235 |
| Total deferred inflows of resources | 23,543 | 21,465 | - | 2,828 | 7,458 | 55,294 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 1,568,751 | 8,765 | - | 881,240 | 1,108,287 | 3,567,043 |
| Restricted for program activities | - | 142,271 | - | - | - | 142,271 |
| Unrestricted (deficit) | 1,508,308 | 407,102 | (568) | 336,968 | 3,924,123 | 6,175,933 |
| Total net position (deficit) | 3,077,059 | 558,138 | (568) | 1,218,208 | 5,032,410 | 9,885,247 |
| Total liabilities, deferred inflows of resources and net position | $ 3,998,146 | $ 1,323,666 | $ - | $ 1,795,575 | $ 5,958,085 | $ 13,075,472 |

Mesilla Valley Public Housing Authority

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – DETAIL**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | HUD Public Housing | HUD Section 8 Housing Choice Vouchers | HUD Resident Opportunity Supportive Services | New Construction Housing | Local Housing Projects | Total |
|---|---|---|---|---|---|---|
| OPERATING REVENUES | | | | | | |
| Rental revenue, net | $ 423,810 | $ - | $ - | $ 80,480 | $ 309,646 | $ 813,936 |
| Other tenant revenue | 42,422 | 15,318 | - | 713 | 14,021 | 72,474 |
| Operating subsidies and grants | 798,594 | 8,400,394 | 44,575 | 142,587 | - | 9,386,150 |
| Total operating revenues | 1,264,826 | 8,415,712 | 44,575 | 223,780 | 323,667 | 10,272,560 |
| OPERATING EXPENSES | | | | | | |
| Housing assistance payments | - | 7,418,670 | - | - | - | 7,418,670 |
| Administration, taxes and insurance | 679,454 | 817,295 | 45,143 | 107,387 | 225,962 | 1,875,241 |
| Maintenance and operations | 368,708 | 40 | - | 69,402 | 114,464 | 552,614 |
| Utilities | 123,969 | 315 | - | 16,031 | 19,338 | 159,653 |
| Miscellaneous | 85,603 | - | - | - | 1,458,981 | 1,544,584 |
| Depreciation and amortization | 178,675 | 2,839 | - | 13,105 | 66,832 | 261,451 |
| Total operating expenses | 1,436,409 | 8,239,159 | 45,143 | 205,925 | 1,885,577 | 11,812,213 |
| Operating income (loss) | (171,583) | 176,553 | (568) | 17,855 | (1,561,910) | (1,539,653) |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Other revenues | 1,600 | - | - | 229 | 389 | 2,218 |
| Interest income | 120 | - | - | 19 | 60,912 | 61,051 |
| Interest expense | - | - | - | (29,902) | (42,782) | (72,684) |
| Capital outlay | - | - | - | - | - | - |
| Developer fees | - | - | - | - | 17,299 | 17,299 |
| Management fees and other income (expense) | - | 69 | - | 154 | 22,841 | 23,064 |
| Gain (loss) on assets held for sale | - | - | - | - | 104,754 | 104,754 |
| Total non-operating revenues (expenses) | 1,720 | 69 | - | (29,500) | 163,413 | 135,702 |
| Income (loss) before transfers and capital grants | (169,863) | 176,622 | (568) | (11,645) | (1,398,497) | (1,403,951) |
| Transfers in | 139,671 | - | 18,991 | - | 24,995 | 183,657 |
| Transfers out | (105,702) | - | - | - | - | (105,702) |
| Capital grants revenue | 241,756 | - | - | - | - | 241,756 |
| Change in net position | 105,862 | 176,622 | 18,423 | (11,645) | (1,373,502) | (1,084,240) |
| Total net position - beginning of year | 2,971,197 | 381,516 | (18,991) | 1,229,853 | 6,405,912 | 10,969,487 |
| Total net position - end of year | $ 3,077,059 | $ 558,138 | $ (568) | $ 1,218,208 | $ 5,032,410 | $ 9,885,247 |

Mesilla Valley Public Housing Authority

**STATEMENT OF CASH FLOWS – DETAIL**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | HUD Public Housing | HUD Section 8 Housing Choice Vouchers | HUD Resident Opportunity Supportive Services | New Construction Housing | Local Housing Projects | Total |
|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Cash received from tenant rents | $ 408,103 | $ 32,623 | $ - | $ 82,436 | $ 376,370 | $ 899,532 |
| Cash payments for employee wages and benefits | (787,844) | (547,988) | (683) | (18,736) | (36,225) | (1,391,476) |
| Cash payments to suppliers for goods and services | (613,447) | (7,511,719) | (52,973) | (154,883) | (449,633) | (8,782,655) |
| Subsidy grants and other receipts | 804,433 | 8,400,394 | 45,348 | 142,587 | 4,635 | 9,397,397 |
| Net cash provided by (used in) operating activities | (188,755) | 373,310 | (8,308) | 51,404 | (104,853) | 122,798 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Miscellaneous income (expense) | 1,600 | 69 | (24,981) | 383 | 40,529 | 17,600 |
| Transfers | 33,969 | - | 18,991 | - | 24,995 | 77,955 |
| Net cash provided by (used in) noncapital financing activities | 35,569 | 69 | (5,990) | 383 | 65,524 | 95,555 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Purchase of capital assets | (23,396) | - | - | - | - | (23,396) |
| Capital grants revenue | 241,756 | - | - | - | - | 241,756 |
| Principal payments on long-term debt | - | - | - | (43,418) | (63,158) | (106,576) |
| Interest payments on long-term debt | - | - | - | (29,902) | (42,782) | (72,684) |
| Net cash provided by (used in) capital and related financing activities | 218,360 | - | - | (73,320) | (105,940) | 39,100 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds from the sale of assets held for sale | - | - | - | - | 104,754 | 104,754 |
| Proceeds from (payments for) restricted cash for tenants' security, HAP & FSS escrow deposits | (54,674) | (173,552) | - | (8,678) | (15,513) | (252,417) |
| Interest received on investments | 120 | - | - | 19 | 60,912 | 61,051 |
| Net cash provided by (used in) investing activities | (54,554) | (173,552) | - | (8,659) | 150,153 | (86,612) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 10,620 | 199,827 | (14,298) | (30,192) | 4,884 | 170,841 |
| Cash and cash equivalents, beginning of year | 1,894,203 | 738,709 | 13,067 | 424,230 | 2,388,163 | 5,458,372 |
| Cash and cash equivalents, end of year | $ 1,904,823 | $ 938,536 | $ (1,231) | $ 394,038 | $ 2,393,047 | $ 5,629,213 |

**STATEMENT OF CASH FLOWS – DETAIL – CONTINUED**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | HUD Public Housing | HUD Section 8 Housing Choice Vouchers | HUD Resident Opportunity Supportive Services | New Construction Housing | Local Housing Projects | Total |
|---|---|---|---|---|---|---|
| Reconciliation of change in net position to net cash provided by (used in) operating activities: | | | | | | |
| Change in net position | $ 105,862 | $ 176,622 | $ 18,423 | $ (11,645) | $ (1,373,502) | $ (1,084,240) |
| Adjustments to reconcile change in net position to net cash provided by (used in) operating activities | | | | | | |
| Depreciation | 178,675 | 2,839 | - | 13,105 | 66,832 | 261,451 |
| Bad debt expense | - | - | - | - | 1,308,259 | 1,308,259 |
| Noncash pension expense | (46,315) | 185,565 | - | 35,763 | 11,234 | 186,247 |
| Other non-operating (revenues) expenses | (1,720) | (69) | - | 29,500 | (163,413) | (135,702) |
| Transfers (in) out | (33,969) | - | (18,991) | - | (24,995) | (77,955) |
| Capital grants | (241,756) | - | - | - | - | (241,756) |
| Changes in assets deferred outflows, liabilities, and deferred inflows | | | | | | |
| Accounts receivable | (49,741) | - | (458) | 443 | 2,406 | (47,350) |
| Mortgages receivable | (84,240) | - | - | - | 66,057 | (18,183) |
| Prepaid expenses | 24,504 | 2,371 | - | (10,383) | (19,065) | (2,573) |
| Accounts payable | (30,118) | 10,778 | (7,830) | (3,713) | 18,925 | (11,958) |
| Prepaid tenant rent | (8,260) | - | - | - | 567 | (7,693) |
| Accrued payroll | (8,129) | (405) | 548 | (640) | (5,532) | (14,158) |
| Compensated absences | 10,886 | (12,647) | - | 223 | 6,949 | 5,411 |
| Deferred outflows-subsequent contributions | (4,434) | (9,049) | - | (2,049) | 888 | (14,644) |
| Tenant deposits | - | 17,305 | - | 800 | (463) | 17,642 |
| Net cash (used in) provided by operating activities | $ (188,755) | $ 373,310 | $ (8,308) | $ 51,404 | $ (104,853) | $ 122,798 |

# HUD PUBLIC HOUSING PROGRAMS

**COMBINING STATEMENT OF NET POSITION –**
**HUD PUBLIC HOUSING PROGRAMS**

June 30, 2019
See Independent Auditors' Report

**ASSETS**

| | Public Housing Operations | 2017 Capital Fund Program | 2018 Capital Fund Program | 2019 Capital Fund Program | Total |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | $ 1,911,365 | $ - | $ (4,403) | $ (2,139) | $ 1,904,823 |
| Restricted cash and cash equivalents | 54,674 | - | - | - | 54,674 |
| Accounts receivable, net | 1,647 | - | - | - | 1,647 |
| Accounts receivable - other | 59,775 | - | - | - | 59,775 |
| Grants receivable | 66,799 | - | - | - | 66,799 |
| Mortgage receivables, current | - | - | - | - | - |
| Due from other funds | - | - | - | - | - |
| Inventory | 7,415 | - | - | - | 7,415 |
| Prepaid expenses and other assets | 117,054 | - | - | - | 117,054 |
| Total current assets | 2,218,729 | - | (4,403) | (2,139) | 2,212,187 |
| NONCURRENT ASSETS | | | | | |
| Capital assets, net | 1,568,751 | - | - | - | 1,568,751 |
| Receivables from component units, net | - | - | - | - | - |
| Mortgage receivables, noncurrent, net | - | - | - | - | - |
| Other noncurrent assets | - | - | - | - | - |
| Total noncurrent assets | 1,568,751 | - | - | - | 1,568,751 |
| Total assets | 3,787,480 | - | (4,403) | (2,139) | 3,780,938 |
| DEFFERED OUTFLOWS OF RESOURCES | | | | | |
| Employer contributions subsequent to the measurement date | 38,216 | - | - | - | 38,216 |
| Changes in assumptions | 66,412 | - | - | - | 66,412 |
| Net difference between projected and actual investment earnings on pension plan investments | 54,326 | - | - | - | 54,326 |
| Difference between expected and actual experience | 21,171 | - | - | - | 21,171 |
| Changes in proportion | 37,083 | - | - | - | 37,083 |
| Total deferred outflows of resources | 217,208 | - | - | - | 217,208 |
| Total assets and deferred outflows of resources | $ 4,004,688 | $ - | $ (4,403) | $ (2,139) | $ 3,998,146 |

## COMBINING STATEMENT OF NET POSITION – HUD PUBLIC HOUSING PROGRAMS – CONTINUED

June 30, 2019
See Independent Auditors' Report

### LIABILITIES AND NET POSITION

| | Public Housing Operations | 2017 Capital Fund Program | 2018 Capital Fund Program | 2019 Capital Fund Program | Total |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Accounts payable | $ 59,009 | $ - | $ 3,114 | $ - | $ 62,123 |
| Prepaid rents | 1,886 | - | - | - | 1,886 |
| Accrued payroll | 13,154 | - | 383 | - | 13,537 |
| Total current liabilities | 74,049 | - | 3,497 | - | 77,546 |
| CURRENT LIABILITIES (payable from restricted assets) | | | | | |
| Tenant deposits | 54,674 | - | - | - | 54,674 |
| Total current liabilities (payable from restricted assets) | 54,674 | - | - | - | 54,674 |
| NONCURRENT LIABILITIES | | | | | |
| Compensated absences | 31,862 | - | 961 | - | 32,823 |
| Net pension liability | 732,501 | - | - | - | 732,501 |
| Total noncurrent liabilities | 764,363 | - | 961 | - | 765,324 |
| Total liabilities | 893,086 | - | 4,458 | - | 897,544 |
| DEFFERED INFLOWS OF RESOURCES | | | | | |
| Changes in assumptions | 4,212 | - | - | - | 4,212 |
| Difference between expected and actual experience | 19,232 | - | - | - | 19,232 |
| Changes in proportion | 99 | - | - | - | 99 |
| Total deferred inflows of resources | 23,543 | - | - | - | 23,543 |
| NET POSITION | | | | | |
| Net investment in capital assets | 1,568,751 | - | - | - | 1,568,751 |
| Unrestricted | 1,519,308 | - | (8,861) | (2,139) | 1,508,308 |
| Total net position | 3,088,059 | - | (8,861) | (2,139) | 3,077,059 |
| Total liabilities and deferred inflows of resources | $ 4,004,688 | $ - | $ (4,403) | $ (2,139) | $ 3,998,146 |

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – HUD PUBLIC HOUSING PROGRAMS**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | Public Housing Operations | 2017 Capital Fund Program | 2018 Capital Fund Program | 2019 Capital Fund Program | Total |
|---|---|---|---|---|---|
| OPERATING REVENUES | | | | | |
| Rental revenue | $ 423,810 | $ - | $ - | $ - | $ 423,810 |
| Other tenant revenue | 42,422 | - | - | - | 42,422 |
| Operating subsidies and grants | 798,594 | - | - | - | 798,594 |
| Total operating revenues | 1,264,826 | - | - | - | 1,264,826 |
| OPERATING EXPENSES | | | | | |
| Administration | 658,236 | 6,773 | 14,445 | - | 679,454 |
| Maintenance and operations | 345,507 | 9,661 | 13,540 | - | 368,708 |
| Utilities | 123,969 | - | - | - | 123,969 |
| Depreciation | 178,675 | - | - | - | 178,675 |
| Miscellaneous | 30,955 | 29,613 | 22,896 | 2,139 | 85,603 |
| Total operating expenses | 1,337,342 | 46,047 | 50,881 | 2,139 | 1,436,409 |
| Operating income (loss) | (72,516) | (46,047) | (50,881) | (2,139) | (171,583) |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Interest income | 120 | - | - | - | 120 |
| Other income | 1,600 | - | - | - | 1,600 |
| Gain (loss) on sale of assets held for sale | - | - | - | - | - |
| Total non-operating revenues | 1,720 | - | - | - | 1,720 |
| Income (loss) before transfers and capital grants | (70,796) | (46,047) | (50,881) | (2,139) | (169,863) |
| Transfers in | 153,317 | (13,646) | - | - | 139,671 |
| Transfers out | - | - | (105,702) | - | (105,702) |
| Capital grants revenue | - | 94,034 | 147,722 | - | 241,756 |
| CHANGE IN NET POSITION | 82,521 | 34,341 | (8,861) | (2,139) | 105,862 |
| Total net position - beginning of year | 3,005,538 | (34,341) | - | - | 2,971,197 |
| Total net position - end of year | $ 3,088,059 | $ - | $ (8,861) | $ (2,139) | $ 3,077,059 |

Mesilla Valley Public Housing Authority

## COMBINING STATEMENT OF CASH FLOWS – HUD PUBLIC HOUSING PROGRAMS

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | Public Housing Operations | 2017 Capital Fund Program | 2018 Capital Fund Program | 2019 Capital Fund Program | Total |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash received from tenant rents | $ 408,103 | $ - | $ - | $ - | $ 408,103 |
| Cash payments to employees for services | (785,935) | (3,253) | 1,344 | - | (787,844) |
| Cash payments to suppliers for goods and services | (480,567) | (82,974) | (47,767) | (2,139) | (613,447) |
| Subsidy grants | 798,594 | 5,839 | - | - | 804,433 |
| Net cash used in operating activities | (59,805) | (80,388) | (46,423) | (2,139) | (188,755) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Miscellaneous income (expense) | 1,600 | - | - | - | 1,600 |
| Transfers in (out) | 153,317 | (13,646) | (105,702) | - | 33,969 |
| Net cash provided by (used in) noncapital financing activities | 154,917 | (13,646) | (105,702) | - | 35,569 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Purchase of capital assets | (23,396) | - | - | - | (23,396) |
| Capital grants | - | 94,034 | 147,722 | - | 241,756 |
| Net cash provided by (used in) capital and related financing activities | (23,396) | 94,034 | 147,722 | - | 218,360 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from (payments for) restricted cash for tenants' security, HAP & FSS Escrow deposits | (54,674) | - | - | - | (54,674) |
| Interest received on investments | 120 | - | - | - | 120 |
| Net cash used in investing activities | (54,554) | - | - | - | (54,554) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 17,162 | - | (4,403) | (2,139) | 10,620 |
| Cash and cash equivalents, beginning of year | 1,894,203 | - | - | - | 1,894,203 |
| Cash and cash equivalents, end of year | $ 1,911,365 | $ - | $ (4,403) | $ (2,139) | $ 1,904,823 |

**COMBINING STATEMENT OF CASH FLOWS –**
**HUD PUBLIC HOUSING PROGRAMS – CONTINUED**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | Public Housing Operations | 2017 Capital Fund Program | 2018 Capital Fund Program | 2019 Capital Fund Program | Total |
|---|---|---|---|---|---|
| Reconciliation of change in net position to net cash used in operating activities: | | | | | |
| Change in net position | $ 82,521 | $ 34,341 | $ (8,861) | $ (2,139) | $ 105,862 |
| Adjustments to reconcile change in net position to net cash provided by (used in) operating activities | | | | | |
| Depreciation | 178,675 | - | - | - | 178,675 |
| Noncash pension expense | (46,315) | - | - | - | (46,315) |
| Other non-operating (revenues) expenses | (1,720) | - | - | - | (1,720) |
| Transfers (in) out | (153,317) | 13,646 | 105,702 | - | (33,969) |
| Capital grants | - | (94,034) | (147,722) | - | (241,756) |
| Changes in assets deferred outflows, liabilities, and deferred inflows | | | | | |
| Accounts receivable | (55,580) | 5,839 | - | - | (49,741) |
| Mortgages receivable | (84,240) | - | - | - | (84,240) |
| Prepaid expenses | 24,504 | - | - | - | 24,504 |
| Inventory | - | - | - | - | - |
| Accounts payable | 3,695 | (36,927) | 3,114 | - | (30,118) |
| Accrued payroll | (8,001) | (511) | 383 | - | (8,129) |
| Compensated absences | (6,479) | (2,742) | 961 | - | (8,260) |
| Deferred outflows | 10,886 | - | - | - | 10,886 |
| Tenant deposits | (4,434) | - | - | - | (4,434) |
| Net cash used in operating activities | $ (59,805) | $ (80,388) | $ (46,423) | $ (2,139) | $ (188,755) |

# NEW CONSTRUCTION HOUSING

Mesilla Valley Public Housing Authority

## COMBINING STATEMENT OF NET POSITION – NEW CONSTRUCTION HOUSING PROGRAMS

June 30, 2019
See Independent Auditors' Report

### ASSETS

| | New Construction Housing |
|---|---|
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 394,038 |
| Restricted cash | 8,678 |
| Accounts receivable, net | 290 |
| Accounts receivable - other | - |
| Prepaid expenses | 17,546 |
| Total current assets | 420,552 |
| NONCURRENT ASSETS | |
| Capital assets, net | 1,348,934 |
| Total noncurrent assets | 1,348,934 |
| Total assets | 1,769,486 |
| DEFFERED OUTFLOWS OF RESOURCES | |
| Employer contributions subsequent to the measurement date | 4,590 |
| Changes in assumptions | 7,977 |
| Net difference between projected and actual investment earnings on pension plan | 6,525 |
| Difference between expected and actual experience | 2,543 |
| Changes in proportion | 4,454 |
| Total deferred outflows of resources | 26,089 |
| Total assets and deferred outflows of resources | $ 1,795,575 |

Mesilla Valley Public Housing Authority

## COMBINING STATEMENT OF NET POSITION – NEW CONSTRUCTION HOUSING PROGRAMS – CONTINUED

June 30, 2019
See Independent Auditor's Report

### LIABILITIES AND NET POSITION

| | New Construction Housing |
|---|---|
| CURRENT LIABILITIES | |
| Accounts payable | $ 4,240 |
| Prepaid tenant rent | 356 |
| Accrued payroll | 1,426 |
| Notes payable, current portion | 46,064 |
| Total current liabilities | 52,086 |
| CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS) | |
| Tenant deposits | 8,678 |
| Total current liabilities (payable from restricted assets) | 8,678 |
| NONCURRENT LIABILITIES | |
| Compensated absences | 4,160 |
| Notes payable, net of current portion | 421,630 |
| Net pension liability | 87,985 |
| Total noncurrent liabilities | 513,775 |
| Total liabilities | 574,539 |
| DEFFERED INFLOWS OF RESOURCES | |
| Changes in assumptions | 506 |
| Difference between expected and actual experience | 2,310 |
| Changes in proportion | 12 |
| Total deferred inflows of resources | 2,828 |
| NET POSITION | |
| Net investment in capital assets | 881,240 |
| Unrestricted | 336,968 |
| Total net position | 1,218,208 |
| Total liabilities and deferred inflows of resources | $ 1,795,575 |

Mesilla Valley Public Housing Authority

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – NEW CONSTRUCTION HOUSING PROGRAMS**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | New Construction Housing |
|---|---|
| OPERATING REVENUES | |
| Rental revenue | $ 80,480 |
| Other tenant revenue | 713 |
| Operating subsidies and grants | 142,587 |
| Total operating revenues | 223,780 |
| OPERATING EXPENSES | |
| Administration | 107,387 |
| Maintenance and operations | 69,402 |
| Utilities | 16,031 |
| Depreciation | 13,105 |
| Total operating expenses | 205,925 |
| Operating income | 17,855 |
| NON-OPERATING REVENUES (EXPENSES) | |
| Interest income | 19 |
| Dividend income | 229 |
| Other income | 154 |
| Interest expense | (29,902) |
| Total non-operating revenues | (29,500) |
| CHANGE IN NET POSITION | (11,645) |
| Total net position, beginning of year | 1,229,853 |
| Total net position, end of year | $ 1,218,208 |

Mesilla Valley Public Housing Authority

**COMBINING STATEMENT OF CASH FLOWS – NEW CONSTRUCTION HOUSING PROGRAMS**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | New Construction Housing |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from tenant rents | $ 82,436 |
| Cash payments to employees for services | (18,736) |
| Cash payments to suppliers for goods and services | (154,883) |
| Subsidy grants | 142,587 |
| Net cash provided by operating activities | 51,404 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Miscellaneous income (expense) | 383 |
| Transfers in (out) | - |
| Net cash provided by noncapital financing activities | 383 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Principal payments on long-term debt | (43,418) |
| Interest payments on long-term debt | (29,902) |
| Net cash used in capital and related financing activities | (73,320) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Payments for restricted cash for tenants' security, HAP & FSS escrow deposits | (8,678) |
| Interest earned | 19 |
| Net cash used in investing activities | (8,659) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (30,192) |
| Cash and cash equivalents, beginning of year | 424,230 |
| Cash and cash equivalents, end of year | $ 394,038 |

Mesilla Valley Public Housing Authority

**COMBINING STATEMENT OF CASH FLOWS –**
**NEW CONSTRUCTION HOUSING PROGRAMS – CONTINUED**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | New Construction Housing |
|---|---|
| Reconciliation of change in net position to net cash provided by (used in) operating activities | |
| Change in net position | $ (11,645) |
| | |
| Adjustments to reconcile change in net postition to net cash provided by operating activities | |
| Depreciation | 13,105 |
| Noncash pension expense | 35,763 |
| Other non-operating (revenues) expenses | 29,500 |
| Transfers (in) out | - |
| Capital grants | - |
| | |
| Changes in assets, deferred outflows, liabilities, and deferred inflows | |
| Accounts receivable | 443 |
| Prepaid expenses | (10,383) |
| Accounts payable | (3,713) |
| Accrued payroll | (640) |
| Compensated absences | 223 |
| Deferred outflows-subsequent contributions | (2,049) |
| Tenant deposits | 800 |
| Net cash provided by operating activities | $ 51,404 |

# LOCAL HOUSING PROJECTS

Mesilla Valley Public Housing Authority

## COMBINING STATEMENT OF NET POSITION – LOCAL HOUSING PROJECTS

June 30, 2019
See Independent Auditors' Report

### ASSETS

| | Business Activities | Developer Fees | Local Housing Projects Totals |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 1,817,017 | $ 576,030 | $ 2,393,047 |
| Restricted cash | 15,513 | - | 15,513 |
| Accounts receivable, net | (521) | - | (521) |
| Accounts receivable, other | - | - | - |
| Inventory | - | - | - |
| Prepaid expenses | 30,315 | - | 30,315 |
| Total current assets | 1,862,324 | 576,030 | 2,438,354 |
| NONCURRENT ASSETS | | | |
| Capital assets, net | 1,719,120 | - | 1,719,120 |
| Receivables from component units, net of allowance for doubtful accounts of $2,882,166 | 384,584 | (366,289) | 18,295 |
| Interest receivable | - | - | - |
| Deferred development fees receivable | 154,946 | 453,442 | 608,388 |
| Home mortgage receivables, noncurrent, net of allowance for doubtful accounts of $1,236,594 | 1,095,607 | (4,467) | 1,091,140 |
| Other receivables, net of allowance for doubtful accounts of $460,000 | - | 13,988 | 13,988 |
| Total noncurrent assets | 3,354,257 | 96,674 | 3,450,931 |
| Total assets | 5,216,581 | 672,704 | 5,889,285 |
| DEFFERED OUTFLOWS OF RESOURCES | | | |
| Employer contributions subsequent to the measurement date | 9,168 | 2,937 | 12,105 |
| Changes in assumptions | 15,932 | 5,103 | 21,035 |
| Net difference between projected and actual investment earnings on pension plan | 13,033 | 4,175 | 17,208 |
| Difference between expected and actual experience | 5,079 | 1,627 | 6,706 |
| Changes in proportion | 8,896 | 2,850 | 11,746 |
| Total deferred outflows of resources | 52,108 | 16,692 | 68,800 |
| Total assets and deferred outflows of resources | $ 5,268,689 | $ 689,396 | $ 5,958,085 |

Mesilla Valley Public Housing Authority

## COMBINING STATEMENT OF NET POSITION – LOCAL HOUSING PROJECTS – CONTINUED

June 30, 2019
See Independent Auditors' Report

### LIABILITIES AND NET POSITION

| | Business Activities | Developer Fees | Local Housing Projects Totals |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Accounts payable | $ 20,793 | $ 780 | $ 21,573 |
| Prepaid tenant rent | 1,237 | - | 1,237 |
| Accrued payroll | 3,277 | 1,027 | 4,304 |
| Notes payable, current portion | 67,336 | - | 67,336 |
| Total current liabilities | 92,643 | 1,807 | 94,450 |
| CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS) | | | |
| Tenant deposits | 15,513 | - | 15,513 |
| FSS deposits | - | - | - |
| Total current liabilities (payable from restricted assets) | 15,513 | - | 15,513 |
| NONCURRENT LIABILITIES | | | |
| Compensated absences | 9,185 | 3,458 | 12,643 |
| Notes payable, net of current portion | 563,597 | - | 563,597 |
| Net pension liability | 175,725 | 56,289 | 232,014 |
| Total noncurrent liabilities | 748,507 | 59,747 | 808,254 |
| Total liabilities | 856,663 | 61,554 | 918,217 |
| DEFFERED INFLOWS OF RESOURCES | | | |
| Changes in assumptions | 1,010 | 324 | 1,334 |
| Difference between expected and actual experience | 4,614 | 1,478 | 6,092 |
| Changes in proportion | 24 | 8 | 32 |
| Total deferred inflows of resources | 5,648 | 1,810 | 7,458 |
| NET POSITION | | | |
| Net investment in capital assets | 1,108,287 | - | 1,108,287 |
| Restricted | - | - | - |
| Unrestricted | 3,298,091 | 626,032 | 3,924,123 |
| Total net position | 4,406,378 | 626,032 | 5,032,410 |
| Total liabilities and deferred inflows and net position | $ 5,268,689 | $ 689,396 | $ 5,958,085 |

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – LOCAL HOUSING PROJECTS

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | Business Activities | Developer Fees | Local Housing Projects Totals |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Rental revenue | $ 309,646 | $ - | $ 309,646 |
| Other tenant revenue | 14,021 | - | 14,021 |
| Operating subsidies and grants | - | - | - |
| Total operating revenues | 323,667 | - | 323,667 |
| OPERATING EXPENSES | | | |
| Administration | 196,422 | 29,540 | 225,962 |
| Maintenance and operations | 112,088 | 2,376 | 114,464 |
| Utilities | 19,231 | 107 | 19,338 |
| Depreciation | 66,832 | - | 66,832 |
| Miscellaneous | 715,573 | 743,408 | 1,458,981 |
| Total operating expenses | 1,110,146 | 775,431 | 1,885,577 |
| Operating loss | (786,479) | (775,431) | (1,561,910) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest income | 55,295 | 5,617 | 60,912 |
| Dividend income | 389 | - | 389 |
| Interest expense | (42,782) | - | (42,782) |
| Developer fees | - | 17,299 | 17,299 |
| Management fees and other income | 6,977 | 15,864 | 22,841 |
| Gain on sale of assets held for sale | 104,754 | - | 104,754 |
| Total non-operating revenues (expenses) | 124,633 | 38,780 | 163,413 |
| Income before transfers and capital grants | (661,846) | (736,651) | (1,398,497) |
| Transfers in | 24,995 | - | 24,995 |
| Transfers out | - | - | - |
| CHANGE IN NET POSITION | (636,851) | (736,651) | (1,373,502) |
| Total net position, beginning of year | 5,043,229 | 1,362,683 | 6,405,912 |
| Total net position, end of year | $ 4,406,378 | $ 626,032 | $ 5,032,410 |

Mesilla Valley Public Housing Authority

## COMBINING STATEMENT OF CASH FLOWS – LOCAL HOUSING PROJECTS

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | Business Activities | Developer Fees | Local Housing Projects Totals |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from tenant rents | $ 376,370 | $ - | $ 376,370 |
| Cash payments to employees for services | 18,935 | (55,160) | (36,225) |
| Cash payments to suppliers for goods and services | (441,224) | (8,409) | (449,633) |
| Subsidy grants and other receipts | - | 4,635 | 4,635 |
| Net cash used in operating activities | (45,919) | (58,934) | (104,853) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Miscellaneous income (expense) | 7,366 | 33,163 | 40,529 |
| Transfers in (out) | 24,995 | - | 24,995 |
| Net cash provided by noncapital financing activities | 32,361 | 33,163 | 65,524 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition of capital assets | - | - | - |
| Principal payments on long-term debt | (63,158) | - | (63,158) |
| Interest payments on long-term debt | (42,782) | - | (42,782) |
| Net cash used in capital and related financing activities | (105,940) | - | (105,940) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of assets held for sale | 104,754 | - | 104,754 |
| Proceeds from (payments for) restricted cash for tenants' security, HAP & FSS Escrow deposits | (15,513) | - | (15,513) |
| Interest received on intestments | 55,295 | 5,617 | 60,912 |
| Net cash provided by investing activities | 144,536 | 5,617 | 150,153 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | 25,038 | (20,154) | 4,884 |
| Cash and cash equivalents, beginning of year | 1,791,979 | 596,184 | 2,388,163 |
| Cash and cash equivalents, end of year | $ 1,817,017 | $ 576,030 | $ 2,393,047 |

Mesilla Valley Public Housing Authority

**COMBINING STATEMENT OF CASH FLOWS – LOCAL HOUSING PROJECTS – CONTINUED**

For the Year Ended June 30, 2019
See Independent Auditors' Report

| | Business Activities | Developer Fees | Local Housing Projects Totals |
|---|---|---|---|
| Reconciliation of change in net position to net cash provided by (used in) operating activities: | | | |
| Change in net position | $ (636,851) | $ (736,651) | $ (1,373,502) |
| Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities | | | |
| Depreciation | 66,832 | - | 66,832 |
| Bad debt expense | 573,717 | 734,542 | 1,308,259 |
| Noncash pension expense | 40,828 | (29,594) | 11,234 |
| Other non-operating (revenues) expenses | (124,633) | (38,780) | (163,413) |
| Transfers (in) out | (24,995) | - | (24,995) |
| Changes in assets, deferred outflows, liabilities, and deferred inflows | | | |
| Accounts receivable | (609) | 3,015 | 2,406 |
| Mortgages receivable | 63,989 | 2,068 | 66,057 |
| Inventory | - | - | - |
| Prepaid expenses | (19,065) | - | (19,065) |
| Accounts payable | 18,172 | 753 | 18,925 |
| Prepaid tenant rent | 567 | - | 567 |
| Accrued payroll | (5,654) | 122 | (5,532) |
| Compensated absences | 4,021 | 2,928 | 6,949 |
| Deferred outflows | (1,775) | 2,663 | 888 |
| Tenant deposits | (463) | - | (463) |
| Net cash (used in) operating activities | $ (45,919) | $ (58,934) | $ (104,853) |

**SUPPORTING SCHEDULES**

## SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS

June 30, 2019
See Independent Auditors' Report

| Name of Depository | Description of Pledged Collateral | Maturity | CUSIP No. | Market Value June 30, 2019 |
|---|---|---|---|---|
| Wells Fargo Bank | FMAC FGPC 4.000% | 6/1/2025 | 3128MCPV1 | $ 564,364 |
| Wells Fargo Bank | FMAC FGPC 3.50% | 3/1/2042 | 3128MJQ94 | 5,761,749 |
| Wells Fargo Bank | FMAC FGRM 1.75% | 7/15/2040 | 3137ASEQ3 | 49,960 |
| | | | Total | $ 6,376,073 |

Note: Pledged collateral is held in safekeeping by Bank of New York Mellon, NY, NY, for the benefit of MVPHA.

Mesilla Valley Public Housing Authority

## SCHEDULE OF DEPOSITS AND INVESTMENT ACCOUNTS

June 30, 2019
See Independent Auditors' Report

| Financial Institution/Account Type | Bank Balance | Deposits in Transit | Outstanding Checks | Book Balance |
|---|---|---|---|---|
| Wells Fargo Bank | | | | |
| Operating Account - Demand | $ 5,947,047 | $ - | $ 168,344 | $ 5,778,703 |
| Rent Account - Demand | 62,141 | - | - | 62,141 |
| Family Self-Sufficiency Account - Demand | 40,036 | - | - | 40,036 |
| Total Wells Fargo Bank | $ 6,049,224 | $ - | $ 168,344 | $ 5,880,880 |
| Petty cash | | | | 750 |
| Total cash, restricted cash, and cash equivalents | | | | $ 5,881,630 |

Mesilla Valley Public Housing Authority

**FINANCIAL DATA SCHEDULE**
(Unaudited – See Independent Auditors' Report)

June 30, 2019

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Section 8 Housing Choice Voucher 14.871 | Public Housing Capital Fund Programs 14.872 | N/C S/R Section 8 Programs 14.182 | Local Housing Projects (Business Activities) | FSS-ROSS 14.896 | Total | Component Units (December 31, 2018) |
|---|---|---|---|---|---|---|---|---|---|
| 111 | Cash - unrestricted | $ 1,911,365 | $ 938,536 | $ (6,542) | $ 394,038 | $ 2,393,047 | $ (1,231) | $ 5,629,213 | $ 778,703 |
| 113 | Cash - other restricted | 54,674 | 173,552 | - | 8,678 | 15,513 | - | 252,417 | 2,602,017 |
| 114 | Cash - tenant security deposits | - | - | - | - | - | - | - | - |
| 115 | Cash - restricted for payment of current liabilities | - | - | - | - | - | - | - | - |
| 100 | Total cash | 1,966,039 | 1,112,088 | (6,542) | 402,716 | 2,408,560 | (1,231) | 5,881,630 | 3,380,720 |
| 122 | Accounts receivable - HUD other projects | 66,799 | - | - | - | - | 1,231 | 68,030 | - |
| 125 | Accounts receivable - miscellaneous | 59,775 | - | - | - | - | - | 59,775 | 9,733 |
| 125 | Accounts receivable - other | - | - | - | - | - | - | - | 38,728 |
| 126 | Accounts receivable - tenants - dwelling rents | 1,647 | - | - | 290 | (221) | - | 1,716 | - |
| 126.2 | Allowance for doubtful accounts - other | - | - | - | - | - | - | - | - |
| 129 | Accrued interest receivable | - | - | - | - | - | - | - | - |
| 120 | Total receivables, net of allowance for doubtful accounts | 128,221 | - | - | 290 | (221) | 1,231 | 129,521 | 48,461 |
| 142 | Prepaid expenses and other assets | 117,054 | 4,785 | - | 17,546 | 30,315 | - | 169,700 | 130,767 |
| 143 | Inventories | 8,336 | - | - | - | - | - | 8,336 | - |
| 143.1 | Allowance for obsolete inventories | (921) | - | - | - | - | - | (921) | - |
| 145 | Assets held for sale | - | - | - | - | - | - | - | - |
| 150 | Total current assets | 2,218,729 | 1,116,873 | (6,542) | 420,552 | 2,438,654 | - | 6,188,266 | 3,559,948 |
| 161 | Land | 500,000 | - | - | 872,000 | 31,620 | - | 1,403,620 | 40,954,119 |
| 162 | Buildings | 5,584,372 | 4,108 | - | 1,055,334 | 2,523,917 | - | 9,167,731 | - |
| 164 | Furniture, Equipment & Machinery - Administration | 508,510 | 15,175 | - | - | 11,435 | - | 535,120 | - |
| 165 | Leasehold improvements | 2,468,942 | 433 | - | 7,556 | 16,696 | - | 2,493,627 | - |
| 166 | Accumulated depreciation | (7,493,073) | (10,951) | - | (585,956) | (864,548) | - | (8,954,528) | - |
| 160 | Total capital assets, net of accumulated depreciation | 1,568,751 | 8,765 | - | 1,348,934 | 1,719,120 | - | 4,645,570 | 40,954,119 |
| 171 | Notes, loans and mortgages receivable - non-current | - | - | - | - | 1,731,511 | - | 1,731,511 | - |
| 174 | Other assets | - | - | - | - | - | - | - | 1,233,606 |
| 180 | Total non-current assets | 1,568,751 | 8,765 | - | 1,348,934 | 3,450,631 | - | 6,377,081 | 42,187,725 |
| 190 | Total assets | 3,787,480 | 1,125,638 | (6,542) | 1,769,486 | 5,889,285 | - | 12,565,347 | 45,747,673 |
| 200 | Deferred outflows | 217,208 | 198,028 | - | 26,089 | 68,800 | - | 510,125 | - |
| | Total assets and deferred outflows of resources | $ 4,004,688 | $ 1,323,666 | $ (6,542) | $ 1,795,575 | $ 5,958,085 | $ - | $ 13,075,472 | $ 45,747,673 |

**FINANCIAL DATA SCHEDULE – CONTINUED**

(Unaudited – See Independent Auditors' Report)

June 30, 2019

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Section 8 Housing Choice Voucher 14.871 | Public Housing Capital Fund Programs 14.872 | N/C S/R Section 8 Programs 14.182 | Local Housing Projects (Business Activities) | FSS-ROSS 14.896 | Total | Component Units (December 31, 2018) |
|---|---|---|---|---|---|---|---|---|---|
| 311 | Bank overdraft | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 312 | Accounts payable <= 90 days | 58,214 | 21,447 | 3,114 | 4,181 | 21,016 | - | 107,972 | 113,530 |
| 321 | Accrued Wage/Payroll Taxes Payable | 13,949 | 8,912 | 383 | 1,485 | 4,861 | 67 | 29,657 | 340,785 |
| 322 | Accrued compensated absences - current | - | - | - | - | - | 501 | 501 | - |
| 325 | Accrued interest payable | - | - | - | - | - | - | - | - |
| 341 | Tenant security deposits | 54,675 | - | - | 8,678 | 15,512 | - | 78,865 | 261,570 |
| 342 | Unearned revenues | 1,885 | - | - | 356 | 1,238 | - | 3,479 | 23,211 |
| 343 | Current portion of long-term debt - capital projects | - | - | - | 46,064 | 67,336 | - | 113,400 | 246,341 |
| 344 | Current portion of long-term debt - operating borrowings | - | - | - | - | - | - | - | - |
| 345 | Other current liabilities | - | 31,281 | - | - | - | - | 31,281 | - |
| 310 | Total current liabilities | 128,723 | 61,640 | 3,497 | 60,764 | 109,963 | 568 | 365,155 | 985,437 |
| 351 | Long-term debt, net of current - capital projects/mortgage revenue | - | - | - | 421,630 | 563,597 | - | 985,227 | 16,698,402 |
| 353 | Non-current liabilities - other | - | - | - | - | - | - | - | 2,296,688 |
| 354 | Accrued compensated absences - non-current | 31,862 | 14,598 | 961 | 4,160 | 12,643 | - | 64,224 | - |
| 357 | Accrued pension | 732,501 | 667,825 | - | 87,985 | 232,014 | - | 1,720,325 | - |
| 350 | Total non-current liabilities | 764,363 | 682,423 | 961 | 513,775 | 808,254 | - | 2,769,776 | 18,995,090 |
| 300 | Total liabilities | 893,086 | 744,063 | 4,458 | 574,539 | 918,217 | 568 | 3,134,931 | 19,980,527 |
| 400 | Deferred inflows | 23,543 | 21,465 | - | 2,828 | 7,458 | - | 55,294 | - |
| 508.4 | Net investments in capital assets | 1,568,751 | 8,765 | - | 881,240 | 1,108,287 | - | 3,567,043 | - |
| 511.4 | Restricted net position | - | 142,271 | - | - | - | - | 142,271 | - |
| 512.4 | Unrestricted net position | 1,519,308 | 407,102 | (11,000) | 336,968 | 3,924,123 | (568) | 6,175,933 | 25,767,146 |
| 513 | Total equity/net position | 3,088,059 | 558,138 | (11,000) | 1,218,208 | 5,032,410 | (568) | 9,885,247 | 25,767,146 |
| | Total liabilities, deferred inflows and equity/net position | $ 4,004,688 | $ 1,323,666 | $ (6,542) | $ 1,795,575 | $ 5,958,085 | $ - | $ 13,075,472 | $ 45,747,673 |

**FINANCIAL DATA SCHEDULE – CONTINUED**
(Unaudited – See Independent Auditors' Report )

For the Year Ended June 30, 2019

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Section 8 Housing Choice Voucher 14.871 | Public Housing Capital Fund Programs 14.872 | N/C S/R Section 8 Programs 14.182 | Local Housing Projects (Business Activities) | FSS-ROSS 14.896 | Total | Component Units (December 31, 2018) |
|---|---|---|---|---|---|---|---|---|---|
| 70300 | Net tenant rental revenue | $ 423,810 | $ - | $ - | $ 80,480 | $ 309,646 | $ - | $ 813,936 | $ 3,924,535 |
| 70400 | Tenant revenue - other | 42,422 | (239) | - | 713 | 14,021 | - | 56,917 | 6,870 |
| 70500 | Total tenant revenue | 466,232 | (239) | - | 81,193 | 323,667 | - | 870,853 | 3,931,405 |
| 70600 | HUD PHA operating grants | 798,594 | 8,400,394 | - | 142,587 | - | 44,575 | 9,386,150 | - |
| 70610 | Capital grants | - | - | 241,756 | - | - | - | 241,756 | - |
| 71100 | Investment income - unrestricted | 120 | - | - | 19 | 60,912 | - | 61,051 | 4,642 |
| 71300 | Proceeds from disposition of assets held for sale | - | - | - | - | 104,754 | - | 104,754 | - |
| 71400 | Fraud recovery | - | 12,193 | - | - | - | - | 12,193 | - |
| 71500 | Other revenue | 1,600 | 3,433 | - | 229 | 40,529 | - | 45,791 | 264,219 |
| 71600 | Gain or loss on sale of capital assets | - | - | - | - | - | - | - | - |
| 70000 | Total revenue | 1,266,546 | 8,415,781 | 241,756 | 224,028 | 529,862 | 44,575 | 10,722,548 | 4,200,266 |
| 91100 | Administrative Salaries | 290,107 | 337,539 | 23,003 | 32,507 | 103,676 | 34,323 | 821,155 | 285,282 |
| 91200 | Auditing fees | 38,137 | 19,094 | - | 1,909 | 4,506 | - | 63,646 | 60,620 |
| 91300 | Outside management fees | - | 472 | - | - | - | - | 472 | 241,058 |
| 91400 | Advertising and marketing | - | - | - | - | - | 501 | 501 | 27,358 |
| 91500 | Employee benefit contributions - administrative | 87,107 | 282,007 | - | 34,801 | 42,500 | 8,376 | 454,791 | 120,744 |
| 91600 | Office expenses | 43,788 | 32,261 | - | 4,958 | 8,806 | 975 | 90,788 | 116,379 |
| 91700 | Legal expense | 4,757 | 3,130 | - | - | 10,214 | - | 18,101 | 4,591 |
| 91800 | Travel | 818 | 4,410 | - | 108 | 129 | 961 | 6,426 | 2,400 |
| 91900 | Other operating - administrative | 20,267 | 133,595 | 23,201 | 3,025 | 9,819 | - | 189,907 | 121,977 |
| 91000 | Total operating - administrative | 484,981 | 812,508 | 46,204 | 77,308 | 179,650 | 45,136 | 1,645,787 | 980,409 |
| 92000 | Asset management fees | - | - | - | - | 206,775 | - | 206,775 | 81,078 |
| 92200 | Relocation cost | - | - | - | - | - | - | - | - |
| 92400 | Tenant services - other | 40 | - | - | - | - | - | 40 | 10,715 |
| 92500 | Total tenant services | 40 | - | - | - | 206,775 | - | 206,815 | 91,793 |
| 93100 | Water | 51,106 | - | - | 6,618 | 3,934 | - | 61,658 | 102,945 |
| 93200 | Electricity | 15,174 | 315 | - | 2,285 | 6,196 | - | 23,970 | 87,591 |
| 93300 | Gas | 3,915 | - | - | 610 | 1,638 | - | 6,163 | 4,940 |
| 93600 | Sewer | 44,890 | - | - | 6,310 | 2,914 | - | 54,114 | 87,493 |
| 93800 | Other Utilities | 8,884 | - | - | 208 | 4,656 | - | 13,748 | 2,796 |
| 93000 | Total operating - utilities | 123,969 | 315 | - | 16,031 | 19,338 | - | 159,653 | 285,765 |

Mesilla Valley Public Housing Authority

**FINANCIAL DATA SCHEDULE – CONTINUED**

(Unaudited – See Independent Auditors' Report)

For the Year Ended June 30, 2019

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Section 8 Housing Choice Voucher 14.871 | Public Housing Capital Fund Programs 14.872 | N/C S/R Section 8 Programs 14.182 | Local Housing Projects (Business Activities) | FSS-ROSS 14.896 | Total | Component Units (December 31, 2018) |
|---|---|---|---|---|---|---|---|---|---|
| 94100 | Ordinary maintenance & operation - labor | $ 143,219 | $ - | $ - | $ 20,599 | $ 29,799 | $ - | $ 193,617 | $ 190,864 |
| 94200 | Ordinary maintenance & operation - materials & other | 74,750 | - | - | 12,666 | 25,345 | - | 112,761 | 193,176 |
| 94300 | Ordinary maintenance & operation - contracts | 163,340 | 7,780 | 54,648 | 27,268 | 45,507 | - | 298,543 | 337,930 |
| 94500 | Employee benefit contributions - ordinary maintenance | 22,521 | - | - | 16,917 | 17,403 | - | 56,841 | - |
| 94000 | Total maintenance | 403,830 | 7,780 | 54,648 | 77,450 | 118,054 | - | 661,762 | 721,970 |
| 95200 | Protective services - other contract costs | 1,179 | 40 | - | 168 | 337 | - | 1,724 | 15,943 |
| 95000 | Total protective services | 1,179 | 40 | - | 168 | 337 | - | 1,724 | 15,943 |
| 96110 | Property insurance | - | - | (4) | - | - | - | (4) | 185,597 |
| 96120 | Liability insurance | 120,192 | 9,654 | - | 21,640 | 34,595 | 7 | 186,088 | - |
| 96130 | Workmen's compensation | - | - | - | - | - | - | - | 12,648 |
| 96140 | All other insurance | - | - | - | - | - | - | - | 16,317 |
| 96100 | Total insurance premiums | 120,192 | 9,654 | (4) | 21,640 | 34,595 | 7 | 186,084 | 214,562 |
| 96200 | Other general expenses | 14 | - | - | - | - | - | 14 | 203,077 |
| 96210 | Compensated absences | (6,479) | (12,647) | (1,781) | 223 | 7,790 | - | (12,894) | - |
| 96300 | Payment in lieu of taxes | - | - | - | - | - | - | - | - |
| 96400 | Bad debt - tenant rents | 30,941 | - | - | (154) | 10,781 | - | 41,568 | 17,054 |
| 96600 | Bad debt - other | - | - | - | - | 1,241,425 | - | 1,241,425 | - |
| 96000 | Total other general | 24,476 | (12,647) | (1,781) | 69 | 1,259,996 | - | 1,270,113 | 220,131 |
| 96710 | Interest of mortgage (or bonds) payable | - | - | - | 29,902 | 42,782 | - | 72,684 | 994,678 |
| 96900 | Total operating expenses | 1,158,667 | 817,650 | 99,067 | 192,666 | 1,818,745 | 45,143 | 4,131,938 | 2,530,573 |
| 97000 | Excess operating revenue over operating expenses | 107,879 | 7,598,131 | 142,689 | 31,362 | (1,288,883) | (568) | 6,590,610 | 1,669,693 |
| 97100 | Extraordinary maintenance | - | - | - | - | - | - | - | - |
| 97200 | Casualty loss | - | - | - | - | - | - | - | - |
| 97300 | Housing assistance payments | - | 7,418,670 | - | - | - | - | 7,418,670 | - |
| 97350 | HAP - portability in | - | - | - | - | - | - | - | - |
| 97400 | Depreciation expense | 178,675 | 2,839 | - | 13,105 | 66,832 | - | 261,451 | 1,702,191 |
| 97500 | Fraud losses | - | - | - | - | - | - | - | - |
| 97600 | Captal outlays | - | - | - | - | - | - | - | - |
| 90000 | Total expenses | $ 1,337,342 | $ 8,239,159 | $ 99,067 | $ 235,673 | $ 1,928,359 | $ 45,143 | $ 11,884,743 | $ 5,227,442 |
| 10010 | Operating transfers in | $ 130,477 | $ - | $ - | $ - | $ 24,995 | $ 18,991 | $ 174,463 | $ - |
| 10020 | Operating transfers out | 22,840 | - | (119,348) | - | - | - | (96,508) | - |
| 10100 | Total other financing sources (uses) | $ 153,317 | $ - | $ (119,348) | $ - | $ 24,995 | $ 18,991 | $ 77,955 | $ - |

Mesilla Valley Public Housing Authority

**FINANCIAL DATA SCHEDULE – CONTINUED**
(Unaudited – See Independent Auditors' Report)

For the Year Ended June 30, 2019

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Section 8 Housing Choice Voucher 14.871 | Public Housing Capital Fund Programs 14.872 | N/C S/R Section 8 Programs 14.182 | Local Housing Projects (Business Activities) | FSS-ROSS 14.896 | Total | Component Units (December 31, 2018) |
|---|---|---|---|---|---|---|---|---|---|
| 10000 | Excess (deficiency) of operating revenue over (under) expenses | $ 82,521 | $ 176,622 | $ 23,341 | $ (11,645) | $ (1,373,502) | $ 18,423 | $ (1,084,240) | $ (1,027,176) |
| 11303 | Beginning equity | 3,005,538 | 381,516 | (34,341) | 1,229,853 | 6,405,912 | (18,991) | 10,969,487 | 26,617,292 |
| 11040-010 | Prior period adjustments and correction of errors | - | - | - | - | - | - | - | (25,569) |
| 11040-070 | Equity transfers | - | - | - | - | - | - | - | 202,599 |
| 11404 | Prior period adjustments, equity transfers and correction of errors | - | - | - | - | - | - | - | 177,030 |
| | Ending equity deficit | $ 3,088,059 | $ 558,138 | $ (11,000) | $ 1,218,208 | $ 5,032,410 | $ (568) | $ 9,885,247 | $ 25,767,146 |
| 11170 | Administrative fee equity | $ - | $ 421,173 | $ - | $ - | $ - | $ - | $ 421,173 | $ - |
| 11180 | Housing assistance payments equity | $ - | $ 136,695 | $ - | $ - | $ - | $ - | $ 136,695 | $ - |
| 11190 | Unit months available | $ 2,988 | $ 19,704 | $ - | $ 480 | $ 756 | $ - | $ 23,928 | $ 7,200 |
| 11210 | Number of unit months leased | $ 2,843 | $ 16,115 | $ - | $ 454 | $ 691 | $ - | $ 20,103 | $ 6,870 |
| 11270 | Excess cash | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 11610 | Land purchases | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 11620 | Building purchases | $ 23,395 | $ - | $ - | $ - | $ - | $ - | $ 23,395 | $ 9,515 |
| 11640 | Furniture and equipment - administrative purchases | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

# COMPLIANCE SECTION

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Mr. Brian Colón, State Auditor and
The Board of Commissioners of
Mesilla Valley Public Housing Authority
and
The U.S. Department of Housing and Urban Development

We have audited, 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, the financial statements of the business-type activities and each discretely presented component unit of the Mesilla Valley Public Housing Authority (the "Housing Authority") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements and have issued our report thereon dated September 27, 2019. Our report includes a reference to other auditors who audited the financial statements of the component units as described in our report on the Housing Authority's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of 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* and 2.2.2 NMAC.

**The Housing Authority's Response to Findings**

The Housing Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Housing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico
September 27, 2019

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Mr. Brian Colón, State Auditor and
The Board of Commissioners of
Mesilla Valley Public Housing Authority
and
The U.S. Department of Housing and Urban Development

**Report on Compliance for Each Major Federal Program**

We have audited Mesilla Valley Public Housing Authority's (the "Housing Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Housing Authority's major federal programs for the year ended June 30, 2019. The Housing Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Housing Authority's major federal programs based on our audit of the types of 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority'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 federal program. However, our audit does not provide a legal determination of the Housing Authority's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Housing Authority 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 federal programs for the year ended June 30, 2019.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-003 and 2019-005. Our opinion on its major federal programs is not modified with respect to these matters.

MVPHA's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. MVPHA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

Management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Housing Authority'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 type of compliance requirement of a federal 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 type of compliance requirement of a federal 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 type of compliance requirement of a federal 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. However, we did identity certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-002, 2019-004 and 2019-006, that we consider to be significant deficiencies.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Housing Authority as of and for the year ended June 30, 2019, and have issued our report thereon dated September 27, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such 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. The 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico
September 27, 2019

Mesilla Valley Public Housing Authority

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

| Federal Grantor Program Title | Grant or State Number | Federal CFDA Number | Federal Expenditures |
|---|---|---|---|
| U.S. Department of Housing and Urban Development | | | |
| Direct Programs: | | | |
| Section 8 New Construction and Substantial Rehabilitation (1) | NM02-0002-004 | 14.182 | $ 205,925 |
| Public Housing Family Self-Sufficiency under Resident Opportunity Self-Sufficiency | FY 2018 | 14.896 | 30,101 |
| Public Housing Family Self-Sufficiency under Resident Opportunity Self-Sufficiency | FY 2019 | 14.896 | 15,042 |
| Public and Indian Housing | NM00000001 | 14.850 | 1,360,738 |
| Section 8 Housing Choice Vouchers (2)* | NM003V0 | 14.871 | 8,239,159 |
| Public Housing Capital Fund | NM02P003501-19 | 14.872 | 2,139 |
| | NM02P003501-18 | 14.872 | 50,881 |
| | NM02P003501-17 | 14.872 | 46,047 |
| Subtotal - Public Housing Capital Fund | | | 99,067 |
| Total U.S. Department of Housing and Urban Development | | | 9,950,032 |
| Total Expenditures of Federal Awards | | | $ 9,950,032 |

*Major Program
(1) Section 8 Project-Based Cluster
(2) Housing Voucher Cluster

Mesilla Valley Public Housing Authority

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2019

## NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Mesilla Valley Public Housing Authority (the Authority) under programs of the federal government for the year ended June 30, 2019, and is presented on the accrual basis of accounting which is described in Note A to the MVPHA 's financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

## NOTE B – LOANS

The Authority did not have any loan or loan guarantee programs outstanding as of June 30, 2019.

## NOTE C – INDIRECT COST RATE

MVPHA has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## NOTE D – PLANNING AND ADMINISTRATION

MVPHA is approved by Housing and Urban Development (HUD) to allocate up to 100% of the grant funds for planning and administration costs. During FY19, MVPHA allocated 19% of grant funds for planning and administration costs.

## NOTE E – RECONCILIATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO FINANCIAL STATEMENTS

| | | |
|---|---|---|
| Expenditures per the schedule of expenditures of federal awards | $ | 9,950,032 |
| Bad debt expense | | 1,308,259 |
| Local Housing Projects (Business Activities) nonfederal expenditures | | 577,318 |
| Capitalized asset purchases funded by grant expenditures | | (23,396) |
| Operating expenses on the financial statements | $ | 11,812,213 |

## NOTE F – FEDERALLY FUNDED INSURANCE

The Authority has no federally funded insurance.

Mesilla Valley Public Housing Authority

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2019

## A. 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? | __X__ Yes _____ None reported |
| Noncompliance material to financial statements noted? | ____ Yes __X__ No |

### *Federal Awards*

| | |
|---|---|
| Internal control over major federal programs: | |
| • Material weakness(es) identified? | ____ Yes __X__ No |
| • Significant deficiencies identified? | __X__ Yes _____ None reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | __X__ Yes _____ No |
| Questioned Costs | $0 |

Identification of Major Programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 14.871 | Section 8 Housing Choice Vouchers |
| 14.850 | Public and Indian Housing |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs | $750,000 |
| Auditee qualified as low-risk auditee? | ___ Yes __X__ No |

## B. STATUS OF PRIOR AUDIT FINDINGS

### Financial Statement Findings

None noted

### Federal Award Findings

None Noted

## C. CURRENT FINANCIAL STATEMENT FINDINGS

2019-001 Development and Testing of a Disaster Recovery Plan (Significant Deficiency)

## D. FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE)

None

## E. CURRENT FEDERAL AWARD FINDINGS

2019-002 Purchase Orders (Significant Deficiency)
2019-003 Eligibility (Other Noncompliance)
2019-004 Data Collection Form Submission (Significant Deficiency)
2019-005 Post Federal Award Requirements – Personally Identifiable Information (Other Noncompliance)
2019-006 Segregation of Duties – Credit Card Payments (Significant Deficiency)

## FINANCIAL STATEMENT FINDINGS

### 2019-001 DEVELOPMENT AND TESTING OF A DISASTER RECOVERY PLAN (SIGNIFICANT DEFICIENCY)

CONDITION
The Authority has no formal disaster recovery plan in place. Without a disaster recovery plan to provide guidance, the Authority may be unable to effectively manage the recovery effort. A written disaster recovery plan should be comprehensive in scope covering staff roles and responsibilities, system recovery steps, data restoration procedures, and how to maintain business operations.

CRITERIA
Per State of NM Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-00.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing federal and state statutes pertaining to confidentiality privacy, accessibility, availability, and integrity.”

CAUSE
The Authority has not formally developed its disaster recovery plan.

EFFECT
The lack of a disaster recovery plan and absence of testing may pose questions as to the Authority’s ability to respond and recover its critical data and applications in the event of an unforeseen disaster.

RECOMMENDATION
We recommend that the Authority develop a formal disaster recovery plan. It would be prudent for the Authority to test the Plan to ensure the viability of the Plan and the timeliness of its execution. System recovery testing and backup tape restoration should be conducted periodically and the tests should be documented and formalized to be included with the Authority’s overall business continuity planning.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
To ensure MVPHA complies with the Development and Testing of a Disaster Recovery Plan, MVPHA will implement the following: MVPHA Data is currently stored off site by Kosh. Data is backed up every 24 hours. This has been in effect for the last three years; a Disaster Recovery Plan will be developed and included in our Internal Control Policy; the Plan will include all aspects of MVPHA operations and how those operations will be reinstituted after any unforeseen disaster. MVPHA will hire a consultant to assist in developing the plan. The following will be the timeline to adopt the new Disaster Recovery Plan: December 2019, hire consultant; January 2020, develop plan; February 2020, plan will be effective and will be provided to staff.

POINT OF CONTACT
Operations Manager, Deputy Director

## FEDERAL AWARD FINDINGS

### 2019-002 PURCHASE ORDERS (SIGNIFICANT DEFICIENCY)

**CFDA No.: 14.850**
**Public and Indian Housing**
**Grant Period: July 1, 2018 – June 30, 2019**

**CFDA No.: 14.871**
**Section 8 Housing Choice Vouchers (HCV)**
**Grant Period: July 1, 2018 – June 30, 2019**

CONDITION
In connection with our review of procurements, we reviewed certain invoices and purchase orders. In 3 out of 40 items tested with invoice amounts totaling approximately $3,296, there were no purchase orders created as required by policy for purchases over $1,000 per item per invoice to match invoices submitted by the vendor for payment. The disbursements appeared reasonable and necessary.

CRITERIA
NMSA 1978, Section 13-1-157 of the procurement code for goods, as well as the procurement policy of MVPHA which covers both goods and services, specifies that a purchase order for any individual purchase over $1,000 per item per invoice is required to be approved before the service or product is received. NMAC 1.4.1.94.D states that on or after July 1, 2015, only certified chief procurement officers (CPO) may, among other things, issue purchase orders and authorize small purchases, and approve procurement pursuant to the State Procurement Code.

CAUSE
The purchaser did not initiate the purchase order prior to the date the purchase was made and therefore did not follow internal control policy and procurement law.

EFFECT
An identified 3 out of 40 cash disbursements were out of compliance with the Authority's procurement policy. The protections of the purchase order control procedure were not applied before the incurring of an expenditure which increases the possibility of an inappropriate expenditure. The Authority was obligated for expenditures without proper approval.

RECOMMENDATION
We recommend that purchase orders be created and approved in advance of execution of the actual purchase for all department procurements. This should be monitored and enforced by finance and management, the purchasing managers, and the Chief Procurement Officer.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
To ensure MVPHA complies with the purchase orders requirements, MVPHA will implement the following: November 2019, revise MVPHA Procurement Policy; December 2019, present policy to the board of commissioners for approval; January 1, 2020, effective date of revised policy; ongoing, the MVPHA management will monitor and enforce policy and procedures.

POINT OF CONTACT
Chief Procurement Officer

**FEDERAL AWARD FINDINGS – CONTINUED**

**2019-003 ELIGIBILITY (OTHER NONCOMPLIANCE)**

**CFDA No. 14.871**
**Section 8 Housing Choice Vouchers (HCV)**
**Grant Period: July 1, 2018 – June 30, 2019**

CONDITION
During review of 1 out of 20 participant files for eligibility testing under the HCV program, the Authority did not ensure that a reinspection was rescheduled by McCright & Associates (the Agency) after an inconclusive report due to the participant not being home. This is a requirement under the HQS Admin Plan Part Chapter 8-IIA. Authority personnel did not obtain proper documentation to verify participant's household number and income.

CRITERIA
The Authority's Administration Plan (Chapter 8-II.C. "Annual/Biennial HQS Inspections [24 CFR 982.405]" states that, "If the family misses the first scheduled appointment without requesting a new inspection date, the PHA will automatically schedule a second inspection. If the family misses two scheduled inspections without PHA approval, the PHA will consider the family to have violated its obligation to make the unit available for inspection. This may result in termination of the family's assistance in accordance with Chapter 12."

CAUSE
The agency responsible for rescheduling the inspection failed to communicate with MVPHA's HCV program manager to ensure its compliance to reschedule occurred.

EFFECT
The Authority is out of compliance with Chapter 8 of [24 CFR 982 Subpart I and 24 CFR 982.507] because they failed to schedule a second inspection after a missed inspection, resulting in the family living in a house without having a passed inspection within 1 year.

RECOMMENDATION
We recommend that MVPHA improve its tracking system verifying annual housing inspections are not missed.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
To ensure MVPHA complies with the Eligibility (Noncompliance), MVPHA will implement the following during October 2019, the HCV Program Manager worked with McCright and Associates to update their policies and procedures; also during October 2019, the Inconclusive Reinspection letters have been revised; daily, the Sr. HCV Specialist will continue to review the daily eMIMs report provided by McCright and Associates to ensure a third inspection is requested.

POINT OF CONTACT
HCV Program Manager

## FEDERAL AWARD FINDINGS – CONTINUED

### 2019-004 DATA COLLECTION FORM SUBMISSION (SIGNIFICANT DEFICIENCY)

**Funding Agency: All Funding Agencies**
**Title: All Federal Award Programs**
**CFDA Number: All CFDA Numbers**

CONDITION
The FY18 data collection form was never submitted to the Federal Audit Clearinghouse (FAC). Therefore, MVPHA missed the required report filing deadline which was 30 days after the date the financial statements were issued or September 28, 2018

CRITERIA
Uniform Guidance Section 200.320(a) requires the data collection form to be submitted within the earlier of 30 days after receipt of the auditor's report(s) or nine months after the end of the audit period.

QUESTIONED COSTS
None.

CAUSE
Oversight on management side due to new personnel.

EFFECT
The Authority did not meet the filing deadline as required by the U.S. Office of Management and Budget (OMB).

RECOMMENDATION
We recommend that the Authority monitor the submittal process to ensure that the data collection form is prepared and filed (uploaded) timely.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
MVPHA Comptroller already created an account to have access to the Federal Audit Clearinghouse (FAC) website to be able to upload the data collection form and other documentation as required by Uniform Guidance (2 CFR 200) for fiscal year 2019 and years to follow. The due date for this data collection form and reporting package shall be electronically transmitted 30 days after receipt of the auditor’s report or nine months after the end of the audit period, whichever comes first.

The MVPHA Comptroller created an account during October 2019 to have access to the Federal Audit Clearinghouse (FAC) website to be able to upload the data collection form and other documentation as required by OMB Circular A-133 for fiscal year 2019 and years to follow.

POINT OF CONTACT
Comptroller

## FEDERAL AWARD FINDINGS – CONTINUED

### 2019-005 POST FEDERAL AWARD REQUIREMENTS – PERSONALLY IDENTIFIABLE INFORMATION (OTHER NONCOMPLIANCE)

**Programs: All**
**CFDA No.: 14.182, 14.896, 14.850, 14.871, 14.872**
**Period: July 1, 2018 – June 30, 2019**

CONDITION
Based upon our review of written approved policies that were in place, we noted the following matters during the period under examination that we consider to be noncompliance with the Uniform Guidance (2 CFR 200). We did not find any instances in violation of Protected Personally Identifiable Information.

CRITERIA
The Authority does not appear to have updated its policies and procedures for protection of Protected Personally Identifiable Information (PPII) to be compliant with 2 CFR 200.303(e) which requires non-federal entities to take reasonable measures to safeguard PPII and other information the federal awarding agency or pass-through entity designates as sensitive or the non-federal entity considers sensitive consistent with applicable federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

CAUSE
The existing policy has not been updated to ensure that Protected Personally Identifiable Information (PPII) and other sensitive information is safeguarded to be compliant with 2 CFR 200.303(e).

EFFECT
We noted the design of internal controls within existing policies in place were adequate and they were mostly compliant with Uniform Guidance and (2 CFR Part 200). The Authority is not in compliance with federal award requirements regarding PPII.

RECOMMENDATION
We recommend that the Authority's management update existing policies and develop procedures to ensure compliance with all applicable laws and regulations, including the Uniform Guidance, and determine an effective strategy for safeguarding PPII.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
To ensure MVPHA complies with the Post Federal Award Requirements – Personally Identifiable Information (Other Noncompliance) MVPHA implemented the following: In January 2020, MVPHA will update existing procedures to ensure compliance with all applicable laws and regulations, including the Uniform Guidance and determine an effective strategy for safeguarding PPII; also in January 2020, provide revised procedures to staff; and during February 1, 2020, effective date of revised procedures.

POINT OF CONTACT
Comptroller

**FEDERAL AWARD FINDINGS – CONTINUED**

**2019-006 SEGREGATION OF DUTIES – CREDIT CARD PAYMENTS (SIGNIFICANT DEFICIENCY)**

**CFDA No.: 14.850**
**Public and Indian Housing**
**Grant Period: July 1, 2018 – June 30, 2019**

**CFDA No.: 14.871**
**Section 8 Housing Choice Vouchers (HCV)**
**Grant Period: July 1, 2018 – June 30, 2019**

CONDITION
During cash disbursements testing, it came to our attention that MVPHA accounting personnel have the ability to make payments for credit cards over the phone without secondary approval. There was no signature for approval of the phone payment confirmation to verify a review and approval happened for this type of payment. The Authority has positive pay that alerts the accountant and the comptroller to approve payments within the banking system before cash is disbursed. However, either one of them has the ability to approve the payment through Wells Fargo without the other person's approval within the Authority as a requirement for this payment process.

CRITERIA
Lack of segregation of duties in the accounts payable function increases the risk that an error or irregularity could occur and go undetected.

CAUSE
No existing internal control is in place to require an approval by a second authorized individual.

EFFECT
Lack of segregation of duties within the accounts payable function specific to credit card payments made over the phone. A primary internal control principle is to have transactions approved (second set of eyes) by an appropriate individual designated for review and normally not connected to initiation of the original transaction. This independent review can be effective in assuring correct expenditure of resources.

RECOMMENDATION
We recommend that the Authority review and redefine roles for making credit card payments over the phone to ensure proper segregation of duties.

MANAGEMENT RESPONSE AND PLANNED CORRECTIVE ACTION
MVPHA made two payments over the phone due to the implementation of the new system, and system not being able to allocate expenses as needed. Once the new system updated the credit card payment process, credit card payments followed the same process as any other payment. In the future, if an emergency arises and credit card will require a payment over the phone, the Accounting Department will ensure to have the proper approval from upper management before and after the phone call is made to be in compliance with the internal control process. Monitoring of the compliance of this process will start on July 1, 2019, and will end June 30, 2020.

POINT OF CONTACT
Comptroller

**EXIT CONFERENCE**

For the Year Ended June 30, 2019

An exit conference was held on September 23, 2019, to discuss the annual financial report. The exit conference was attended by the following individuals:

**Mesilla Valley Public Housing Authority**

| | |
|---|---|
| Marcos Montes | Chairman |
| Felix Cordero | Vice Chairman |
| Joseph Figueroa | Commissioner |
| Juan Olvera | Executive Director |
| Lorena Rivera | Operations Manager, Deputy Director |
| Jaclyn Leyva | HCV Manager |
| Maria Licon | Executive/HR Assistant |
| Elizabeth Garcia | Comptroller |

**Atkinson & Co., Ltd.**

| | |
|---|---|
| Clarke Cagle, CPA, CCIFP, CGFM | Audit Shareholder |

**PREPARATION OF FINANCIAL STATEMENTS**

Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles and that records are correct and in balance. The financial statements presented in this report have been prepared by the independent auditor with the assistance of the Mesilla Valley Public Housing Authority. Management has reviewed and approved the financial statements.

ATKINSON & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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