

MSV II Limited Partnership

Financial Statements

Years Ended December 31, 2014 and 2013

And Supplementary Information

Year Ended December 31, 2014

MSV II Limited Partnership

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Balance Sheets.....	3 - 4
Statements of Operations.....	5
Statements of Changes in Partners' Equity (Deficit).....	6
Statements of Cash Flows.....	7 - 8
Notes to Financial Statements	9 - 17
Supplemental Information	
Supplementary Information Required by HUD.....	19 - 20
Computation of Surplus Cash, Distributions and Residual Receipts.....	21
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23
Schedule of Findings and Responses	24
Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations	25
Mortgagor's Certification	26
Management Agent's Certification	27
Information on Auditor	28
Exit Conference	29

BOOTHE ★ VASSAR

1 001 EAST FM 700 (432) 263-1324
BIG SPRING, TEXAS 79720 WWW.BOOTHEVASSAR.COM

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH C. BOOTHE, CPA
KENNETH@BOOTHEVASSAR.COM

MARK S. VASSAR, CPA
MARK@BOOTHEVASSAR.COM

INDEPENDENT AUDITOR'S REPORT

To the Partners of

MSV II Limited Partnership
Las Cruces, New Mexico
and
Tim Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of MSV II Limited Partnership, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSV II Limited Partnership'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 MSV II Limited Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSV II Limited Partnership as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 19 - 21 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 19 - 21 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on pages 19 - 21 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2015, on our consideration of MSV II Limited Partnership's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSV II Limited Partnership's internal control over financial reporting and compliance.



Boothe, Vassar & Company

May 21, 2015
Big Spring, Texas

MSV II Limited Partnership
Balance Sheets
December 31, 2014 and 2013

ASSETS

	12/31/2014	12/31/2013
Current Assets:		
Cash and Cash Equivalents	\$ 43,634	\$ 40,602
Accounts Receivable - Tenants	759	833
Accounts Receivable - PHA	945	2,841
Prepaid Expenses	8,083	2,104
Total Current Assets	53,421	46,380
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	30,665	27,492
Real Estate Tax & Insurance	8,270	25,242
Replacement Reserve	93,963	67,644
Guaranty Reserve	315,303	315,280
Total Restricted Deposits & Funded Reserves	448,201	435,658
Property & Equipment:		
Land	195,230	195,230
Buildings	5,026,865	5,026,865
Site Improvements	354,615	354,616
Furnishings	302,232	286,644
Accumulated Depreciation	(2,537,811)	(2,323,112)
Total Property & Equipment	3,341,131	3,540,243
Other Assets:		
Deferred Finance Cost, net of amortization	25,204	30,511
Total Other Assets	25,204	30,511
Total Project Assets	3,867,957	4,052,792
Entity Assets:		
Operating Reserve	94,547	94,519
Total Entity Assets	94,547	94,519
Total Assets	\$ 3,962,504	\$ 4,147,311

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

MSV II Limited Partnership

Balance Sheets

December 31, 2014 and 2013

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2014</u>	<u>12/31/2013</u>
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	\$ 36,868	\$ 34,372
Accounts Payable	5,154	7,594
Accrued Interest	5,064	8,376
Accrued Expenses	11,750	12,134
Accrued Property Taxes	12,962	12,918
Total Current Liabilities	<u>71,798</u>	<u>75,394</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	28,658	27,137
Prepaid Tenant Fees	3,434	1,128
Total Deposits & Prepaid Liabilities	<u>32,092</u>	<u>28,265</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	3,069,357	3,106,225
Long-Term Accrued Interest	72,628	66,628
Deferred Development Fees	0	10,157
Asset Management Fee / Return to Owner	4,153	4,032
Misc Notes Payable - Partners	0	8,783
Total Long-Term Liabilities	<u>3,146,138</u>	<u>3,195,825</u>
Total Liabilities	<u>3,250,028</u>	<u>3,299,484</u>
Partners' Equity (Deficit)	<u>712,476</u>	<u>847,827</u>
Total Liabilities & Partners' Equity	<u>\$ 3,962,504</u>	<u>\$ 4,147,311</u>

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

MSV II Limited Partnership
Statements of Operations
For the Years Ended December 31, 2014 and 2013

	12/31/2014	12/31/2013
Rental Income:		
Potential Rental Income	\$ 433,890	\$ 431,376
Lease Excess	25,714	30,656
Less: Vacancies	(13,163)	(7,954)
Less: Concessions	(2,745)	(1,531)
Total Rental Income	443,696	452,547
 Other Income:		
Interest Income	103	119
Laundry & Vending	1,027	759
Tenant Charges	3,964	3,696
Miscellaneous Income	1,996	875
Total Other Income	7,090	5,449
Total Income	450,786	457,996
 Operating Expenses:		
Administrative	80,598	88,717
Utilities	33,864	32,797
Maintenance	70,025	69,564
Taxes & Insurance	65,836	67,697
Financial Expense	111,656	117,123
Total Cost of Operations	361,979	375,898
Net Income/(Loss) from Operations	88,807	82,098
 Non-Operating Income & (Expenses):		
Administrative Fees	(4,153)	(4,032)
Depreciation Expense	(214,699)	(211,325)
Amortization Expense	(5,306)	(5,306)
Total Non-Operating Income & (Expenses)	(224,158)	(220,663)
Net Income/(Loss)	\$ (135,351)	\$ (138,565)

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

MSV II Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2014 and 2013

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2012	\$ 986,392	\$ 297,805	\$ 688,587
Net Income/(Loss): 12/31/2013	(138,565)	(14)	(138,551)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2013	\$ 847,827	\$ 297,791	\$ 550,036
Net Income/(Loss): 12/31/2014	(135,351)	(14)	(135,337)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2014	<u>\$ 712,476</u>	<u>\$ 297,777</u>	<u>\$ 414,699</u>

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

MSV II Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2014	12/31/2013
Cash Flows From Operating Activities:		
Revenue:		
Rental Receipts	\$ 447,972	\$ 451,168
Other Income	7,090	5,449
Total Receipts	455,062	456,617
Expenses:		
Administrative	(66,439)	(48,032)
Management Fees	(22,961)	(23,400)
Utilities	(33,864)	(32,797)
Maintenance	(70,025)	(69,564)
Taxes & Insurance	(65,792)	(67,534)
Financial Expense	(114,968)	(117,294)
Tenant Security Deposits	(1,652)	(225)
Asset Management Expense	(4,032)	(3,915)
Total Disbursements	(379,733)	(362,761)
Net Cash from Operating Activities:	75,329	93,856
Cash Flows From Investing Activities:		
Purchase Property & Equipment	(15,587)	(60,099)
Replacement Reserve	(26,319)	17,090
Real Estate Tax & Insurance	16,972	(15,766)
Operating Reserve	(28)	(53)
Guaranty Reserve	(23)	(23)
Net Cash from Investing Activities:	(24,985)	(58,851)
Cash Flows From Financing Activities:		
Principal Payments on Mortgage	(34,372)	(32,046)
Long-Term Accrued Interest	6,000	6,000
Misc Notes Payable - Partners	(8,783)	0
Deferred Development Fees	(10,157)	(30,000)
Net Cash from Financing Activities:	(47,312)	(56,046)
Increase (Decrease) In Cash	3,032	(21,041)
Cash at Beginning of Period	40,602	61,643
Cash at End of Period	\$ 43,634	\$ 40,602

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

MSV II Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2014	12/31/2013
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (135,351)	\$ (138,565)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	214,699	211,325
Amortization Expense	5,306	5,306
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	74	140
Accounts Receivable - PHA	1,896	(1,278)
Prepaid Expenses	(5,979)	12,744
Tenant Security Deposits	(3,173)	(27)
Increase (Decrease) In Liabilities		
Accounts Payable	(2,439)	4,162
Accrued Interest	(3,312)	(171)
Accrued Expenses	(384)	379
Accrued Property Taxes	44	163
Tenant Security Deposits	1,521	(198)
Prepaid Tenant Fees	2,306	(241)
Asset Management Fee / Return to Owner	121	117
Net Cash from Operating Activities	\$ 75,329	\$ 93,856
 <u>Supplemental Disclosures:</u>		
Interest Paid	\$ 108,968	\$ 111,294

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

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE A - ORGANIZATION

MSV II Limited Partnership was organized in January 2001 as a Limited Partnership to develop, construct, own, maintain, and operate a 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, 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:

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.

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.

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. Cash and cash equivalents in excess of FDIC limits were \$236,643 and \$228,076 at December 31, 2014 and 2013, respectfully. 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.

Collateralization of Deposits

The Project is a component unit of the Housing Authority of the City of Las Cruces and as such, is not required to secure collateralization on cash deposits.

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, 2014 and 2013.

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.

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
Site Improvements	15-20
Furnishings	3-7

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 moment by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2014 or 2013.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income passes through to, and is reportable by, the Partners individually. As of December 31, 2014, the Partnership's tax years for 2011, 2012, and 2013 are subject to examination by the federal and state tax authorities. With few exceptions, as of December 31, 2014, the Partnership is no longer subject to examinations by tax authorities for years before 2011.

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Rental Income

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

Amortization

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

Reclassifications

Certain items in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

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.

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013:

General Partner:	0.01 %
<i>Montana Street, LLC</i>	
Limited Partner:	99.99 %
<i>The Housing Outreach Fund IX, LP</i>	
Total	<u>100.00 %</u>

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

	<u>12/31/2014</u>	<u>12/31/2013</u>
The Project is financed with a 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 \$5,064 and \$8,376 as of December 31, 2014 and 2013, respectively. Interest expensed on this loan was \$99,329 and \$101,466 as of December 31, 2014 and 2013, respectively.	\$ 1,531,225	\$ 1,565,597

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 \$33,558 and \$30,808 as of December 31, 2014 and 2013, respectively. Interest expensed on this loan was \$2,750 and \$2,750 as of December 31, 2014 and 2013, respectively.	275,000	275,000
--	---------	---------

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE D - LONG-TERM DEBT (continued)

	<u>12/31/2014</u>	<u>12/31/2013</u>
<p>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 \$23,861 and \$21,861 as of December 31, 2014 and 2013, respectively. Interest expensed on this loan was \$2,000 and \$2,000 as of December 31, 2014 and 2013, respectively.</p>	800,000	800,000

<p>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 \$15,209 and \$13,959 as of December 31, 2014 and 2013, respectively. Interest expensed on this loan was \$1,250 and \$1,250 as of December 31, 2014 and 2013, respectively.</p>		
<p>Total</p>	<u>500,000</u>	<u>500,000</u>
<p>Less: Current Portion</p>	3,106,225	3,140,597
<p>Long-Term Notes Payable</p>	<u>36,868</u>	<u>34,372</u>
	<u>\$ 3,069,357</u>	<u>\$ 3,106,225</u>

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

	Principal	Interest	
December 31, 2015	\$ 36,868	\$ 109,631	
2016	39,107	106,983	
2017	41,946	104,144	
2018	44,992	101,098	
2019	51,120	99,457	
2020-2024	392,072	459,238	
2025-2029	532,675	318,635	
2030-2034	2,018,234	227,365	
Total	\$ 3,157,014	\$ 1,526,551	

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE D - LONG-TERM DEBT *(continued)*

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

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 \$93,963 and \$67,644 as of December 31, 2014 and 2013, respectively.

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 \$94,547 and \$94,519 as of December 31, 2014 and 2013, respectively.

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 \$315,303 and \$315,280 as of December 31, 2014 and 2013, respectively.

NOTE F - COMMITMENTS AND CONTINGENCIES

Housing Tax Credits

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

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE F - COMMITMENTS AND CONTINGENCIES *(continued)*

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.

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.

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 and is included in miscellaneous income for the year ended December 31, 2012.

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management Fee

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the Project. The current year management fee is equal to 5.25% of gross rental collections. Property Management Fees expensed were \$23,428 and \$23,810 during 2014 and 2013, respectively. The amounts due to the Management Agent related to Management Fees were \$467 and \$410 as of December 31, 2014 and 2013, respectively.

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (continued)

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 \$4,153 and \$4,032 were recognized during 2014 and 2013, respectively. The amounts due to the Limited Partner related to Investor Services Fees were \$4,153 and \$4,032 as of December 31, 2014 and 2013, respectively.

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. There were no Partnership Administration Fees accrued during 2014 and 2013, respectively.

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 2014 and 2013, respectively.

Development Fee

The Partnership has incurred a Development Fee of \$382,752 due to Mesilla Valley Public Housing Authority (MVPHA), previously known as Housing Authority of the City of Las Cruces (HACLC), an affiliate of the General Partner, for services rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building and should be paid in full by December 31, 2018. The amounts due related to Development Fees were \$0 and \$10,157 as of December 31, 2014 and 2013, respectively.

Operating Advances – General Partner

The Partnership received operating advances for the payment of various operating and financing expenses. The amount due to the General Partner related to these Operating Advances was \$0 and \$8,783 as of December 31, 2014 and 2013, respectively.

MSV II Limited Partnership
Notes to Financial Statements
December 31, 2014 and 2013

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (continued)

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, 2014 and 2013, 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:

	12/31/2014	12/31/2013
Accrued Payroll Expenses	\$ 3,067	\$ 1,361
Accrued Expenses - Audit Fees	8,683	10,773
Total Accrued Liabilities	\$ 11,750	\$ 12,134

NOTE J - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through May 21, 2015 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

MSV II Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2014

MSV II Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2014

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2014	\$ 67,644
Total Monthly Deposit	26,280
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	39
Approved Withdrawals	0
Balance as of December 31, 2014	<u>\$ 93,963</u>

Deposits Suspended or Waived Indicator	No
--	----

2. SCHEDULE OF OPERATING RESERVE

Balance as of January 1, 2014	\$ 94,519
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	28
Approved Withdrawals	0
Balance as of December 31, 2014	<u>\$ 94,547</u>

3. SCHEDULE OF GUARANTY RESERVE

Balance as of January 1, 2014	\$ 315,280
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	23
Approved Withdrawals	0
Balance as of December 31, 2014	<u>\$ 315,303</u>

MSV II Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2014

4. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
Land	\$ 195,230	\$ 0	\$ 0	\$ 195,230
Buildings	5,026,865	0	0	5,026,865
Site Improvements/Building Equipment	354,615	0	0	354,615
Furnishings	286,644	15,588	0	302,232
Totals	<u>5,863,354</u>	<u>15,588</u>	<u>0</u>	<u>5,878,942</u>
Accumulated Depreciation	2,323,112	\$ 214,699	\$ 0	2,537,811
Net Book Value	<u>\$ 3,540,242</u>			<u>\$ 3,341,131</u>

Schedule of Additions to Fixed Assets:

	12/31/2014
Air Conditioning Units	773
Carpeting and Flooring	6,563
Dishwashers	1,414
Refrigerators	3,283
Water Heaters	3,555
Totals:	<u>\$ 15,588</u>

MSV II Limited Partnership
Computation of Surplus Cash, Distributions and Residual Receipts
Year Ending December 31, 2014

		<u>12/31/2014</u>
Cash:		
	Cash	\$ 74,299
	Total Cash	<u>74,299</u>
Current Obligations:		
	Accrued Mortgage Interest Payable	5,064
	Accounts Payable - 30 Days	5,154
	Accrued Expenses (not escrowed)	11,750
	Prepaid Revenue	3,434
	Tenant Security Deposits Liability	28,658
	Total Current Obligations	<u>54,060</u>
	Surplus Cash (Deficiency)	<u>20,239</u>
Amount Available for Distribution During Next Fiscal Period:		
	Surplus Cash	<u>\$ 20,239</u>

BOOTHE ★ VASSAR

1001 EAST FM 700 (432) 263-1324
BIG SPRING, TEXAS 79720 WWW.BOOTHEVASSAR.COM

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH C. BOOTHE, CPA
KENNETH@BOOTHEVASSAR.COM

MARK S. VASSAR, CPA
MARK@BOOTHEVASSAR.COM

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

To the Partners of
MSV II Limited Partnership
Las Cruces, New Mexico
and
Tim Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MSV II Limited Partnership which comprise the balance sheet as of December 31, 2014, and related statements of operations, changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSV II Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSV II Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of MSV II Limited Partnership's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSV II Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Boothe, Vassar & Company

May 21, 2015
Big Spring, Texas

MSV II Limited Partnership
Schedule of Findings and Responses
December 31, 2014

Current Year Audit Findings: December 31, 2014

Our audit disclosed no findings that are required to be reported.

MSV II Limited Partnership
Schedule of the Status of Prior Audit Findings,
Questioned Costs, and Recommendations
December 31, 2014

Prior Year Audit Findings: December 31, 2013

Our audit disclosed no findings that are required to be reported.

MSV II Limited Partnership

Mortgagor's Certification

December 31, 2014

We hereby certify that we have examined the accompanying financial statements and supplemental information of MSV II Limited Partnership as of December 31, 2014, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 6/5/15

Name Juan Olvera

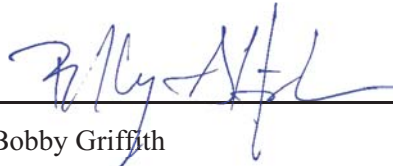
Title Executive Director
Mesilla Valley Public Housing Authority

Auditee Information:

505-325-6515
May 21, 2015
MSV II Limited Partnership
355 Montana
Las Cruces, New Mexico 88005

MSV II Limited Partnership
Management Agent's Certification
December 31, 2014

We hereby certify that we have examined the accompanying financial statements and supplemental information of MSV II Limited Partnership as of December 31, 2014, and to the best of our knowledge and belief, the same are complete and accurate.

Signed:  Date: June 15, 2015

Name: Bobby Griffith

Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.
Farmington, NM 87401

Federal I.D. Number: 85-0327246

MSV II Limited Partnership

Information on Auditor

December 31, 2014

Auditor's Transmittal Letter

Audit Firm: Boothe, Vassar & Company
State of New Mexico License No. 10014

Lead Auditor: Kenneth C. Boothe
Certified Public Accountant

Audit Firm Address: 1001 East Farm Road 700
Big Spring, Texas 79720
Phone: 432-263-1324
Fax: 432-263-2124

Federal I.D. Number: 75-2335286

Auditor's Report Date: May 21, 2015

Contacts: kenneth@boothevassar.com
diane@boothevassar.com

