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**MSV II LIMITED PARTNERSHIP**

*Independent Auditor's Report*

*and Financial Statements*

*For the Years Ended*

*December 31, 2016 and 2015*

*Supplementary Information*

*For the Year Ended*

*December 31, 2016*

# MSV II Limited Partnership

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# BOOTHE ★ VASSAR

1001 EAST FM 700  
BIG SPRING, TEXAS 79720

(432) 263-1324  
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, 2016 and 2015, 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, 2016 and 2015, 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 - 20 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 - 20 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 - 20 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The *Schedule of Vendors* shown on page 21 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 it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017, 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 26, 2017  
Big Spring, Texas

**MSV II Limited Partnership**  
**Balance Sheets**  
**December 31, 2016 and 2015**

**ASSETS**

	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 330,356	\$ 41,337
Prepaid Expenses	10,870	10,025
<b>Total Current Assets</b>	<b>341,226</b>	<b>51,362</b>
<b>Restricted Deposits &amp; Funded Reserves:</b>		
Tenant Security Deposits	34,789	33,646
Real Estate Tax & Insurance	11,421	12,232
Replacement Reserve	148,748	119,709
Guaranty Reserve	315,327	315,315
<b>Total Restricted Deposits &amp; Funded Reserves</b>	<b>510,285</b>	<b>480,902</b>
<b>Property &amp; Equipment:</b>		
Land	195,230	195,230
Buildings	5,026,865	5,026,865
Site Improvements	354,615	354,615
Furnishings	302,232	302,232
Accumulated Depreciation	(2,966,715)	(2,753,221)
<b>Total Property &amp; Equipment</b>	<b>2,912,227</b>	<b>3,125,721</b>
<b>Total Project Assets</b>	<b>3,763,738</b>	<b>3,657,985</b>
<b>Entity Assets:</b>		
Operating Reserve	94,604	94,575
<b>Total Entity Assets</b>	<b>94,604</b>	<b>94,575</b>
<b>Total Assets</b>	<b>\$ 3,858,342</b>	<b>\$ 3,752,560</b>

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

MSV II Limited Partnership

Balance Sheets

December 31, 2016 and 2015

**LIABILITIES & PARTNERS' EQUITY**

	<u>12/31/2016</u>	<u>12/31/2015</u>
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Current Maturities of Long-Term Debt	\$ 42,436	\$ 39,545
Accounts Payable	3,729	4,049
Accrued Interest	8,543	8,790
Accrued Expenses	8,795	8,816
Accrued Property Taxes	13,094	12,968
Deferred Construction in Progress	292,863	0
<b>Total Current Liabilities</b>	<u>369,460</u>	<u>74,168</u>
<b>Deposits &amp; Prepaid Liabilities:</b>		
Tenant Security Deposits	32,411	30,749
Prepaid Tenant Fees	6,436	8,153
<b>Total Deposits &amp; Prepaid Liabilities</b>	<u>38,847</u>	<u>38,902</u>
<b>Long-Term Liabilities:</b>		
Long-Term Debt (net of current maturities)	2,972,804	3,009,914
Long-Term Accrued Interest	84,628	78,628
Asset Management Fee / Return to Owner	4,406	4,278
<b>Total Long-Term Liabilities</b>	<u>3,061,838</u>	<u>3,092,820</u>
<b>Total Liabilities</b>	<u>3,470,145</u>	<u>3,205,890</u>
<b>Partners' Equity (Deficit)</b>	<u>388,197</u>	<u>546,670</u>
<b>Total Liabilities &amp; Partners' Equity</b>	<u>\$ 3,858,342</u>	<u>\$ 3,752,560</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, 2016 and 2015**

	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Rental Income:</b>		
Potential Rental Income	\$ 451,708	\$ 442,838
Lease Excess	26,222	24,859
Less: Vacancies	(21,016)	(12,365)
Less: Concessions	(4,887)	(6,640)
<b>Total Rental Income</b>	<b>452,027</b>	<b>448,692</b>
 <b>Other Income:</b>		
Interest Income	113	97
Laundry & Vending	2,101	1,860
Tenant Charges	4,776	5,360
Miscellaneous Income	507	10,932
<b>Total Other Income</b>	<b>7,497</b>	<b>18,249</b>
<b>Total Income</b>	<b>459,524</b>	<b>466,941</b>
 <b>Operating Expenses:</b>		
Administrative	84,007	86,361
Utilities	31,308	32,255
Maintenance	75,374	85,437
Taxes & Insurance	73,311	70,599
Financial Expense	116,097	118,407
<b>Total Cost of Operations</b>	<b>380,097</b>	<b>393,059</b>
<b>Net Income/(Loss) from Operations</b>	<b>79,427</b>	<b>73,882</b>
 <b>Non-Operating Income &amp; (Expenses):</b>		
Administrative Fees	(24,406)	(24,278)
Depreciation Expense	(213,494)	(215,410)
<b>Total Non-Operating Income &amp; (Expenses)</b>	<b>(237,900)</b>	<b>(239,688)</b>
<b>Net Income/(Loss)</b>	<b>\$ (158,473)</b>	<b>\$ (165,806)</b>

*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, 2016 and 2015**

	<b>Total</b>	<b>General Partner Equity</b>	<b>Limited Partner Equity</b>
<b>Partners' Equity (Deficit), December 31, 2014</b>	\$ 712,476	\$ 297,777	\$ 414,699
Net Income/(Loss): 12/31/2015	(165,806)	(17)	(165,789)
Partners' Capital Contributions	0	0	0
Partners' Distributions	0	0	0
<b>Partners' Equity (Deficit), December 31, 2015</b>	\$ 546,670	\$ 297,760	\$ 248,910
Net Income/(Loss): 12/31/2016	(158,473)	(16)	(158,457)
Partners' Capital Contributions	0	0	0
Partners' Distributions	0	0	0
<b>Partners' Equity (Deficit), December 31, 2016</b>	<b>\$ 388,197</b>	<b>\$ 297,744</b>	<b>\$ 90,453</b>

*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, 2016 and 2015**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Cash Flows From Operating Activities:</b>		
<b>Revenue:</b>		
Rental Receipts	\$ 450,310	\$ 455,115
Other Income	7,497	18,249
<b>Total Receipts</b>	<b>457,807</b>	<b>473,364</b>
<b>Expenses:</b>		
Administrative	(61,711)	(68,862)
Management Fees	(23,482)	(23,480)
Utilities	(31,308)	(32,255)
Maintenance	(75,374)	(85,437)
Taxes & Insurance	(73,185)	(70,593)
Financial Expense	(111,038)	(109,375)
Tenant Security Deposits	519	(890)
Asset Management Expense	(24,278)	(24,153)
<b>Total Disbursements</b>	<b>(399,857)</b>	<b>(415,045)</b>
<b>Net Cash from Operating Activities:</b>	<b>57,950</b>	<b>58,319</b>
<b>Cash Flows From Investing Activities:</b>		
Deferred Construction in Progress	292,863	0
Replacement Reserve	(29,039)	(25,746)
Real Estate Tax & Insurance	811	(3,962)
Operating Reserve	(29)	(28)
Guaranty Reserve	(12)	(12)
<b>Net Cash from Investing Activities:</b>	<b>264,594</b>	<b>(29,748)</b>
<b>Cash Flows From Financing Activities:</b>		
Principal Payments on Mortgage	(39,525)	(36,868)
Long-Term Accrued Interest	6,000	6,000
<b>Net Cash from Financing Activities:</b>	<b>(33,525)</b>	<b>(30,868)</b>
<b>Increase (Decrease) In Cash</b>	<b>289,019</b>	<b>(2,297)</b>
<b>Cash at Beginning of Period</b>	<b>41,337</b>	<b>43,634</b>
<b>Cash at End of Period</b>	<b>\$ 330,356</b>	<b>\$ 41,337</b>

*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, 2016 and 2015**  
**Increase (Decrease) in Cash and Cash Equivalents**

	<b>12/31/2016</b>	<b>12/31/2015</b>
<b>Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:</b>		
Net Income (Loss)	\$ (158,473)	\$ (165,806)
<b>Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:</b>		
Depreciation Expense	213,494	215,410
Non-Cash Interest for Debt Issuance Costs	5,306	5,306
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	0	1,704
Prepaid Expenses	(845)	(1,942)
Tenant Security Deposits	(1,143)	(2,981)
Increase (Decrease) In Liabilities		
Accounts Payable	(320)	(1,105)
Accrued Interest	(247)	3,726
Accrued Expenses	(21)	(2,934)
Accrued Property Taxes	126	6
Tenant Security Deposits	1,662	2,091
Prepaid Tenant Fees	(1,717)	4,719
Asset Management Fee / Return to Owner	128	125
Net Cash from Operating Activities	\$ 57,950	\$ 58,319
 <b><u>Supplemental Disclosures:</u></b>		
Interest Paid	\$ 103,815	\$ 102,548

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

**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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). Cash and Cash equivalents in excess of FDIC limits were \$528,799 and \$236,482 at December 31, 2016 and 2015, 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.

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, 2016 and 2015**

**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, 2016 and 2015.

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. 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

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 2016 or 2015.

**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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, 2016, the Partnership's tax years for 2013, 2014, and 2015 are subject to examination by the federal and state tax authorities. With few exceptions, as of December 31, 2016, the Partnership is no longer subject to examinations by tax authorities for years before 2013.

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.

Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to the 2016 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, 2016 and 2015**

**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, 2016 and 2015:

General Partner:	0.01 %
<i>Montana Street, LLC</i>	
Limited Partner:	99.99 %
<i>The Housing Outreach Fund IX, LP</i>	
Total	<u><u>100.00 %</u></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>12/31/2016</u>	<u>12/31/2015</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 \$8,543 and \$8,790 as of December 31, 2016 and 2015, respectively. Interest expensed on this loan was \$95,303 and \$97,036 as of December 31, 2016 and 2015, respectively.	\$ 1,454,832	\$ 1,494,357

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 \$39,058 and \$36,308 as of December 31, 2016 and 2015, respectively. Interest expensed on this loan was \$2,750 and \$2,750 as of December 31, 2016 and 2015, respectively.	275,000	275,000
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**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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

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 \$27,861 and \$25,861 as of December 31, 2016 and 2015, respectively. Interest expensed on this loan was \$2,000 and \$2,000 as of December 31, 2016 and 2015, respectively.

	12/31/2016	12/31/2015
	\$ 800,000	\$ 800,000

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 \$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 \$17,709 and \$16,459 as of December 31, 2016 and 2015, respectively. Interest expensed on this loan was \$1,250 and \$1,250 as of December 31, 2016 and 2015, respectively.

	500,000	500,000
Less: Unamortized Debt Issuance Costs	(14,592)	(19,898)
Total	3,015,240	3,049,459
Less: Current Portion	(42,436)	(39,545)
Long-Term Notes Payable	\$ 2,972,804	\$ 3,009,914

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

	Principal	Interest
December 31, 2017	\$ 42,436	\$ 104,144
2018	44,992	101,098
2019	51,120	99,457
2020	69,236	101,026
2021	73,526	96,736
2022-2026	442,837	408,473
2027-2031	603,269	248,041
2032-2036	1,753,205	150,961
Less: Unamortized Debt Issuance Costs	(14,592)	
Total	\$ 3,066,029	\$ 1,309,936

**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

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

In 2016, the Project retroactively adopted the requirements in ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Long-term debt as of December 31, 2015 was previously reported on the balance sheet as \$3,029,812 with the associated \$19,898 unamortized debt issuance costs included in other assets. Amortization of debt issuance costs of \$5,306 and \$5,306 for the years ended December 31, 2016 and 2015 is reported as Financial Expense in the Statements of Operations. Such amortization of debt issuance costs was previously reported as amortization expense in the Statements of Operations for the year ended December 31, 2015.

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 \$148,748 and \$119,709 as of December 31, 2016 and 2015, 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 \$94,604 and \$94,575 as of December 31, 2016 and 2015, 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 \$315,327 and \$315,315 as of December 31, 2016 and 2015, respectively.



**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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.

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.

**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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 \$24,002 and \$23,884 during 2016 and 2015, respectively. The amounts due to the Management Agent related to Management Fees were \$520 and \$404 as of December 31, 2016 and 2015, respectively.

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 \$4,406 and \$4,278 were recognized during 2016 and 2015, respectively. The amounts due to the Limited Partner related to Investor Services Fees were \$4,406 and \$4,278 as of December 31, 2016 and 2015, 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. Partnership Administration Fees of \$20,000 and \$20,000 were recognized during 2016 and 2015, respectively. There were no amounts due to the General Partner related to Partnership Administration Fees as of December 31, 2016 and 2015, 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 2016 and 2015, respectively.

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, 2016 and 2015, respectively.

**MSV II Limited Partnership**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**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 - INSURANCE CLAIM/DEFERRED CONSTRUCTION IN PROGRESS**

Deferred Construction In Progress on the Balance Sheet is related to an insurance claim filed due to hail damage. The project received insurance funds in the amount of \$292,863 in 2016 related to the claim and included in cash and cash equivalents, but construction for these repairs had not been invoiced by the contractor at yearend. The liability related to deferred construction in progress was \$292,863 as of December 31, 2016.

**NOTE J - ACCRUED EXPENSES**

The accrued expenses on the balance sheet contain the following:

	<b>12/31/2016</b>	<b>12/31/2015</b>
Accrued Payroll Expenses	\$ 2,877	\$ 2,906
Accrued Expenses - Audit Fees	5,910	5,910
Unclaimed Residential Property	8	0
Total Accrued Liabilities	<b>\$ 8,795</b>	<b>\$ 8,816</b>

**NOTE K - SUBSEQUENT EVENTS**

The Project has evaluated subsequent events through May 26, 2017 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  
Year Ended December 31, 2016**

**MSV II Limited Partnership**  
**Supplementary Information Required by HUD**  
**Year Ending December 31, 2016**

**1. SCHEDULE OF RESERVE FOR REPLACEMENTS**

Balance as of January 1, 2016	\$ 119,709
Total Monthly Deposit	28,973
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	66
Approved Withdrawals	0
Balance as of December 31, 2016	<u>\$ 148,748</u>

**2. SCHEDULE OF OPERATING RESERVE**

Balance as of January 1, 2016	\$ 94,575
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	29
Approved Withdrawals	0
Balance as of December 31, 2016	<u>\$ 94,604</u>

**3. SCHEDULE OF GUARANTY RESERVE**

Balance as of January 1, 2016	\$ 315,315
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	12
Approved Withdrawals	0
Balance as of December 31, 2016	<u>\$ 315,327</u>

**4. SCHEDULE OF CHANGES IN FIXED ASSETS**

	Balance 12/31/2015	Additions	Deductions	Balance 12/31/2016
Land	\$ 195,230	\$ 0	\$ 0	\$ 195,230
Buildings	5,026,865	0	0	5,026,865
Site Improvements/Building	354,615	0	0	354,615
Equipment				
Furnishings	302,232	0	0	302,232
Totals	<u>5,878,942</u>	<u>0</u>	<u>0</u>	<u>5,878,942</u>
Accumulated Depreciation	2,753,221	\$ 213,494	\$ 0	2,966,715
Net Book Value	<u>\$ 3,125,721</u>			<u>\$ 2,912,227</u>

**MSV II Limited Partnership**  
**Computation of Surplus Cash and Distributions**  
**Year Ending December 31, 2016**

		<u><b>12/31/2016</b></u>
<b>Cash:</b>		
	Cash	\$ 365,145
	Total Cash	<u>365,145</u>
<b>Current Obligations:</b>		
	Accrued Mortgage Interest Payable	8,543
	Delinquent Mortgage Principal Payments	(20)
	Accounts Payable - 30 Days	3,729
	Accrued Expenses (not escrowed)	8,795
	Prepaid Revenue	6,436
	Tenant Security Deposits Liability	32,411
	Other Current Obligations	<u>292,863</u>
	Total Current Obligations	<u>352,757</u>
	Surplus Cash (Deficiency)	<u><u>12,388</u></u>
<b>Amount Available for Distribution During Next Fiscal Period:</b>		
	Surplus Cash	<u><u>\$ 12,388</u></u>

**MSV II Limited Partnership**  
**Schedule of Vendors**  
**Year Ending December 31, 2016**

<u>Agency Number</u>	<u>Agency Name</u>	<u>Agency Type</u>	<u>RFB#/RFP#</u>
9010-B	MSV II Limited Partnership	Other Agencies	None

# 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, 2016, 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 26, 2017.

### **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.

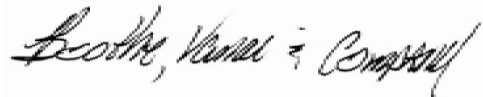


## **Compliance and Other Matters**

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 26, 2017  
Big Spring, Texas

**MSV II Limited Partnership**  
**Schedule of Findings and Responses**  
**December 31, 2016**

**Current Year Audit Findings: December 31, 2016**

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, 2016**

**Prior Year Audit Findings: December 31, 2015**

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

**MSV II Limited Partnership**

**Mortgagor's Certification**

**December 31, 2016**

We hereby certify that we have examined the accompanying financial statements and supplemental data of MSV II Limited Partnership as of December 31, 2016, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 5/26/17

Name: Juan Olvera

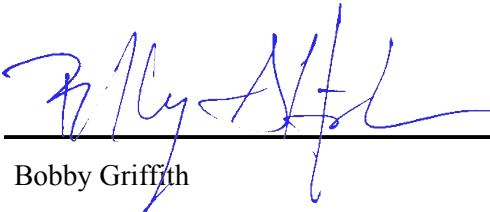
Title: Executive Director  
Mesilla Valley Public Housing Authority

**Auditee Information:**

505-325-6515  
May 26, 2017  
MSV II Limited Partnership  
355 Montana  
Las Cruces, New Mexico 88001

**MSV II Limited Partnership**  
**Management Agent's Certification**  
**December 31, 2016**

We hereby certify that we have examined the accompanying financial statements and supplemental data of MSV II Limited Partnership as of December 31, 2016, and to the best of our knowledge and belief, the same are complete and accurate.

Signed:  \_\_\_\_\_ Date: \_\_\_\_\_  
Name: Bobby Griffith  
Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.  
Farmington, NM 87401

**MSV II Limited Partnership**

**Information on Auditor**

**December 31, 2016**

**Auditor's Transmittal Letter**

Audit Firm:	Boothe, Vassar & Company State of New Mexico License No. 10014
Lead Auditor:	Diane Fox Certified Public Accountant
Audit Firm Address:	1001 East Farm Road 700 Big Spring, Texas 79720 Phone: 432-263-1324 Fax: 432-263-2124
Auditor's Report Date:	May 26, 2017
Contacts:	diane@boothevassar.com

**MSV II Limited Partnership**

**Exit Conference**

**December 31, 2016**

**EXIT CONFERENCE**

An exit conference was held on May 26, 2017, which was attended by the following:

**Housing Authority Administration**

Juan Olvera	Executive Director
Lorena Rivera	Operations Director/ Deputy Director
Laura Ramos	Accountant

**Boothe, Vassar & Company**

Diane Fox	Audit Manager
Shelley Garcia	Audit Manager

**Management Agent**

Bobby Griffith	Chief Financial Officer
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Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Boothe, Vassar & Company. However, the contents of the financial statements remain the responsibility of management.