



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**MONTANA SENIOR VILLAGE II LIMITED
PARTNERSHIP**

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

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
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INDEPENDENT AUDITOR’S REPORT

To the Partners of
Montana Senior Village II Limited Partnership
Las Cruces, New Mexico
and
Brian S. Colón, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the Montana Senior Village II (MSV II) Limited Partnership, which comprise the balance sheet as of December 31, 2018, and the 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.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSV II Limited Partnership as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Partnership's financial statements for the year ended December 31, 2017 dated May 18, 2018. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for prior year comparative data, is based solely on the report of the other auditors. Those auditors expressed an unmodified opinion on those statements.

Other Matters**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information Required by HUD and the Computation of Surplus Cash and Distributions, as identified in the table of contents, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD-Assisted Programs (the Guide)*, issued by the U.S. Department of Housing and Urban Development, Office of Inspector General and is not a required part of the financial statements.

The Schedule of Expenses, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2019 on our consideration of the Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Partnership's internal control over financial reporting and compliance.



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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Balance Sheet
As of December 31, 2018, With Comparative Totals for 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 49,416	59,228
Receivables	444	262
Prepaid expenses	<u>10,768</u>	<u>10,555</u>
Total current assets	<u>60,628</u>	<u>70,045</u>
Restricted Deposits & Funded Reserves		
Tenant security deposits	36,651	35,163
Real estate tax & insurance	11,307	12,719
Replacement cash reserve	202,730	170,670
Guaranty reserve	<u>314,471</u>	<u>315,403</u>
Total restricted deposits & funded reserves	<u>565,159</u>	<u>533,955</u>
Property & Equipment		
Land	195,230	195,230
Buildings	5,036,380	5,026,865
Site improvements	354,615	354,615
Furnishings	<u>302,232</u>	<u>302,232</u>
Total property and equipment	5,888,457	5,878,942
Less: accumulated depreciation	<u>(3,384,885)</u>	<u>(3,178,043)</u>
Net property and equipment	<u>2,503,572</u>	<u>2,700,899</u>
Entity Assets		
Operating reserve	<u>94,661</u>	94,632
Total entity assets	<u>94,661</u>	<u>94,632</u>
Total Assets	\$ <u>3,224,020</u>	<u>3,399,531</u>
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	\$ 51,700	45,516
Accounts payable	8,351	4,607
Accrued interest	8,008	8,274
Accrued expenses	8,638	8,270
Accrued property taxes	<u>13,348</u>	<u>12,920</u>
Total current liabilities	<u>90,045</u>	<u>79,587</u>
Deposits & Prepaid Liabilities		
Tenant security deposits	33,572	33,538
Prepaid tenant fees	<u>6,453</u>	<u>4,941</u>
Total deposits & prepaid liabilities	<u>40,025</u>	<u>38,479</u>
Long-Term Liabilities		
Long-term debt (net of current maturities)	2,886,241	2,932,614
Long-term accrued interest	96,628	90,628
Asset management fee/return to owner	<u>4,675</u>	<u>4,538</u>
Total long-term liabilities	<u>2,987,544</u>	<u>3,027,780</u>
Total Liabilities	<u>3,117,614</u>	<u>3,145,846</u>
Partners' Equity (Deficit)	<u>106,406</u>	<u>253,685</u>
Total Liabilities & Partners' Equity	\$ <u>3,224,020</u>	<u>3,399,531</u>

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Statement of Operations
For the Year Ended December 31, 2018, With Comparative Totals for 2017

	2018	2017
	Total	Total
REVENUE		
Rental Income		
Potential rental income	\$ 462,600	462,600
Lease excess	42,956	29,965
Less: vacancies	(8,336)	(3,173)
Less: concessions	(1,504)	(3,841)
Net rental income	495,716	485,551
Other Income		
Interest income	307	192
Laundry & vending	1,336	1,881
Tenant charges	5,520	2,072
Miscellaneous income	1,502	132
Total other income	8,665	4,277
Total Revenue	504,381	489,828
EXPENSES		
Operating Expenses		
Administrative	80,406	83,556
Utilities	30,586	33,324
Maintenance	108,220	91,024
Taxes & insurance	70,272	68,088
Financial expenses	110,659	112,482
Total cost of operations	400,143	388,474
Net Income/(Loss) from Operations	104,238	101,354
Non-Operating Income & (Expenses)		
Administrative fees	(44,675)	(24,538)
Depreciation expense	(206,842)	(211,328)
Total non-operating income & (expenses)	(251,517)	(235,866)
Net Income/(Loss)	\$ (147,279)	(134,512)

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Statement of Changes in Partners' Equity (Deficit)
For the Year Ended December 31, 2018, With Comparative Totals for 2017

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2016	\$ 388,197	297,744	90,453
Net income/(loss)	(134,512)	(13)	(134,499)
Partners' capital contributions	-	-	-
Partners' distributions	-	-	-
	<hr/>	<hr/>	<hr/>
Partners' Equity (Deficit), December 31, 2017	\$ 253,685	297,731	(44,046)
Net income/(loss)	(147,279)	(15)	(147,264)
Partners' capital contributions	-	-	-
Partners' distributions	-	-	-
	<hr/>	<hr/>	<hr/>
Partners' Equity (Deficit), December 31, 2018	\$ <u>106,406</u>	<u>297,716</u>	<u>(191,310)</u>

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Statement of Cash Flows
For the Year Ended December 31, 2018, With Comparative Totals for 2017

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2018</u>	<u>2017</u>
Revenue		
Rental receipts	\$ 497,046	483,794
Other income	8,665	4,277
Total cash receipts	<u>505,711</u>	<u>488,071</u>
Expenses		
Administrative	(50,207)	(57,327)
Management fees	(26,299)	(25,560)
Utilities	(30,586)	(33,324)
Maintenance	(108,220)	(91,024)
Taxes & insurance	(69,844)	(68,262)
Financial expense	(10,242)	(9,255)
Interest paid	(95,377)	(98,190)
Tenant security deposits	(1,454)	753
Asset management expense	(44,538)	(24,406)
Total cash disbursements	<u>(436,767)</u>	<u>(406,595)</u>
Net cash provided (used) by operating activities	<u>68,944</u>	<u>81,476</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property & equipment	(9,515)	-
Deferred construction in progress	-	(292,863)
Replacement reserve	(32,060)	(21,922)
Real estate tax & insurance	1,412	(1,299)
Operating reserve	(29)	(28)
Guaranty reserve	932	(76)
Net cash provided (used) by investing activities	<u>(39,260)</u>	<u>(316,188)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage	(45,496)	(42,416)
Long-term accrued interest	6,000	6,000
Net cash provided (used) by financing activities	<u>(39,496)</u>	<u>(36,416)</u>
Net increase (decrease) in cash and cash equivalents	(9,812)	(271,128)
Cash and cash equivalents at beginning of year	59,228	330,356
Cash and cash equivalents at end of year	\$ 49,416	\$ 59,228
<u>Reconciliation of net income (loss) to net cash provided (used) by operating activities:</u>		
Net income (loss)	\$ (147,279)	(134,512)
Adjustments to reconcile net income (loss) to cash provided/(used) by operating activities:		
Depreciation expense	206,842	211,328
Non-cash interest for debt issuance costs	5,306	5,306
Decrease (increase) in assets:		
Receivables	(182)	(262)
Prepaid expenses	(213)	315
Tenant security deposits	(1,488)	(374)
(Decrease) increase in liabilities:		
Accounts payable	3,745	879
Accrued interest	(266)	(269)
Accrued expenses	368	(525)
Accrued property taxes	428	(174)
Tenant security deposits	34	1,127
Prepaid tenant fees	1,512	(1,495)
Asset management fee/return to owner	137	132
Net cash provided (used) by operating activities	\$ 68,944	\$ 81,476

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 1 - ORGANIZATION

Montana Senior Village (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.

Related to GASB 77, the Partnership does not negotiate property tax abatements and has no tax abatement agreements as of December 31, 2018.

The Partnership does not receive public money from the State of New Mexico or any local governments as defined by 6-10-1 to 6-10-63 NMSA 1978 and therefore is not subject to several state compliance regulations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred. The Partnership is a for profit organization and prepares their financials under the Financial Accounting Standards and not the Governmental Accounting Standards generally accepted in the United States of America.

B. Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificates of deposit. Restricted deposits and funded reserves are not considered cash equivalents for purposes of the statement of cash flow.

C. Credit Risk - Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). 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.

D. Collateralization of Deposits

The Partnership does not receive public money from the State of New Mexico or any local governments as defined by NMSA 1978 and therefore is not required to secure collateralization on cash deposits.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

E. Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account. This account was funded in an amount greater than the security deposit liability as of December 31, 2018 and 2017.

F. Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Partnership does not accrue interest on the tenant receivable balances. The Partnership has not established an allowance for doubtful accounts and does not use the reserve method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

G. Property, Equipment, & Depreciation

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

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

<u>Classification</u>	<u>Estimated Life</u>
Buildings	27.5
Site improvements	15-20
Furnishings	3-7

H. Impairment

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

I. Income Taxes

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

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

K. Rental Income

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

L. Advertising Costs

Advertising costs are expensed as incurred.

M. Reclassifications

Certain December 31, 2017 amounts may have been reclassified in order to conform to the December 31, 2018 financial statement presentation.

NOTE 3 – PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

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

General Partner:	
<i>Montana Street, LLC</i>	0.01%
Limited Partner:	
<i>The Housing Outreach Fund IX, LP</i>	99.99%
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 4 – LONG-TERM DEBT

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.

	2018	2017
\$	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
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MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 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 \$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

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 longterm 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)
Total	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 loans are approximated as follows:

	Principal	Interest
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 5 – RESERVE FUNDS

Replacement Reserve

In accordance with the partnership agreement, the Partnership shall establish a replacement reserve at the time of the fourth installment to fund major repairs or replacements of the Project property. The Partnership shall make deposits into the replacement reserve fund of \$16,800 annually (to be increased

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

annually by 3%) commencing with the completion of the Project. Replacement reserve balances at December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Replacement reserve \$	<u>202,730</u>	<u>170,670</u>

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. Operating reserve balances at December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Operating reserve \$	<u>94,661</u>	<u>94,632</u>

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. Guaranty reserve balances at December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Guaranty reserve \$	<u>314,471</u>	<u>315,403</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Housing Tax Credits

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

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

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.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

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 7 – TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management Fee

In accordance with the management agreement, the Partnership has incurred management fee expenses for services rendered in connection with the leasing and operation of the Project. The current year management fee is equal to 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.

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 \$4,675 and \$4,538 as of December 31, 2018 and 2017, 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 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.

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. Tenant services fees of \$20,000 and \$0 were recognized during 2018 and 2017, 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. The amounts due to the management agent related to reimbursed expenses were \$51 and \$0 as of December 31, 2018 and 2017, respectively.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 2017

NOTE 8 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is 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 9 – ACCRUED EXPENSES

Accrued expenses consist of the following at year end:

	<u>2018</u>	<u>2017</u>
Accrued payroll expenses	\$ 2,414	2,630
Accrued expenses - audit fees	194	-
Unclaimed resident property	<u>6,030</u>	<u>5,640</u>
Total accrued expenses	<u>\$ 8,638</u>	<u>8,270</u>

NOTE 10 – RECEIVABLES

Receivables consist of the following at year end:

	<u>2018</u>	<u>2017</u>
AR - PHA	\$ <u>444</u>	<u>262</u>

NOTE 11 – SUBSEQUENT EVENTS

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP

Supplementary Information

Year Ended December 31, 2018

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Supplementary Information Required by HUD
For the Year Ended December 31, 2018, With Comparative Totals for 2017

1. Schedule of Reserve for Replacements

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 170,670	148,748
Total monthly deposit	31,943	30,422
Interest earned on reserve for replacement account (Net of service fees)	117	81
Approved withdrawals	-	(8,581)
Balance at end of year	<u>\$ 202,730</u>	<u>170,670</u>

2. Schedule of Operating Reserve

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 94,632	94,604
Total monthly deposit	-	-
Interest earned on reserve for replacement account (net of service fees)	29	28
Approved withdrawals	-	-
Balance at end of year	<u>\$ 94,661</u>	<u>94,632</u>

3. Schedule of Guaranty Reserve

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 315,403	315,327
Total monthly deposit	-	-
Interest earned on reserve for replacement account (net of service fees)	156	76
Adjustment	(1,088)	-
Approved withdrawals	-	-
Balance at end of year	<u>\$ 314,471</u>	<u>315,403</u>

4. Schedule of Changes in Fixed Assets

	<u>2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>2018</u>
Land	\$ 195,230	-	-	195,230
Buildings	5,026,865	9,515	-	5,036,380
Site improvements/ building equipment	354,615	-	-	354,615
Furnishings	302,232	-	-	302,232
Total	5,878,942	9,515	-	5,888,457
Accumulated depreciation	(3,178,043)	(206,842)	-	(3,384,885)
Net book value	<u>\$ 2,700,899</u>	<u>(197,327)</u>	<u>-</u>	<u>2,503,572</u>

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Computation of Surplus Cash and Distributions
For the Year Ended December 31, 2018, With Comparative Totals for 2017

<u>Cash</u>		<u>2018</u>	<u>2017</u>
Cash	\$	<u>86,067</u>	<u>94,391</u>
Total cash		<u>86,067</u>	<u>94,391</u>
<u>Current obligations</u>			
Accrued mortgage interest payable		8,008	8,274
Accounts payable due within 30 days		8,351	4,607
Accrued expenses (not escrowed)		8,638	8,270
Prepaid revenue		6,453	4,941
Tenant security deposits liability		<u>33,572</u>	<u>33,538</u>
Total current obligations		<u>65,022</u>	<u>59,630</u>
Surplus cash (deficiency)	\$	<u>21,045</u>	<u>34,761</u>
<u>Amount available for distribution during next fiscal period</u>			
Surplus cash	\$	<u>21,045</u>	<u>34,761</u>

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Schedule of Expenses
For the Year Ended December 31, 2018, With Comparative Totals for 2017

OPERATING EXPENSES	<u>2018</u>	<u>2017</u>
Administrative		
Professional management fees	\$ 26,231	25,586
Salaries & wages	23,549	23,055
Telephone, cable, internet	8,791	10,932
Professional services	5,941	7,851
Training	4,037	8,050
Compliance & monitoring fees	3,428	2,700
Bad debt & adjustments	2,141	296
Technical support	1,805	1,831
Dues, fees, & subscriptions	1,479	965
Supplies & office expenses	1,413	1,140
Credit/criminal reports	615	277
Advertising	559	545
Equipment & furniture	272	243
Service for residents	105	53
Travel, meals, & entertainment	40	32
Total administrative expenses	<u>80,406</u>	<u>83,556</u>
Utilities		
Electric	17,503	18,164
Water	6,858	7,392
Sewer	4,705	5,707
Gas	1,520	1,847
Utility allowance	-	214
Total utility expenses	<u>30,586</u>	<u>33,324</u>
Maintenance		
Contractual	30,069	17,512
Maintenance payroll	21,302	23,055
Elevator maintenance	16,113	16,001
Appliance and equipment replacement	15,825	14,582
Supplies	9,327	5,157
Repair & maintenance	9,075	9,395
Security	2,948	1,328
Trash removal	1,885	1,908
Painting and drywall	1,291	1,068
Pest control	326	769
Mileage - Manager	59	249
Total maintenance expenses	<u>108,220</u>	<u>91,024</u>
Taxes & insurance		
Insurance	37,317	36,460
Property taxes	27,377	25,840
Payroll taxes	5,578	5,788
Total taxes & insurance	<u>70,272</u>	<u>68,088</u>
Financial expenses		
Interest	95,111	97,921
Mortgage insurance premium	8,467	8,735
Debt issuance costs	5,306	5,306
Service charges	1,775	520
Total financial expenses	<u>110,659</u>	<u>112,482</u>
Total Cost of Operating Expenses	<u>400,143</u>	<u>388,474</u>
NON-OPERATING EXPENSES		
Depreciation expense	206,842	211,328
Administrative fees	44,675	24,538
Total non-operating expenses	<u>251,517</u>	<u>235,866</u>
Total Expenses	<u>\$ 651,660</u>	<u>624,340</u>

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



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

To the Partners of
Montana Senior Village II Limited Partnership
Las Cruces, New Mexico
and
Brian S. Colón, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montana Senior Village II (MSV II) Limited Partnership which comprise the balance sheet as of December 31, 2018, and related statements of operations, changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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.

April 11, 2019

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

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.

Hinkle & Landers, P.C.

Hinkle + Landers, PC
Albuquerque, NM
April 11, 2019

**MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Schedule of Findings and Responses
For the Year Ended December 31, 2018**

FINDINGS AND RESPONSES

Finding	Prior Year Findings	Status of Prior Year Findings	Type of Finding*
	None	n/a	n/a
Finding	Current Year Findings		
	None	n/a	n/a

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Finding that Does Not Rise to the Level of a Significant Deficiency (Other Matters)
Involving Internal Control Over Financial Reporting

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Mortgagor's Certification
For the Year Ended December 31, 2018

We hereby certify that we have examined the accompanying financial statements and supplemental data of Montana Senior Village II Limited Partnership as of December 31, 2018, and to the best of our knowledge and belief; the same are accurate and complete.

Signatories:



Juan Olvera, Executive Director
Mesilla Valley Public Housing Authority

04/12/2019

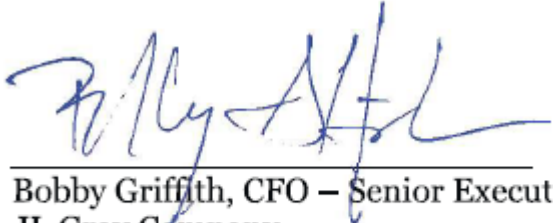
Date

Auditee Information:

505-325-6515
Montana Senior Village II Limited Partnership
355 Montana
Las Cruces, New Mexico 88001

**MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Management Agent's Certification
For the Year Ended December 31, 2018**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Montana Senior Village II Limited Partnership as of December 31, 2018, and to the best of our knowledge and belief; the same are accurate and complete.



Bobby Griffith, CFO – Senior Executive
JL Gray Company

April 12, 2019

Date

Address:
1816 East Mojave St.
Farmington, NM 87401

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
Exit Conference
For the Year Ended December 31, 2018

EXIT CONFERENCE

An exit conference was held on April 11, 2019, which was attended by the following:

Housing Authority Administration

Juan Olvera	Executive Director
Elizabeth Garcia	Comptroller

Hinkle + Landers, PC

Farley Vener, CPA	President and Shareholder
Maclen Enriquez, CPA	Senior Audit Manager

Management Agent

Bobby Griffith	Chief Financial Officer
Lori Varnell	Accountant

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Hinkle + Landers, PC. However, the contents of the financial statements remain the responsibility of management.