



FOX, GARCIA & Co, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Cimmaron II Apartments Limited Partnership

Independent Auditor's Report

and Financial Statements

For the Years Ended

December 31, 2017 and 2016

Supplementary Information

For the Year Ended

December 31, 2017

Cimmaron II Apartments Limited Partnership

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FOX, GARCIA & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Partners of

Cimmaron II Apartments Limited Partnership
Anthony, New Mexico
and
Wayne Johnson, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Cimmaron II Apartments Limited Partnership, which comprise the balance sheets, as of December 31, 2017 and 2016, 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cimmaron II Apartments Limited Partnership as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Cimmaron II Apartments Limited Partnership as of December 31, 2016, were audited by other auditors whose report dated May 26, 2017, 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 accompanying supplementary information shown on pages 18 - 19 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 18 - 19 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 18 - 19 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The *Schedule of Vendors* shown on page 20 has not been subjected to the 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 18, 2018, on our consideration of Cimmaron II Apartments 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 Cimmaron II Apartments Limited Partnership's internal control over financial reporting and compliance.



Fox, Garcia & Company, LLC

May 18, 2018
Big Spring, Texas

Cimmaron II Apartments Limited Partnership

Balance Sheets

December 31, 2017 and 2016

ASSETS

	<u>12/31/2017</u>	<u>12/31/2016</u>
Current Assets:		
Cash and Cash Equivalents	\$ 34,154	\$ 11,366
Accounts Receivable - Tenants	0	16
Prepaid Expenses	25,628	25,992
Total Current Assets	<u>59,782</u>	<u>37,374</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	41,300	41,285
Real Estate Tax & Insurance	21,117	14,988
Other Escrows	196	192
Replacement Reserve	153,324	127,914
Developer Fee Escrow	137,598	165,111
Total Restricted Deposits & Funded Reserves	<u>353,535</u>	<u>349,490</u>
Property & Equipment:		
Land	677,882	677,882
Buildings	8,744,373	8,744,373
Site Improvements	725,780	725,780
Furnishings	434,115	434,115
Accumulated Depreciation	(1,907,846)	(1,607,157)
Total Property & Equipment	<u>8,674,304</u>	<u>8,974,993</u>
Other Assets:		
Deferred Tax Credit Fees, net of amortization	6,298	7,024
Total Other Assets	<u>6,298</u>	<u>7,024</u>
Entity Assets:		
Operating & Operating Deficit Reserve	202,883	202,883
Total Entity Assets	<u>202,883</u>	<u>202,883</u>
Total Assets	<u>\$ 9,296,802</u>	<u>\$ 9,571,764</u>

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

Cimmaron II Apartments Limited Partnership

Balance Sheets

December 31, 2017 and 2016

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2017</u>	<u>12/31/2016</u>
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	\$ 10,810	\$ 10,112
Accounts Payable	4,183	1,512
Accrued Interest	7,643	7,700
Accrued Expenses	8,929	11,144
Accrued Property Taxes	14,609	14,854
Total Current Liabilities	<u>46,174</u>	<u>45,322</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	39,743	39,203
Prepaid Tenant Fees	2,229	3,103
Total Deposits & Prepaid Liabilities	<u>41,972</u>	<u>42,306</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	1,314,130	1,322,585
Deferred Development Fees	137,500	165,013
Total Long-Term Liabilities	<u>1,451,630</u>	<u>1,487,598</u>
Total Liabilities	<u>1,539,776</u>	<u>1,575,226</u>
Partners' Equity (Deficit)	<u>7,757,026</u>	<u>7,996,538</u>
Total Liabilities & Partners' Equity	<u>\$ 9,296,802</u>	<u>\$ 9,571,764</u>

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

Cimmaron II Apartments Limited Partnership
Statements of Operations
For the Years Ended December 31, 2017 and 2016

	12/31/2017	12/31/2016
Rental Income:		
Potential Rental Income	\$ 537,264	\$ 511,560
Lease Excess	18,274	17,622
Less: Vacancies	(9,471)	(11,705)
Less: Concessions	(9,818)	(11,314)
Total Rental Income	536,249	506,163
 Other Income:		
Interest Income	210	132
Laundry & Vending	78	37
Tenant Charges	18,118	16,335
Miscellaneous Income	132	107
Total Other Income	18,538	16,611
Total Income	554,787	522,774
 Operating Expenses:		
Administrative	120,984	116,744
Utilities	67,552	67,165
Maintenance	87,288	89,780
Taxes & Insurance	104,059	104,986
Financial Expense	103,001	103,218
Total Cost of Operations	482,884	481,893
Net Income/(Loss) from Operations	71,903	40,881
 Non-Operating Income & (Expenses):		
Depreciation Expense	(300,689)	(299,998)
Amortization Expense	(726)	(727)
Total Non-Operating Income & (Expenses)	(301,415)	(300,725)
Net Income/(Loss)	\$ (229,512)	\$ (259,844)

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

Cimmaron II Apartments Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2017 and 2016

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2015	\$ 8,296,382	\$ (74,644)	\$ 8,371,026
Net Income/(Loss): 12/31/2016	(259,844)	0	(259,844)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(40,000)</u>	<u>(39,960)</u>	<u>(40)</u>
Partners' Equity (Deficit), December 31, 2016	\$ 7,996,538	\$ (114,604)	\$ 8,111,142
Net Income/(Loss): 12/31/2017	(229,512)	0	(229,512)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(10,000)</u>	<u>(9,990)</u>	<u>(10)</u>
Partners' Equity (Deficit), December 31, 2017	<u>\$ 7,757,026</u>	<u>\$ (124,594)</u>	<u>\$ 7,881,620</u>

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

Cimmaron II Apartments Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2017	12/31/2016
Cash Flows From Operating Activities:		
Revenue:		
Rental Receipts	\$ 535,391	\$ 509,362
Other Income	18,538	16,611
Total Receipts	553,929	525,973
Expenses:		
Administrative	(89,167)	(87,327)
Management Fees	(31,899)	(30,274)
Utilities	(67,552)	(68,054)
Maintenance	(86,390)	(90,985)
Taxes & Insurance	(104,304)	(104,837)
Financial Expense	(100,703)	(100,914)
Tenant Security Deposits	525	(1,846)
Total Disbursements	(479,490)	(484,237)
Net Cash from Operating Activities:	74,439	41,736
Cash Flows From Investing Activities:		
Purchase Property & Equipment	0	(12,499)
Replacement Reserve	(25,410)	(25,332)
Real Estate Tax & Insurance	(6,125)	1,082
Other Escrows	(4)	(2)
Developer Fee Escrow	27,513	27,433
Net Cash from Investing Activities:	(4,026)	(9,318)
Cash Flows From Financing Activities:		
Principal Payments on Mortgage	(10,112)	(9,458)
Partners' Distributions	(10,000)	(40,000)
Deferred Development Fees	(27,513)	(27,531)
Net Cash from Financing Activities:	(47,625)	(76,989)
Increase (Decrease) In Cash	22,788	(44,571)
Cash at Beginning of Period	11,366	55,937
Cash at End of Period	\$ 34,154	\$ 11,366

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

Cimmaron II Apartments Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2017	12/31/2016
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (229,512)	\$ (259,844)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	300,689	299,998
Amortization Expense	726	727
Non-Cash Interest for Debt Issuance Costs	2,355	2,356
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	16	1,128
Prepaid Expenses	364	(1,871)
Tenant Security Deposits	(15)	(3,302)
Increase (Decrease) In Liabilities		
Accounts Payable	2,667	(1,784)
Accrued Interest	(57)	(52)
Accrued Expenses	(2,215)	704
Accrued Property Taxes	(245)	149
Tenant Security Deposits	540	1,456
Prepaid Tenant Fees	(874)	2,071
Net Cash from Operating Activities	\$ 74,439	\$ 41,736
 <u>Supplemental Disclosures:</u>		
Interest Paid	\$ 92,088	\$ 93,353

The accompanying notes are an integral part of these financial statements

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE A - ORGANIZATION

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

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

The Project is financed and constructed under Section 542(c) of the Housing and Community Development Act, as amended, and is administered by the New Mexico Mortgage Finance Authority (MFA). Under this program, the Company provides housing to low and moderate income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Project through rent subsidies provided by the local Public Housing Authority (PHA).

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

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.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. Accounts held in escrow for developer fees and the operating deficit reserve are invested without any federal deposit insurance. The amounts held without insurance are \$341,689 and \$368,723 as of December 31, 2017 and 2016, 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 Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

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, 2017 and 2016.

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	40
Site Improvements	5-20
Furnishings	7-10

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 2017 or 2016.

Income Taxes

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

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 2016 financial statements have been reclassified to conform to the 2017 presentation.

Advertising Costs

Advertising Costs are expensed as incurred.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Cimmaron II Apartments Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2017 and 2016:

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

NOTE D - LONG-TERM DEBT

The Project is financed with a 480-month note payable to New Mexico Mortgage Finance Authority under the 542(c) FHA-Insured Multifamily Loan Program in the original amount of \$1,420,000, with an interest rate of 6.7%. The note is payable in monthly installments of \$8,517 including interest through the maturity date. The unpaid principal of the loan is due January 2052. The accrued interest was \$7,643 and \$7,700 as of December 31, 2017 and 2016, respectively. Interest expensed on this note was \$92,031 and \$92,689 as of December 31, 2017 and 2016, respectively.

	<u>12/31/2017</u>	<u>12/31/2016</u>
	\$ 1,368,913	\$ 1,379,025
Less: Unamortized Debt Issuance Costs	<u>(43,973)</u>	<u>(46,328)</u>
Total	1,324,940	1,332,697
Less: Current Portion	<u>(10,810)</u>	<u>(10,112)</u>
Long-Term Notes Payable	<u>\$ 1,314,130</u>	<u>\$ 1,322,585</u>

Aggregate maturities of the loans are approximated as follows

	<u>Principal</u>	<u>Interest</u>
December 31, 2018	\$ 10,810	\$ 91,389
2019	11,557	90,642
2020	12,356	89,844
2021	13,210	88,990
2022	14,122	88,077
2023-2027	86,669	424,329
2028-2032	121,045	389,952
2033-2037	169,057	341,941
2038-2042	236,111	274,887
2043-2047	329,762	181,236
2048-2052	364,214	53,102
2053-2057	0	0
Less: Unamortized Debt Issuance Costs	<u>(43,973)</u>	
Total	<u>\$ 1,324,940</u>	<u>\$ 2,114,389</u>

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

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

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

NOTE E - TCEP FUNDS

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

NOTE F - RESERVE FUNDS

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were \$137,598 and \$165,111 as of December 31, 2017 and 2016, respectively.

Replacement Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Replacement Reserve. The Partnership shall make deposits into the Replacement Reserve fund of \$25,200 annually, commencing upon permanent financing. Replacement Reserve balance was \$153,324 and \$127,914 as of December 31, 2017 and 2016, respectively.

Operating and Operating Deficit Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership funded an Operating Deficit Reserve fund in the amount of \$202,883. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was \$202,883 and \$202,883 as of December 31, 2017 and 2016, respectively.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE G - COMMITMENTS AND CONTINGENCIES

Tax Credit Exchange Program

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

1. A Recapture Event of Default;
2. Failure to comply with the requirements of Section 42 of the Code;
3. Failure to observe or perform any term, condition or covenant in the TCEP Agreement;
4. A default under any of the Loan Documents;
5. Any representation or warranty made by the Owner or on behalf of Owner becomes materially incorrect or incomplete;
6. Failure by owner to commence construction of the project within the specified time period;
7. The Project is damaged or destroyed and cannot be restored for completion by the Completion Date and within the other terms;
8. Failure by owner to construct the project according to the contract documents;
9. For any cause (other than acts of God) that would suspend construction for a period of 20 consecutive days, construction is not carried on to permit completion by completion date, or construction is not progressing in accordance with the contract documents;
10. Failure by owner to pay the general contractor, mechanic, or supplier;
11. Property, Project or any part thereof are subject to a lien or security agreement except as provided in the TCEP Agreement;
12. Failure by owner to discharge, bond over or obtain title insurance against any mechanics' lien; or
13. The General Contractor or Owner shall become insolvent or be adjudicated bankrupt.

Regulatory Agreement Provisions

On December 14, 2011, the Company executed a 542 (c) Multifamily Insurance Program Regulatory Agreement with the New Mexico Mortgage Finance Authority in order to obtain the "risk-sharing" mortgage loan. The Company is required to abide by the regulatory agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) Replacement Reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE H - 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 twenty-four units in operation for the Project. The current year management fee is equal to 6% of gross rental collections. Property Management Fees expensed were \$32,596 and \$30,791 during 2017 and 2016, respectively. The amounts due to the Management Agent related to Management Fees were \$697 and \$517 as of December 31, 2017 and 2016, respectively.

Development Fee

The Partnership has incurred a Development Fee of \$825,405 due to JL Gray Company and the General Partner, rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2017, \$687,905 of this fee has been paid. The amounts due related to Development Fees were \$137,500 and \$165,013 as of December 31, 2017 and 2016, respectively.

Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received laundry income of \$78 and \$37 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, respectively.

NOTE I - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE J - ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

	<u>12/31/2017</u>	<u>12/31/2016</u>
Accrued Payroll Expenses	\$ 3,214	\$ 5,233
Accrued Expenses - Audit Fees	5,640	5,910
Unclaimed Resident Property	75	1
Total Accrued Liabilities	<u>\$ 8,929</u>	<u>\$ 11,144</u>

NOTE K - LITIGATION

A maintenance worker from the Project has filed a lawsuit for wrongful termination against the entity. The Company is vigorously defending this claim. There appears to be insurance coverage for this claim. There is not currently an estimated range of potential loss, nor has it been concluded whether there is likely to be an unfavorable outcome as of the date of this report.

NOTE L - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through May 18, 2018 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Cimmaron II Apartments Limited Partnership
Supplemental Information
Year Ended December 31, 2017

Cimmaron II Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2017

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2017	\$ 127,914
Total Monthly Deposit	25,200
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	210
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2017	<u><u>\$ 153,324</u></u>

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2017	\$ 202,883
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	0
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2017	<u><u>\$ 202,883</u></u>

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
Land	\$ 677,882	\$ 0	\$ 0	\$ 677,882
Buildings	8,744,373	0	0	8,744,373
Site Improvements/Building Equipment	725,780	0	0	725,780
Furnishings	434,115	0	0	434,115
Totals	<u>10,582,150</u>	<u>0</u>	<u>0</u>	<u>10,582,150</u>
Accumulated Depreciation	<u>1,607,157</u>	<u>\$ 300,689</u>	<u>\$ 0</u>	<u>1,907,846</u>
Net Book Value	<u><u>\$ 8,974,993</u></u>			<u><u>\$ 8,674,304</u></u>

Cimmaron II Apartments Limited Partnership
Computation of Surplus Cash and Distributions
Year Ending December 31, 2017

		<u>12/31/2017</u>
Cash:		
Cash		\$ 75,454
Total Cash		<u>75,454</u>
 Current Obligations:		
Accrued Mortgage Interest Payable		7,643
Accounts Payable - 30 Days		4,183
Accrued Expenses (not escrowed)		8,929
Prepaid Revenue		2,229
Tenant Security Deposits Liability		39,743
Total Current Obligations		<u>62,727</u>
Surplus Cash (Deficiency)		<u><u>12,727</u></u>
 Amount Available for Distribution During Next Fiscal Period:		
Surplus Cash		<u><u>\$ 12,727</u></u>

Cimmaron II Apartments Limited Partnership

Schedule of Vendors

Year Ending December 31, 2017

<u>Agency Number</u>	<u>Agency Name</u>	<u>Agency Type</u>	<u>RFB#/RFP#</u>
9010-E	Cimmaron II Apartments Limited Partnership	Other Agencies	None



FOX, GARCIA & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

Diane R. Fox, CPA
Shelleyn D. Garcia, CPA
Ph: 214-842-8464

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
Cimmaron II Apartments Limited Partnership
Anthony, New Mexico
and
Wayne Johnson, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cimmaron II Apartments Limited Partnership which comprise the balance sheet as of December 31, 2017, 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 18, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cimmaron II Apartments 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.

A handwritten signature in cursive script that reads "Fox, Garcia & Company".

Fox, Garcia & Company, LLC

May 18, 2018
Big Spring, Texas



FOX, GARCIA & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS

Diane R. Fox, CPA
Shelleyn D. Garcia, CPA
Ph: 214-842-8464

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

To the Partners of
Cimmaron II Apartments Limited Partnership
Anthony, New Mexico
and
Wayne Johnson, New Mexico State Auditor

Report on Compliance for Each Major HUD Program

We have audited Cimmaron II Apartments Limited Partnership's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have direct and material effect on each of Cimmaron II Apartments Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2017. Cimmaron II Apartments Limited Partnership's major HUD program is a HUD insured mortgage.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD program(s).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cimmaron II Apartments Limited Partnership's major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Cimmaron II Apartments Limited Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination of Cimmaron II Apartments Limited Partnership's compliance.

Opinion on Each Major HUD Program

In our opinion, Cimmaron II Apartments Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Cimmaron II Apartments Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cimmaron II Apartments Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cimmaron II Apartments Limited Partnership's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.



Fox, Garcia & Company, LLC

May 18, 2018
Big Spring, Texas

Cimmaron II Apartments Limited Partnership
Schedule of Findings and Responses
December 31, 2017

Current Year Audit Findings: December 31, 2017

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

Cimmaron II Apartments Limited Partnership
Schedule of the Status of Prior Audit Findings,
Questioned Costs, and Recommendations
December 31, 2017

Prior Year Audit Findings: December 31, 2016

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

Cimmaron II Apartments Limited Partnership

Mortgagor's Certification

December 31, 2017

We hereby certify that we have examined the accompanying financial statements and supplemental data of Cimmaron II Apartments Limited Partnership as of December 31, 2017, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 5/23/18

Name: Juan Olvera

Title: Executive Director
Mesilla Valley Public Housing Authority

Auditee Information:

505-325-6515
May 18, 2018
Cimmaron II Apartments Limited Partnership
825 4th St.
Anthony, New Mexico 88001

Cimmaron II Apartments Limited Partnership

Management Agent's Certification

December 31, 2017

We hereby certify that we have examined the accompanying financial statements and supplemental data of Cimmaron II Apartments Limited Partnership as of December 31, 2017, 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

Cimmaron II Apartments Limited Partnership

Information on Auditor

December 31, 2017

Auditor's Transmittal Letter

Audit Firm: Fox, Garcia & Company, LLC
State of New Mexico License No. 00557

Lead Auditor: Diane Fox
Certified Public Accountant

Audit Firm Address: P.O. Box 3538
Big Spring, Texas 79721
214-842-8464

Auditor's Report Date: May 18, 2018

Contacts: diane@foxgarcia.com
fgco@foxgarcia.com

Cimmaron II Apartments Limited Partnership

Exit Conference

December 31, 2017

EXIT CONFERENCE

An exit conference was held on May 18, 2018, which was attended by the following:

Housing Authority Administration

Juan Olvera Executive Director

Elizabeth Garcia Comptroller

Fox, Garcia & Company, LLC

Diane Fox Owner/Engagement Partner

Shelley Garcia Owner/Engagement Manager

Management Agent

Jack Curry Owner

Bobby Griffith Chief Financial Officer

Preparation of Financial Statements

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