



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**CIMMARON II APARTMENTS LIMITED
PARTNERSHIP**

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

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

**CIMMARON II APARTMENTS LIMITED PARTNERSHIP
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INDEPENDENT AUDITOR’S REPORT

To the Partners of
Cimmaron II Apartments Limited Partnership
Anthony, New Mexico
and
Brian S. Colón, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the Cimmaron II Apartments Limited Partnership (the 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 Cimmaron II Apartments 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

CIMMARON II APARTMENTS 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	\$ 58,059	34,154
Receivables	479	-
Prepaid expenses	<u>20,212</u>	<u>25,628</u>
Total current assets	<u>78,750</u>	<u>59,782</u>
Restricted Deposits & Funded Reserves		
Tenant security deposits	39,022	41,300
Real estate tax & insurance	29,413	21,117
Other escrows	879	196
Replacement cash reserve	178,777	153,324
Developer fee escrow	<u>111,454</u>	<u>137,598</u>
Total restricted deposits & funded reserves	<u>359,545</u>	<u>353,535</u>
Property & Equipment		
Land	677,882	677,882
Buildings	8,744,373	8,744,373
Site improvements	725,780	725,780
Furnishings	<u>434,115</u>	<u>434,115</u>
Total property and equipment	10,582,150	10,582,150
Less: accumulated depreciation	<u>(2,208,537)</u>	<u>(1,907,846)</u>
Net property and equipment	<u>8,373,613</u>	<u>8,674,304</u>
Other Assets		
Deferred tax credit fees, net of amortization	<u>5,571</u>	<u>6,298</u>
Total other assets	<u>5,571</u>	<u>6,298</u>
Entity Assets		
Operating & operating deficit reserve	<u>202,983</u>	<u>202,883</u>
Total entity assets	<u>202,983</u>	<u>202,883</u>
Total Assets	\$ <u>9,020,462</u>	<u>9,296,802</u>
LIABILITIES		
Current Liabilities		
Current maturities of long-term debt	\$ 11,557	10,810
Accounts payable	6,178	4,183
Accrued interest	7,583	7,643
Accrued expenses	10,583	8,929
Accrued property taxes	<u>11,172</u>	<u>14,609</u>
Total current liabilities	<u>47,073</u>	<u>46,174</u>
Deposits & Prepaid Liabilities		
Tenant security deposits	38,327	39,743
Prepaid tenant	<u>2,646</u>	<u>2,229</u>
Total deposits & prepaid liabilities	<u>40,973</u>	<u>41,972</u>
Long-Term Liabilities		
Long-term debt (net of current maturities)	1,304,928	1,314,130
Deferred development fees	<u>109,987</u>	<u>137,500</u>
Total long-term liabilities	<u>1,414,915</u>	<u>1,451,630</u>
Total Liabilities	<u>1,502,961</u>	<u>1,539,776</u>
Partners' Equity (Deficit)	<u>7,517,501</u>	<u>7,757,026</u>
Total Liabilities & Partners' Equity	\$ <u>9,020,462</u>	<u>9,296,802</u>

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

CIMMARON II APARTMENTS LIMITED PARTNERSHIP
Statement of Operations
For the Year Ended December 31, 2018, With Comparative Totals for 2017

	2018 Total	2017 Total
REVENUE		
Rental Income		
Potential rental income	\$ 546,840	537,264
Lease excess	25,164	18,274
Less: Vacancies	(22,142)	(9,471)
Less: Concessions	(2,513)	(9,818)
Net rental income	547,349	536,249
Other Income		
Interest income	1,723	210
Laundry & vending	-	78
Tenant charges	12,269	18,118
Miscellaneous income	1,544	132
Total other income	15,536	18,538
Total Revenue	562,885	554,787
EXPENSES		
Operating Expenses		
Administrative	110,157	120,984
Utilities	66,809	67,552
Maintenance	93,738	87,288
Taxes & insurance	93,610	104,059
Financial expenses	101,679	103,001
Total cost of operations	465,993	482,884
Net Income/(Loss) from Operations	96,892	71,903
Non-Operating Income & (Expenses)		
Depreciation expense	(300,691)	(300,689)
Amortization expense	(726)	(726)
Total non-operating income & (expenses)	(301,417)	(301,415)
Net Income/(Loss)	\$ (204,525)	(229,512)

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

CIMMARON II APARTMENTS 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	\$ 7,996,538	(114,604)	8,111,142
Net Income/(Loss)	(229,512)	-	(229,512)
Partners' Capital Contributions	-	-	-
Partners' Distributions	<u>(10,000)</u>	<u>(9,990)</u>	<u>(10)</u>
Partners' Equity (Deficit), December 31, 2017	\$ 7,757,026	(124,594)	7,881,620
Net Income/(Loss)	(204,525)	-	(204,525)
Partners' Capital Contributions	-	-	-
Partners' Distributions	<u>(35,000)</u>	<u>(34,965)</u>	<u>(35)</u>
Partners' Equity (Deficit), December 31, 2018	<u>\$ 7,517,501</u>	<u>(159,559)</u>	<u>7,677,060</u>

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

CIMMARON II APARTMENTS 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	\$ 547,287	535,391
Other income	<u>15,536</u>	<u>18,538</u>
Total Receipts	<u>562,823</u>	<u>553,929</u>
Expenses		
Administrative	(68,174)	(88,269)
Management fees	(32,917)	(31,899)
Utilities	(66,809)	(67,552)
Maintenance	(93,738)	(87,288)
Taxes & insurance	(97,047)	(104,304)
Financial expense	(7,994)	(8,615)
Interest paid	(91,389)	(92,088)
Tenant security deposits	862	525
Total Disbursements	<u>(457,206)</u>	<u>(479,490)</u>
Net Cash Provided (Used) by Operating Activities	<u>105,617</u>	<u>74,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Replacement reserve	(25,453)	(25,410)
Real estate tax & insurance	(8,296)	(6,125)
Operating & operating deficit reserve	(100)	-
Other escrows	(683)	(4)
Developer fee escrow	<u>26,144</u>	<u>27,513</u>
Net Cash Provided (Used) by Investing Activities	<u>(8,388)</u>	<u>(4,026)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage	(10,811)	(10,112)
Partners' distributions	(35,000)	(10,000)
Deferred development fees	<u>(27,513)</u>	<u>(27,513)</u>
Net cash provided (used) by financing activities	<u>(73,324)</u>	<u>(47,625)</u>
Net increase (decrease) in cash and cash equivalents	23,905	22,788
Cash and cash equivalents at beginning of year	<u>34,154</u>	<u>11,366</u>
Cash and cash equivalents at end of year	\$ <u>58,059</u>	<u>34,154</u>
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	\$ (204,525)	(229,512)
Adjustments to reconcile net income (loss) to cash provided/(used) by operating activities:		
Depreciation expense	300,691	300,689
Amortization expense	726	726
Non-cash interest for debt issuance costs	2,356	2,355
Decrease (increase) in assets:		
Receivables	(479)	16
Prepaid expenses	5,416	364
Tenant security deposit account	2,278	(15)
(Decrease) increase in liabilities:		
Accounts payable	1,996	2,667
Accrued interest	(60)	(57)
Accrued expenses	1,654	(2,215)
Accrued property taxes	(3,437)	(245)
Tenant security deposits	(1,416)	540
Prepaid tenant fees	<u>417</u>	<u>(874)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>105,617</u>	<u>74,439</u>

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

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

NOTE 1 - 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 Partnership provides housing to low- and moderate-income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods. 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.

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). Deposit accounts, at times, may exceed federally insured limits. Accounts held in escrow for developer fees and the operating deficit reserve are invested without

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

any federal deposit insurance. The amounts held without insurance are \$314,437 and \$340,480 as of December 31, 2018 and 2017, respectively. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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.

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, and 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	40
Site improvements	5-20
Furnishings	7-10

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 and 2017.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP
Notes To Financial Statements
For the Year Ended December 31, 2018, With Comparative Totals for 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.

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

General Partner:

Cimmaron Apartments LLC to receive Net Income at 100.00%

Limited Partner:

JLG Properties, LLC to receive Net Loss at 100.00%

NOTE 4 – 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 \$7,583 and \$7,643 as of December 31, 2018 and 2017, respectively. Interest expensed on this note was \$92,329 and \$92,031 as of December 31, 2018 and 2017, respectively.

	2018	2017
	\$ 1,358,102	1,368,913
Less: unamortized debt issuance costs	(41,617)	(43,973)
Total	1,316,485	1,324,940
Less: current portion	11,557	10,810
Long-Term Notes Payable \$	1,304,928	1,314,130

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

Aggregate maturities of the loans are approximated as follows:

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

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

NOTE 5 – 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 fee holdback escrow balance at December 31, 2018 and 2017 is as follows:

	2018	2017
Developer fee holdback escrow \$	111,454	137,598

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

	2018	2017
Replacement reserve \$	178,777	153,324

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

	2018	2017
Operating and deficit reserve \$	202,983	202,883

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

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.

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. 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 Partnership 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 Partnership is required to abide by the regulatory agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) replacement reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

NOTE 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 twenty-four units in operation for the Project. The current year management fee is equal to 6% of gross rental collections. Property management fees expensed were \$32,757 and \$32,596 during 2018 and 2017, respectively. The amounts

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

due to the management agent related to management fees were \$537 and \$697 as of December 31, 2018 and 2017, 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, 2018, \$660,392 of this fee has been paid. The amounts due related to development fees were \$109,987 and \$137,500 as of December 31, 2018 and 2017, respectively.

Laundry Lease

The Partnership previously 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 was terminated and sold to CSC Service Works in 2018. The Partnership received laundry income of \$0 and \$78 for the years ended December 31, 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. There were no amounts due to the management agent related to reimbursed expenses as of December 31, 2018 and 2017, respectively.

NOTE 8 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

NOTE 9 – ACCRUED EXPENSES

Accrued expenses consist of the following at year end:

	2018	2017
Accrued payroll expenses	\$ 3,654	3,214
Accrued expenses - audit fees	6,796	5,640
Unclaimed resident property	133	75
Total accrued expenses	\$ 10,583	8,929

NOTE 10 – RECEIVABLES

Receivables consist of the following at year end:

	2018	2017
AR - residents	\$ 479	-

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

NOTE 11 – LITIGATION

A maintenance worker from the Project has filed a lawsuit for wrongful termination against the entity. The Partnership 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 12 – 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.

Cimmaron II Apartments Limited Partnership
Supplementary Information
Year Ended December 31, 2018

CIMMARON II APARTMENTS LIMITED PARTNERSHIP
Supplementary Information Required by HUD
For the Year Ended December 31, 2018

1. Schedule of Reserve for Replacements

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 153,324	127,914
Total monthly deposit	25,200	25,200
Interest earned on reserve for replacement account (Net of service fees)	1,723	210
Approved withdrawals	-	-
Balance at end of year	<u>\$ 180,247</u>	<u>153,324</u>

2. Schedule of Operating & Operating Deficit Reserve

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 202,883	202,883
Total monthly deposit	-	-
Interest earned on operating reserve account (Net of service fees)	-	-
Approved withdrawals	-	-
Balance at end of year	<u>\$ 202,883</u>	<u>202,883</u>

3. Schedule of Changes in Fixed Asset Accounts

	<u>2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>2018</u>
Land	\$ 677,882	-	-	677,882
Buildings	8,744,373	-	-	8,744,373
Site improvements/building equipment	725,780	-	-	725,780
Furniture & fixtures	434,115	-	-	434,115
Total	<u>10,582,150</u>	<u>-</u>	<u>-</u>	<u>10,582,150</u>
Accumulated depreciation	<u>(1,907,846)</u>	<u>(300,691)</u>	<u>-</u>	<u>(2,208,537)</u>
Net book value	<u>\$ 8,674,304</u>	<u>(300,691)</u>	<u>-</u>	<u>8,373,613</u>

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

CIMMARON II APARTMENTS LIMITED PARTNERSHIP
Computation of Surplus Cash and Distributions
For the Year Ended December 31, 2018

<u>Cash</u>	<u>2018</u>	<u>2017</u>
Cash	\$ 97,081	75,454
Total cash	<u>97,081</u>	<u>75,454</u>
<u>Current obligations</u>		
Accrued mortgage interest payable	7,583	7,643
Accounts payable due within 30 days	6,178	4,183
Accrued expenses (not escrowed)	10,583	8,929
Prepaid revenue	2,646	2,229
Tenant security deposits liability	<u>38,327</u>	<u>39,743</u>
Total current obligations	<u>65,317</u>	<u>62,727</u>
Surplus cash (deficiency)	\$ <u>31,764</u>	<u>12,727</u>
<u>Amount available for distribution during next fiscal period</u>		
Surplus cash	\$ <u>31,764</u>	<u>12,727</u>

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

CIMMARON II APARTMENTS LIMITED PARTNERSHIP
Schedule of Expenses
For the Year Ended December 31, 2018

OPERATING EXPENSES	<u>2018</u>	<u>2017</u>
Administrative		
Professional management fees	\$ 32,757	32,596
Salaries & wages	28,735	28,342
Professional services	8,011	14,167
Telephone, cable, internet	7,107	6,774
Manager's unit	6,900	6,780
Training	6,597	10,887
Dues, fees, & subscriptions	4,655	2,922
Supplies & office expenses	4,133	6,544
Bad debt & adjustments	3,623	4,395
Compliance & monitoring fees	2,166	-
Technical support	1,805	1,831
Credit/criminal reports	1,611	2,359
Service for residents	584	535
Advertising	559	545
Travel, meals, & entertainment	550	213
Equipment & furniture	364	2,094
Total administrative expenses	<u>110,157</u>	<u>120,984</u>
Utilities		
Water	28,222	28,194
Sewer	24,703	24,703
Electric	12,660	13,601
Utility allowance	632	240
Gas	592	814
Total utility expenses	<u>66,809</u>	<u>67,552</u>
Maintenance		
Maintenance payroll	23,600	32,081
Appliance and equipment replacement	15,122	3,617
Contractual	15,065	15,151
Supplies	13,504	15,148
Repair & maintenance	9,319	5,859
Trash removal	8,058	8,220
Security	3,995	1,165
Painting and drywall	2,611	2,522
Pest control	1,940	2,855
Mileage - Manager	524	670
Total maintenance expenses	<u>93,738</u>	<u>87,288</u>
Taxes & insurance		
Insurance	61,030	66,186
Property taxes	25,794	29,707
Payroll taxes	6,786	8,166
Total taxes & insurance	<u>93,610</u>	<u>104,059</u>
Financial expenses		
Interest	91,329	92,031
Mortgage insurance premium	6,925	7,399
Debt issuance costs	2,356	2,356
Service charges	1,069	1,215
Total financial expenses	<u>101,679</u>	<u>103,001</u>
Total Cost of Operating Expenses	<u>465,993</u>	<u>482,884</u>
NON-OPERATING EXPENSES		
Depreciation expense	300,691	300,689
Administrative fees	726	726
Total non-operating expenses	<u>301,417</u>	<u>301,415</u>
Total Expenses	<u>\$ 767,410</u>	<u>784,299</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
Cimmaron II Apartments Limited Partnership
Anthony, 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 Cimmaron II Apartments 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 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.

April 11, 2019

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.



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



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
Brian S. Colón, 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, 2018. Cimmaron II Apartments Limited Partnership's major HUD program is as follows:

Name of Major HUD Programs	Direct and Material Compliance Requirements
HUD Insured Mortgage	Fair housing and nondiscrimination, mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, tenant application, eligibility, and recertification, tenant security deposits, management functions, unauthorized change of ownership/acquisition of liabilities, and unauthorized loans of project funds.

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.

April 11, 2019

Opinion on Each Major Federal Program

In our opinion, Cimmaron II Apartments Limited Partnership complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2018.

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.



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

CIMMARON II APARTMENTS LIMITED PARTNERSHIP
Schedule of Findings, Questioned Costs, and Recommendations
For the Year Ended December 31, 2018

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
- D. Material Weakness in Internal Control Over Compliance of Federal Awards
- E. Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F. Instance of Noncompliance of Federal Awards

CIMMARON II APARTMENTS 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 Cimmaron II Apartments 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
Cimmaron II Apartments Limited Partnership
825 4th St.
Anthony, New Mexico 88001

CIMMARON II APARTMENTS 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 Cimmaron II Apartments 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

CIMMARON II APARTMENTS 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.