

# **Cimmaron II Apartments Limited Partnership**

**Financial Statements and Supplemental Information  
with Report of Independent Auditors**

**December 31, 2019 and 2018**

## TABLE OF CONTENTS

	PAGE
Report of Independent Auditors	1-3
<b>Financial Statements</b>	
Balance Sheets	4-5
Statements of Operations	6
Statement of Changes in Partners' Capital	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-18
<b>Supplementary Information</b>	
Schedules of Expenses	20-21
Schedule of Changes in Restricted Cash	22
Computation of Surplus Cash	23
Schedule of Changes in Fixed Assets	24
<b>Compliance</b>	
Report Of Independent Auditors On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	25-26
Report Of Independent Auditors On Compliance For The Major HUD Program And Report On Internal Control Over Compliance Required By The <i>Consolidated     Audit Guide For Audits Of HUD Programs</i>	27-29
Schedule Of Findings, Questioned Costs, And Recommendations	30
Schedule Of The Status Of Prior Audit Findings, Questioned Costs, And Recommendations (Unaudited)	31
Mortgagor's (Owners) Certification	32
Managing Agent Certification	33
Exit Conference	34



## Report of Independent Auditors

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Cimmaron II Apartments Limited Partnership, a New Mexico limited partnership, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in partners' capital, 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.

### *Auditors' 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 in accordance with 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 auditors' 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 auditors consider 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, 2019 and 2018, 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, 2018, were audited by other auditors whose report dated April 11, 2019 expressed an unmodified opinion on those statements.

### *Changes in Accounting Principles*

As discussed in Note 2 to the financial statements, Cimmaron II Apartments Limited Partnership adopted changes in accounting principles related to revenue recognition, presentation and disclosure of the statements of cash flows, and real estate sales. Our opinion is not modified with respect to those matters.

### *Other Matters*

### *Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, which includes HUD-required financial data templates, is presented for purposes of additional analysis as required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements.

The 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.

The schedule of the status of prior audit findings, questioned costs, and recommendations, mortgagor's (owners) certification and managing agent's certification have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 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, 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 Cimmaron II Apartments Limited Partnership's internal control over financial reporting and compliance.

*Novogradac & Company LLP*

Austin, Texas

March 31, 2020

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
BALANCE SHEETS  
December 31, 2019 and 2018

	ASSETS	
	2019	2018
Current assets		
Cash and cash equivalents	\$ 84,133	\$ 58,059
Tenant accounts receivable	-	477
Prepaid expenses	37,254	20,214
Total current assets	121,387	78,750
Restricted deposits and funded reserves		
Tenant security deposits	41,210	39,022
Real estate tax & insurance	9,275	21,505
Other escrows	2,243	8,787
Developer fee escrow	111,454	111,454
Replacement reserve	204,347	178,777
Total restricted deposits and funded reserves	368,529	359,545
Property and equipment		
Land	677,882	677,882
Building	8,744,373	8,744,373
Land improvements	725,780	725,780
Furniture, fixtures, and equipment	434,115	434,115
Total property and equipment	10,582,150	10,582,150
Less: accumulated depreciation	(2,508,783)	(2,208,537)
Net property and equipment	8,073,367	8,373,613
Other assets		
Deferred tax credit fees	10,900	10,900
Accumulated amortization	(6,055)	(5,329)
Net other assets	4,845	5,571
Entity assets		
Operating reserve	202,983	202,983
Total entity assets	202,983	202,983
Total assets	\$ 8,771,111	\$ 9,020,462

see accompanying notes

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
BALANCE SHEETS (CONTINUED)  
December 31, 2019 and 2018

	2019	2018
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt	\$ 12,356	\$ 11,557
Accounts payable	15,391	6,178
Accrued interest	7,518	7,583
Accrued expenses	12,649	10,583
Accrued property taxes	18,063	11,172
<b>Total current liabilities</b>	65,977	47,073
<b>Deposits and prepaid liabilities</b>		
Tenant security deposits	39,031	38,327
Prepaid rent	3,481	2,646
<b>Total deposits and prepaid liabilities</b>	42,512	40,973
<b>Long-term liabilities</b>		
Long-term debt, net of current maturities	1,294,928	1,304,928
Deferred development fee	109,987	109,987
<b>Total long-term liabilities</b>	1,404,915	1,414,915
<b>Total liabilities</b>	1,513,404	1,502,961
<b>Partners' capital</b>	7,257,707	7,517,501
<b>Total liabilities and partners' capital</b>	\$ 8,771,111	\$ 9,020,462

see accompanying notes

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
STATEMENTS OF OPERATIONS  
For the years ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Rental income		
Potential rental income	\$ 546,840	\$ 546,840
Lease excess	27,092	25,164
Less: vacancies	(12,068)	(22,142)
Less: concessions	(546)	(2,513)
Net rental income	561,318	547,349
Other income		
Interest income	378	1,723
Tenant charges	17,593	12,269
Miscellaneous income	2,445	1,544
Total other income	20,416	15,536
Total revenue	581,734	562,885
OPERATING EXPENSES		
Administrative	117,676	110,682
Utilities	70,303	66,809
Maintenance	110,211	93,212
Taxes and insurance	96,483	93,610
Financial expenses	100,883	101,680
Total operating expenses	495,556	465,993
Total operating income	86,178	96,892
OTHER EXPENSES		
Depreciation expense	300,246	300,691
Amortization expense	726	726
Total other expenses	300,972	301,417
Net loss	\$ (214,794)	\$ (204,525)

see accompanying notes



CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
STATEMENT OF CHANGES IN PARTNERS' CAPITAL  
For the years ended December 31, 2019 and 2018

	General Partner	Limited Partner	Total Partners' Capital
BALANCE, JANUARY 1, 2018	\$ (124,594)	\$ 7,881,620	\$ 7,757,026
Capital distributions	(34,965)	(35)	(35,000)
Net loss	-	(204,525)	(204,525)
BALANCE, DECEMBER 31, 2018	(159,559)	7,677,060	7,517,501
Capital distributions	(44,955)	(45)	(45,000)
Net loss	-	(214,794)	(214,794)
BALANCE, DECEMBER 31, 2019	\$ (204,514)	\$ 7,462,221	\$ 7,257,707

see accompanying notes

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Rental receipts	\$ 562,630	\$ 547,287
Other operating receipts	20,416	15,536
Total receipts	583,046	562,823
<b>CASH PAID FOR:</b>		
Administrative expenses	(101,046)	(101,803)
Utilities expenses	(70,303)	(66,809)
Operating and maintenance expenses	(110,211)	(93,738)
Taxes and insurance expenses	(106,632)	(97,047)
Financial expenses	(4,647)	(7,994)
Interest paid	(98,592)	(91,389)
Tenant security deposits	-	(704)
Total disbursements	(491,431)	(459,484)
Net cash provided by operating activities	91,615	103,339
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net deposits to operating reserve	-	(100)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage	(11,557)	(10,811)
Payments on deferred developer fee	-	(27,513)
Capital distributions	(45,000)	(35,000)
Net cash used in financing activities	(56,557)	(73,324)
Net change in cash, cash equivalents and restricted cash	35,058	29,915
Cash, cash equivalents and restricted cash at beginning of year	417,604	387,689
Cash, cash equivalents and restricted cash at end of year	\$ 452,662	\$ 417,604
Cash and cash equivalents	\$ 84,133	\$ 58,059
Restricted cash	368,529	359,545
Total cash, cash equivalents and restricted cash	\$ 452,662	\$ 417,604

see accompanying notes

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
STATEMENTS OF CASH FLOWS (CONTINUED)  
For the years ended December 31, 2019 and 2018

	2019	2018
RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net loss	\$ (214,794)	\$ (204,525)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation expense	300,246	300,691
Amortization expense	726	726
Amortization of debt issuance costs	2,356	2,356
Changes in asset and liability accounts		
Decrease (increase) in assets		
Tenant accounts receivable	477	(479)
Prepaid expenses	(17,040)	5,416
Increase (decrease) in liabilities		
Accounts payable	9,213	1,996
Accrued interest	(65)	(60)
Accrued expenses	2,066	1,654
Accrued property taxes	6,891	(3,437)
Deferred income	835	417
Tenant security deposits held in trust	704	(1,416)
Net cash provided by operating activities	\$ 91,615	\$ 103,339

see accompanying notes

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

1. Organization

Cimmaron II Apartments Limited Partnership (the “Entity”) was formed in 2004 to construct, develop and operate an 84-unit property located in Anthony, New Mexico known as Cimmaron II Apartments (the “Property”). The Property is rented to low-income tenants and is operated in a manner necessary to qualify for federal low-income housing tax credits as provided for in Section 42 of the Internal Revenue Code (“Section 42”).

The limited partner is JLG Properties, LLC (the “Limited Partner”). The general partner is Cimmaron Apartments, LLC (the “General Partner”). Pursuant to the Amended and Restated Agreement of Limited Partnership and the subsequent amendments (“the Partnership Agreement”), profits are allocated 100% to the General Partner and losses are allocated 100% to the Limited Partner.

The Property 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 Entity provides housing to low- and moderate-income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development, as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Property through rent subsidies provided by the local Public Housing Authority.

On December 14, 2011, the Entity executed a 542 (c) Multifamily Insurance Program Regulatory Agreement (the “Regulatory Agreement”) with the MFA in order to obtain the “risk-sharing” mortgage loan. The Entity 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.

Pursuant to the terms of the Partnership Agreement, the Limited Partner was required to provide capital contributions subject to adjustments based on the amount of low-income housing tax credits ultimately allocated to the Property in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of December 31, 2019 and 2018, all capital contributions had been provided.

The Entity is reported as a component unit of Mesilla Valley Public Housing Authority (“MVPHA”), previously known as Housing Authority of the City of Las Cruces, because MVPHA has an ownership interest in the General Partner of the Entity. The Entity has no component units.

Related to GASB 77, the Entity does not negotiate property tax abatements and has no tax abatement agreements as of December 31, 2019.

The Entity 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.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations

Basis of accounting

The Entity prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, whereby income is recognized as earned and expenses are recognized as obligations are incurred. The Entity is a for profit organization and prepared their financials under the Financial Accounting Standards and not the Governmental Accounting Standards generally accepted in the United States of America.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents and includes cash held with financial institutions for funding of operating deficits, repairs and replacements to fixed assets, payments of deferred developer fees, and annual insurance and property tax payments.

Concentration of credit risk

The Entity maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Entity has not experienced any losses in such accounts. The Entity believes it is not exposed to any significant credit risk on cash and cash equivalents.

Collateralization of deposits

The Entity 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.

Receivables

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Fixed assets and depreciation

Fixed assets are recorded at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 40 years using the straight-line method. Site improvements are depreciated over their estimated useful lives of 5-20 years using the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of 7-10 years using the straight-line method. Depreciation expense for the years ended December 31, 2019 and 2018 was \$300,246 and \$300,691, respectively.

Impairment of long-lived assets

The Entity reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There were no impairment losses recognized during 2019 or 2018.

Deferred charges and amortization

Tax credit fees are amortized on a straight-line basis over the 15-year tax credit compliance period. Amortization expense for the years ended December 31, 2019 and 2018 was \$726 each year.

Revenue recognition

Rental revenue attributable to residential leases is recorded when due from residents, generally upon the first day of each month. Leases are for periods of up to one year, with rental payments due monthly. Other revenue includes fees for late payments, cleaning, damages, laundry facilities and other charges and is recorded when earned. Advance receipts of revenue are deferred and classified as liabilities until earned.

Income taxes

Income taxes on Entity income are levied on the partners at the partner level. Accordingly, all profits and losses of the Entity are recognized by each partner on its respective tax return.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Entity to report information regarding its exposure to various tax positions taken by the Entity. The Entity has determined whether any tax positions have met the recognition threshold and has measured the Entity's exposure to those tax positions. Management believes that the Entity has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the Entity are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Economic concentrations

The Entity operates one property in Anthony, New Mexico. Future operations could be affected by changes in the economic or other conditions in that geographical area or by changes in federal low-income housing subsidies or the demand for such housing. In addition, the Entity operates in a heavily regulated environment. The operations of the Entity are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. 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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events

Subsequent events have been evaluated through March 31, 2020, which is the date the financial statements were available to be issued. The spread of a novel strain of coronavirus (COVID-19) in the first quarter of 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Entity's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be determined at this time.

Changes in accounting principles

On January 1, 2019, the Entity adopted a new accounting standard that affects the accounting for revenue. The Entity's revenue is mainly derived from leases, which is not impacted by this standard. Adopting this standard did not have a significant impact on the financial statements.

The new revenue standard also introduced new guidance for accounting for other income, including the accounting for sales of real estate. Adopting this standard did not have a significant impact on the financial statements.

On January 1, 2019, the Entity adopted new accounting standards that affect the statement of cash flows. These new standards address how certain cash receipts and payments are presented and classified in the statement of cash flows, including that debt prepayments and other debt extinguishment related payments are required to be classified as financing activities, when previously these payments were classified as an operating activity. The new standards also require the statement of cash flows to explain the change in cash, cash equivalents and restricted cash. Previously, changes in restricted cash were presented in the statement of cash flows as operating, investing or financing activities depending upon the intended purpose of the restricted funds.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

2. Summary of significant accounting policies and nature of operations (continued)

Changes in accounting principles (continued)

The effect of the revisions to the statements of cash flows for the year ended December 31, 2018 is as follows:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Revised</u>
Net cash flows from operating activities	\$105,617	(\$ 2,278)	\$ 103,339
Net cash flows from investing activities	(\$8,388)	\$ 8,288	(\$ 100)

Change in accounting principle – not yet adopted

The Entity will adopt a new accounting standard for leases on January 1, 2021. Accounting for leases by lessors is left largely unchanged by the new standard. It is expected that the adoption of the new standard will not have a material impact on the accounting for tenant lease revenue.

3. Restricted deposits and funded reserves

Tenant security deposits

Tenant security deposits held in trust are placed into an interest-bearing account and are generally held until the termination of the lease, at which time some or all deposits may be returned to the lessee. As of December 31, 2019 and 2018, the balance was \$41,210 and \$39,022, respectively.

Real estate tax and insurance escrows

The Entity established an insurance escrow in an amount adequate to fund insurance premiums. As of December 31, 2019 and 2018, the balance was \$3,016 and \$8,818, respectively.

The Entity established a property tax escrow in an amount adequate to fund annual property tax payments. As of December 31, 2019 and 2018, the balance was \$6,259 and \$12,687, respectively.

Other escrows

The Entity established a mortgage insurance premium escrow in an amount adequate to fund insurance premiums. As of December 31, 2019 and 2018, the balance was \$2,243 and \$8,787, respectively.

Replacement reserve

Pursuant to the TCEP mortgage note to New Mexico Mortgage Finance Authority, annual deposits of \$25,200 are made to the replacement reserve account. These deposits are held by the mortgagee until approval is obtained for use of the funds to repair or replace certain assets of the Property. As of December 31, 2019 and 2018, the balance was \$204,347 and \$178,777, respectively.



CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

3. Restricted deposits and funded reserves (continued)

Developer fee holdback escrow

Pursuant to the TCEP mortgage note to New Mexico Mortgage Finance Authority, the Entity is required to establish a developer fee holdback escrow for a percentage of the developer fee. The Entity elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of stabilization, as defined in the Partnership Agreement, and annually thereafter. As of December 31, 2019 and 2018, the balance was \$111,454 both years.

4. Entity assets

Operating reserve

Pursuant to the TCEP mortgage note to New Mexico Mortgage Finance Authority, the Entity is required to fund an operating reserve in the amount of \$202,883. Funds from the operating reserve are to be used for operating and debt service deficits. As of December 31, 2019 and 2018, the balance of the operating reserve was \$202,983 each year.

5. Related party transactions

Property management fee

The Entity entered into a management agreement with JL Gray Company (the "Management Agent"), for services rendered in connection with the leasing and operation of the Property. The Management Agent fee for its services is 6.0% of gross rental collections. During 2019 and 2018, property management fees of \$34,088 and \$32,757, respectively, were incurred and are included in "Administrative" on the accompanying statements of operations. As of December 31, 2019 and 2018, property management fees of \$529 and \$537, respectively, remained payable, and are included in "Accounts payable" on the accompanying balance sheets.

Employees of the Property are employed by the Management Sub-Agent and the Property reimburses the Management Sub-Agent for payroll costs, including salaries, payroll taxes, workers compensation, payroll administration fees and employee benefits.

Reimbursed expenses

The Management Agent is reimbursed for various expenditures incurred on behalf of the Entity. These reimbursed expenses are separately identifiable from the property management fee paid to the Management Agent. As of December 31, 2019 and 2018, no amounts remained outstanding.

Development fee

Pursuant to the Development Services Agreement (the "Development Agreement"), the Entity agreed to pay the General Partner and JL Gray Company, a total fee of \$825,405 for services relating to the development of the Property. As of December 31, 2019 and 2018, the outstanding principal balance was \$109,987 each year.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

6. Long-term debt

The Entity obtained a 40 year mortgage from the New Mexico Mortgage Finance Authority under the 542 (c) FHA Insured Multifamily Loan Program in the amount of \$1,420,000 (the "Mortgage"). The Mortgage loan bears interest at 6.70% per annum and matures on January 1, 2052. Principal and interest payments of \$8,517 are due monthly. The mortgage is secured by the Property.

During 2019 and 2018, interest expense of \$90,578 and \$91,329, respectively, was incurred. As of December 31, 2019 and 2018, interest of \$7,518 and \$7,583, respectively, was accrued.

Long-term debt consists of the following as of December 31,

	<u>2019</u>	<u>2018</u>
Principal balance	\$ 1,346,545	\$ 1,358,102
Less: unamortized debt issuance costs	<u>(39,261)</u>	<u>(41,617)</u>
Long-term debt, net of unamortized debt issuance costs	1,307,284	1,316,485
Less: current portion	<u>(12,356)</u>	<u>(11,557)</u>
Long-term debt	<u>\$ 1,294,928</u>	<u>\$ 1,304,928</u>

Debt issuance costs of \$58,892 related to the Mortgage are being amortized to interest expense over the term of the Mortgage. For 2019 and 2018, the effective interest rate was 6.85% each year. During 2019 and 2018, amortization expense for debt issuance costs was \$2,356 each year, and is included in "Financial expenses" on the accompanying statements of operations.

Aggregate principal payments are due as follows:

2020	\$ 12,356
2021	13,210
2022	14,122
2023	15,098
2024	16,141
2025 - 2029	99,060
2030 - 2034	138,351
2035 - 2039	193,226
2040 - 2044	269,867
2045 - 2049	376,906
Thereafter	<u>198,208</u>
Total	<u>\$ 1,346,545</u>

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

7. Tax credit exchange program

On December 18, 2009, the Entity executed a \$9,525,110 Tax Credit Exchange Program (“TCEP”) Mortgage Note with the New Mexico Mortgage Finance Authority (the “Loan”). The terms of the Loan begin upon its execution and end 180 months after commencement of the compliance period. No interest or principal payments are due with respect to the Loan. The amount subject to recapture shall be reduced by 6.67% of the original loan amount for each year the Entity is in compliance with the terms of the Loan. In the event there is no uncured recapture event of default at the time of termination, the Loan shall be forgiven. Due to the fact that the repayment of the loan is considered less than remote, the liability was reclassified as a capital contribution as of December 31, 2011.

Certain events, as fully detailed in the terms of the Loan and the TCEP Agreement, would cause the Entity to be in default. The entire principal of the Loan will become due and payable if the Entity is found to be in default under the Loan and TCEP Agreement, and the event causing default is failed to be cured.

The events that would cause default 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 and of the Loan documents
5. Any representation or warranty made by the Entity or on behalf of the Entity becomes materially incorrect or incomplete
6. Failure by the Entity to commence construction of the Property within the specified time period
7. The Property is damaged or destroyed and cannot be restored for completion by the Completion Date and within the other terms
8. Failure by the Entity to construct the Property 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 the Completion Date, or construction is not progressing in accordance with the contract documents
10. Failure by the Entity to pay the general contractor, mechanic, or supplier
11. Property or any part thereof are subject to a lien or security agreement except as provided in the TCEP Agreement
12. Failure by the Entity to discharge, bond over or obtain title insurance against any mechanics’ lien
13. The general contractor or Entity shall become insolvent or be adjudicated bankrupt

8. Litigation

A maintenance worker from the Property has filed a lawsuit for wrongful termination against the Entity. The Entity is vigorously defending this claim. There appears to be sufficient 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 March 31, 2020.

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2019 and 2018

9. Commitments and contingencies

Low-income housing tax credits

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

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

**HUD  
SUPPLEMENTARY  
INFORMATION**

CIMMARON II APARTMENTS LIMITED PARTNERSHIP

SCHEDULES OF EXPENSES

For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ADMINISTRATIVE</b>		
Professional management fees	\$ 34,088	\$ 32,757
Salaries and wages	29,757	28,735
Telephone, cable, internet	8,262	7,108
Professional services	15,080	8,011
Manager's unit	6,900	6,900
Training	4,453	6,597
Compliance and monitoring fees	2,365	2,166
Bad debt and adjustments	515	3,623
Technical support	1,800	1,805
Dues, fees, and subscriptions	545	559
Supplies and office expenses	2,281	4,133
Credit/criminal reports	2,113	1,611
Advertising	6,403	4,655
Equipment and furniture	846	363
Service for residents	1,516	584
Travel, meals, and entertainment	752	1,075
	<u>\$ 117,676</u>	<u>\$ 110,682</u>
<b>UTILITIES</b>		
Utility allowance	\$ 564	\$ 632
Electricity	11,887	12,660
Water	30,233	28,222
Gas	863	592
Sewer	26,756	24,703
	<u>\$ 70,303</u>	<u>\$ 66,809</u>
<b>TAXES &amp; INSURANCE</b>		
Insurance	\$ 59,152	\$ 61,030
Property taxes	30,198	25,794
Payroll taxes	7,133	6,786
	<u>\$ 96,483</u>	<u>\$ 93,610</u>

see report of independent auditors

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
SCHEDULES OF EXPENSES - CONTINUED  
For the years ended December 31, 2019 and 2018

	2019	2018
<b>MAINTENANCE</b>		
Maintenance payroll	\$ 25,202	\$ 23,600
Contracts	26,915	15,065
Appliance and equipment replacement	18,584	15,122
Supplies	16,734	13,503
Repairs and maintenance	2,746	9,318
Security	1,274	3,995
Trash removal	7,814	8,058
Painting and drywall	5,583	2,611
Pest control	5,359	1,940
	\$ 110,211	\$ 93,212
<b>FINANCIAL EXPENSES</b>		
Interest expense	\$ 90,578	\$ 91,329
Mortgage insurance premium	6,764	6,925
Debt issuance costs	2,356	2,356
	\$ 100,883	\$ 101,680
Total operating expenses	\$ 495,556	\$ 465,993
<b>NON-OPERATING EXPENSES</b>		
Depreciation expense	\$ 300,246	\$ 300,691
Amortization expense	726	726
	\$ 300,972	\$ 301,417
Total expenses	\$ 796,528	\$ 767,410

see report of independent auditors

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
 SCHEDULE OF CHANGES IN RESTRICTED CASH  
 For the year ended December 31, 2019

**Schedule of Reserve for Replacements**

BALANCE, JANUARY 1, 2019	\$	178,777
Monthly deposits		25,200
Interest income		370
Approved withdrawals		-
		-
 BALANCE, DECEMBER 31, 2019	 \$	 204,347
		204,347

**Schedule of Operating & Operating Deficit Reserve**

BALANCE, JANUARY 1, 2019	\$	202,983
Monthly deposits		-
Interest income		-
Approved withdrawals		-
		-
 BALANCE, DECEMBER 31, 2019	 \$	 202,983
		202,983



CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
 COMPUTATION OF SURPLUS CASH  
 For the year ended December 31, 2019

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash		\$ 84,133
		<hr/>
Total cash		84,133
Accrued mortgage (or bond) interest payable		7,518
Accounts payable (due within 30 days)		15,391
Accrued expenses (not escrowed)		30,712
Prepaid revenue		3,481
Tenant deposits held in trust		39,031
Less total current obligations		<hr/> 96,133 <hr/>
Surplus cash (deficiency)		<hr/> <u>\$ (12,000)</u> <hr/>
Amount available for distribution during next fiscal period		<hr/> <u>\$ -</u> <hr/>

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
SCHEDULE OF CHANGES IN FIXED ASSETS  
For the year ended December 31, 2019

	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 677,882	\$ -	\$ -	\$ 677,882
Buildings	8,744,373	-	-	8,744,373
Site improvements	725,780	-	-	725,780
Furnishings	434,115	-	-	434,115
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	10,582,150	<u>\$ -</u>	<u>\$ -</u>	10,582,150
Accumulated depreciation	<u>2,208,537</u>	<u>\$ 300,246</u>	<u>\$ -</u>	<u>2,508,783</u>
Net book value	<u>\$ 8,373,613</u>			<u>\$ 8,073,367</u>

see report of independent auditors

REPORT OF INDEPENDENT AUDITORS 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, Las Cruces, New Mexico,  
and Brian S. Colón, New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cimmaron II Apartments Limited Partnership, which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2020.

*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.

*Novogradac & Company LLP*

Austin, Texas  
March 31, 2020

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR HUD PROGRAM AND REPORT  
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, Las Cruces, New Mexico,  
and Brian S. Colón, New Mexico State Auditor:

*Report on Compliance for The 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 a direct and material effect on Cimmaron II Apartments Limited Partnership's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended December 31, 2019. Cimmaron II Apartments Limited Partnership's major HUD program and the related direct and material compliance requirements are as follows:

**Name of Major HUD Program**

**Direct and Material Compliance Requirements**

HUD Insured Mortgage

Mortgage status, replacement reserve, distributions to owners, equity skimming, cash receipts, cash disbursements, 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for Cimmaron II Apartments Limited Partnership's major HUD program 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 the major HUD program. However, our audit does not provide a legal determination of Cimmaron II Apartments Limited Partnership's compliance.

#### *Opinion on The 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 its major HUD program for the year ended December 31, 2019.

#### *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 the major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

*Purpose of this Report*

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.

*Novogradac & Company LLP*

Austin, Texas

March 31, 2020

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
 HUD PROJECT NO. 116-98066  
 SCHEDULE OF FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS  
 December 31, 2019

Summary of Auditors' Results

*Financial statements*

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ No
- Significant deficiencies identified? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ No

*Federal awards*

Internal control over major federal program:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ No
- Significant deficiencies identified? \_\_\_\_\_ Yes \_\_\_\_\_X\_\_\_\_\_ None reported

Type of auditors' report issued on compliance for major program Unmodified

Findings – Financial Statements Audit

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.



CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
HUD PROJECT NO. 116-98066  
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS,  
AND RECOMMENDATIONS (UNAUDITED)  
December 31, 2019

Findings – Financial Statement Audit for the year ended December 31, 2018

Audit report, dated April 11, 2019, for the period ended December 31, 2018, issued by Hinkle + Landers, P.C.

There were no financial statement audit findings for the year ended December 31, 2018.

Findings from Other Audits or Studies

There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.

Findings from Deficiencies Listed in Letters or Reports Issued by HUD Management

There were no letters or reports issued by HUD during the period covered by this audit.

see report of independent auditors

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
HUD PROJECT NO. 116-98066  
MORTGAGOR'S (OWNERS) CERTIFICATION  
December 31, 2019

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

**CIMMARON II APARTMENTS LIMITED PARTNERSHIP**

  
\_\_\_\_\_  
Signature

March 31, 2020  
Date

Name of Signatory

Juan Olvera

Title of Certifying Official

Executive Director

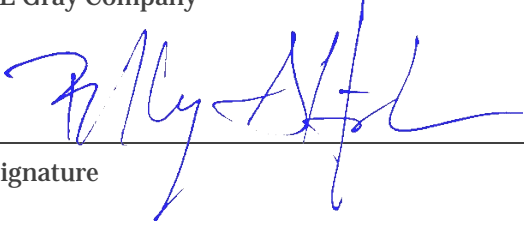
Auditee Telephone Number

575-528-2007

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
HUD PROJECT NO. 116-98066  
MANAGING AGENT CERTIFICATION  
December 31, 2019

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

JL Gray Company



\_\_\_\_\_  
Signature

March 31, 2020

\_\_\_\_\_  
Date

Name of Signatory

\_\_\_\_\_

Name of Property Manager

JL Gray Company

CIMMARON II APARTMENTS LIMITED PARTNERSHIP  
HUD PROJECT NO. 116-98066  
EXIT CONFERENCE  
For the Year Ended December 31, 2019

**Exit Conference**

An exit conference was held on March 31, 2020, which was attended by the following:

**Housing Authority Administration**

Juan Olvera	Executive Director
Elizabeth Garcia	Comptroller

**Novogradac and Company, LLP**

Nick Hoehn, CPA	Audit Partner
Michael Derrickson, CPA	Audit Principal

**Management Agent**

Bobby Griffith	Chief Financial Officer
Lori Varnell	Accountant

**Preparation of financial statements**

The auditor, Novogradac and Company, LLP, compiled the financial statements presented in this report. However, the contents of the financial statements remain the responsibility of management.