

Cimmaron II Apartments Limited Partnership

Financial Statements

Years Ended December 31, 2014 and 2013

And Supplementary Information

Year Ended December 31, 2014

Cimmaron II Apartments Limited Partnership

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BOOTHE ★ VASSAR

1001 EAST FM 700 (432) 263-1324
BIG SPRING, TEXAS 79720 WWW.BOOTHEVASSAR.COM

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH C. BOOTHE, CPA
KENNETH@BOOTHEVASSAR.COM

MARK S. VASSAR, CPA
MARK@BOOTHEVASSAR.COM

INDEPENDENT AUDITOR'S REPORT

To the Partners of

Cimmaron II Apartments Limited Partnership
Anthony, New Mexico
and
Tim Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Cimmaron II Apartments Limited Partnership, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cimmaron II Apartments Limited Partnership as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters


Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 17 - 18 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 17 - 18 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on pages 17 - 18 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 May 21, 2015, on our consideration of Cimmaron II Apartments Limited Partnership's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cimmaron II Apartments Limited Partnership's internal control over financial reporting and compliance.



Boothe, Vassar & Company

May 21, 2015
Big Spring, Texas

Cimmaron II Apartments Limited Partnership

Balance Sheets

December 31, 2014 and 2013

ASSETS

	<u>12/31/2014</u>	<u>12/31/2013</u>
Current Assets:		
Cash and Cash Equivalents	\$ 60,389	\$ 34,996
Accounts Receivable - Tenants	2,247	1,480
Accounts Receivable - PHA	377	591
Prepaid Expenses	23,242	22,817
Total Current Assets	<u>86,255</u>	<u>59,884</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	37,924	38,392
Real Estate Tax & Insurance	16,748	52,684
Other Escrows	190	186
Replacement Reserve	89,869	71,984
Operating & Operating Deficit Reserve	202,883	202,883
Developer Fee Escrow	220,074	247,605
Total Restricted Deposits & Funded Reserves	<u>567,688</u>	<u>613,734</u>
Property & Equipment:		
Land	677,882	677,882
Buildings	8,744,373	8,744,373
Site Improvements	713,281	713,281
Furnishings	434,115	428,785
Accumulated Depreciation	(1,008,220)	(709,751)
Total Property & Equipment	<u>9,561,431</u>	<u>9,854,570</u>
Other Assets:		
Deferred Finance Cost, net of amortization	51,040	53,395
Deferred Tax Credit Fees, net of amortization	8,478	9,204
Total Other Assets	<u>59,518</u>	<u>62,599</u>
Total Assets	<u>\$ 10,274,892</u>	<u>\$ 10,590,787</u>

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

Cimmaron II Apartments Limited Partnership

Balance Sheets

December 31, 2014 and 2013

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2014</u>	<u>12/31/2013</u>
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	\$ 8,847	\$ 8,275
Accounts Payable	4,404	2,126
Accrued Interest	7,802	7,848
Accrued Expenses	10,994	12,301
Accrued - Property Taxes	14,494	14,486
Total Current Liabilities	<u>46,541</u>	<u>45,036</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	36,858	38,392
Prepaid Tenant Fees	332	1,496
Total Deposits & Prepaid Liabilities	<u>37,190</u>	<u>39,888</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	1,388,483	1,397,330
Deferred Development Fees	220,074	247,604
Total Long-Term Liabilities	<u>1,608,557</u>	<u>1,644,934</u>
Total Liabilities	<u>1,692,288</u>	<u>1,729,858</u>
Partners' Equity (Deficit)	<u>8,582,604</u>	<u>8,860,929</u>
Total Liabilities & Partners' Equity	<u>\$ 10,274,892</u>	<u>\$ 10,590,787</u>

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

Cimmaron II Apartments Limited Partnership
Statements of Operations
For the Years Ended December 31, 2014 and 2013

	12/31/2014	12/31/2013
Rental Income:		
Potential Rental Income	\$ 490,098	\$ 490,644
Lease Excess	14,236	9,766
Less: Vacancies	(15,335)	(22,050)
Less: Concessions	(702)	(397)
Total Rental Income	488,297	477,963
 Other Income:		
Interest Income	16	12
Laundry & Vending	0	108
Tenant Charges	19,953	20,392
Miscellaneous Income	485	0
Total Other Income	20,454	20,512
Total Income	508,751	498,475
 Operating Expenses:		
Administrative	100,615	105,504
Utilities	76,447	74,296
Maintenance	90,041	70,161
Taxes & Insurance	87,542	91,781
Financial Expense	100,880	105,330
Total Cost of Operations	455,525	447,072
Net Income/(Loss) from Operations	53,226	51,403
 Non-Operating Income & (Expenses):		
Depreciation Expense	(298,469)	(297,609)
Amortization Expense	(3,082)	(3,082)
Total Non-Operating Income & (Expenses)	(301,551)	(300,691)
Net Income/(Loss)	\$ (248,325)	\$ (249,288)

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

Cimmaron II Apartments Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2014 and 2013

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2012	\$ 9,125,217	\$ 296	\$ 9,124,921
Net Income/(Loss): 12/31/2013	(249,288)	0	(249,288)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(15,000)</u>	<u>(15,000)</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2013	\$ 8,860,929	\$ (14,704)	\$ 8,875,633
Net Income/(Loss): 12/31/2014	(248,325)	0	(248,325)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>(30,000)</u>	<u>(29,970)</u>	<u>(30)</u>
Partners' Equity (Deficit), December 31, 2014	<u>\$ 8,582,604</u>	<u>\$ (44,674)</u>	<u>\$ 8,627,278</u>

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

Cimmaron II Apartments Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2014	12/31/2013
Cash Flows From Operating Activities:		
Revenue:		
Rental Receipts	\$ 486,580	\$ 484,536
Other Income	20,454	20,512
Total Receipts	507,034	505,048
Expenses:		
Administrative	(70,473)	(80,523)
Management Fees	(29,334)	(28,608)
Utilities	(76,727)	(74,016)
Maintenance	(90,023)	(70,079)
Taxes & Insurance	(87,534)	(91,655)
Financial Expense	(100,926)	(105,373)
Tenant Security Deposits	(1,066)	938
Total Disbursements	(456,083)	(449,316)
Net Cash from Operating Activities:	50,951	55,732
Cash Flows From Investing Activities:		
Purchase Property & Equipment	(5,330)	(13,819)
Replacement Reserve	(17,885)	(12,401)
Real Estate Tax & Insurance	35,935	7,062
Other Escrows	(4)	(186)
Developer Fee Escrow	27,531	27,530
Net Cash from Investing Activities:	40,247	8,186
Cash Flows From Financing Activities:		
Principal Payments on Mortgage	(8,275)	(7,740)
Partners' Distributions	(30,000)	(15,000)
Deferred Development Fees	(27,530)	(27,531)
Net Cash from Financing Activities:	(65,805)	(50,271)
Increase (Decrease) In Cash	25,393	13,647
Cash at Beginning of Period	34,996	21,349
Cash at End of Period	\$ 60,389	\$ 34,996

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

Cimmaron II Apartments Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2014	12/31/2013
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (248,325)	\$ (249,288)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	298,469	297,609
Amortization Expense	3,082	3,082
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	(767)	2,291
Accounts Receivable - PHA	214	3,890
Prepaid Expenses	(425)	(3,849)
Tenant Security Deposits	468	(5,476)
Increase (Decrease) In Liabilities		
Accounts Payable	2,278	532
Accrued Interest	(46)	(43)
Accrued Expenses	(1,307)	52
Accrued - Property Taxes	8	126
Tenant Security Deposits	(1,534)	6,414
Prepaid Tenant Fees	(1,164)	392
Net Cash from Operating Activities	\$ 50,951	\$ 55,732
 <u>Supplemental Disclosures:</u>		
Interest Paid	\$ 93,924	\$ 94,459

The accompanying notes are an integral part of these financial statements

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE A - ORGANIZATION

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

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

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificates of deposit.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. Accounts held in escrow for developer fees and the operating deficit reserve are invested without any federal deposit insurance. The amounts held without insurance are \$423,275 and \$450,718 as of December 31, 2014 and 2013. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Collateralization of Deposits

The Project is a component unit of the Housing Authority of the City of Las Cruces and as such, is not required to secure collateralization on cash deposits.

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, 2014 and 2013.

Tenant Receivable and Bad Debt Policy

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

Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. 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.

Buildings	40
Site Improvements	20
Furnishings	7-10

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 moment by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2014 or 2013.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since taxable income passes through to, and is reportable by, the Partners individually. As of December 31, 2014, the Partnership's tax years for 2011, 2012 and 2013 are subject to examination by the federal and state tax authorities. With few exceptions, as of December 31, 2014, the Partnership is no longer subject to examinations by tax authorities for years before 2011.

Estimates

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

Rental Income

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

Reclassifications

Certain items in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Cimmaron II Apartments Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2014 and 2013:

General Partner:

Cimmaron Apartments LLC to receive Net Income at 100.00%

Limited Partner:

JLG Properties, LLC to receive Net Loss at 100.00%

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE D - LONG-TERM DEBT

	<u>12/31/2014</u>	<u>12/31/2013</u>
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 \$7,802 and \$7,848 as of December 31, 2014 and 2013, respectively. Interest expensed on this note was \$93,878 and \$94,416 as of December 31, 2014 and 2013, respectively.		
	\$ 1,397,330	\$ 1,405,605
Total	<u>1,397,330</u>	<u>1,405,605</u>
Less: Current Portion	8,847	8,275
Long-Term Notes Payable	<u>\$ 1,388,483</u>	<u>\$ 1,397,330</u>

Aggregate maturities of the loans are approximated as follows

	<u>Principal</u>	<u>Interest</u>
December 31, 2015	\$ 8,847	\$ 93,353
2016	9,458	92,741
2017	10,112	92,088
2018	10,810	91,389
2019	11,557	90,642
2020-2024	70,928	440,070
2025-2029	99,060	411,938
2030-2034	138,351	372,647
2035-2039	193,226	317,772
2040-2044	269,867	241,131
2045-2049	376,907	134,091
2050-2054	<u>198,207</u>	<u>14,709</u>
Total	<u>\$ 1,397,330</u>	<u>\$ 2,392,571</u>

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

NOTE E - TCEP FUNDS

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

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE F - RESERVE FUNDS

Developer Fee Holdback Escrow

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Developer Fee Holdback for a percentage of the developer fee. The Partnership elected to hold back 25% of the developer fee which will be released in ten equal installments beginning on the first anniversary of Stabilization, and annually thereafter. Stabilization will occur when certain conditions of the note have been met. The Developer Fees in escrow were \$220,074 and \$247,605 as of December 31, 2014 and 2013, respectively.

Replacement Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership shall establish a Replacement Reserve. The Partnership shall make deposits into the Replacement Reserve fund of \$25,200 annually, commencing upon permanent financing. Replacement Reserve balance was \$89,869 and \$71,984 as of December 31, 2014 and 2013, respectively.

Operating and Operating Deficit Reserve

In accordance with the TCEP Mortgage Note to New Mexico Mortgage Finance Authority, the Partnership funded an Operating Deficit Reserve fund in the amount of \$202,883. Funds are to be used for operating and debt service deficits. The Operating Reserve balance was \$202,883 and \$202,883 as of December 31, 2014 and 2013, respectively.

NOTE G - COMMITMENTS AND CONTINGENCIES

Tax Credit Exchange Program

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

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE G - COMMITMENTS AND CONTINGENCIES *(continued)*

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

Regulatory Agreement Provisions

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

NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management Fee

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the twenty-four units in operation for the Project. The current year management fee is equal to 6% of gross rental collections. Property Management Fees expensed were \$29,922 and \$29,159 during 2014 and 2013, respectively. The amounts due to the Management Agent related to Management Fees were \$588 and \$551 as of December 31, 2014 and 2013, 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, 2014, \$605,331 of this fee has been paid. The amounts due related to Development Fees were \$220,074 and \$247,604 as of December 31, 2014 and 2013, respectively.

Cimmaron II Apartments Limited Partnership

Notes to Financial Statements

December 31, 2014 and 2013

NOTE H - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (continued)

Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. The amounts due to the Management Agent related to reimbursed expenses were \$0 and \$12 as of December 31, 2014 and 2013, respectively.

NOTE I - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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

NOTE J - ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

	<u>12/31/2014</u>	<u>12/31/2013</u>
Accrued Payroll Expenses	\$ 2,311	\$ 1,528
Accrued Expenses - Audit Fees	8,683	10,773
Total Accrued Liabilities	<u>\$ 10,994</u>	<u>\$ 12,301</u>

NOTE K - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through May 21, 2015 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

**Cimmaron II Apartments Limited Partnership
Supplemental Information Required by HUD
Year Ended December 31, 2014**

Cimmaron II Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2014

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2014	\$ 71,984
Total Monthly Deposit	25,200
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	16
Approved Withdrawals	<u>7,331</u>
Balance as of December 31, 2014	<u><u>\$ 89,869</u></u>
 Deposits Suspended or Waived Indicator	 No

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2014	\$ 202,883
Total Monthly Deposit	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	0
Approved Withdrawals	<u>0</u>
Balance as of December 31, 2014	<u><u>\$ 202,883</u></u>

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2013	Additions	Deductions	Balance 12/31/2014
Land	\$ 677,882	\$ 0	\$ 0	\$ 677,882
Buildings	8,744,373	0	0	8,744,373
Site Improvements/Building Equipment	713,281	0	0	713,281
Furnishings	428,785	5,330	0	434,115
Totals	<u>10,564,321</u>	<u>5,330</u>	<u>0</u>	<u>10,569,651</u>
Accumulated Depreciation	709,751	\$ 298,469	\$ 0	1,008,220
Net Book Value	<u><u>\$ 9,854,570</u></u>			<u><u>\$ 9,561,431</u></u>

Schedule of Additions to Fixed Assets:

	<u>12/31/2014</u>
ADA Compliant Showers	3,297
Dishwashers	1,131
Refrigerator	556
Air Conditioner	346
Totals:	<u><u>\$ 5,330</u></u>

Cimmaron II Apartments Limited Partnership
Computation of Surplus Cash, Distributions and Residual Receipts
Year Ending December 31, 2014

		<u>12/31/2014</u>
Cash:		
	Cash	\$ 98,313
	Total Cash	<u>98,313</u>
Current Obligations:		
	Accrued Mortgage Interest Payable	7,802
	Accounts Payable - 30 Days	4,404
	Accrued Expenses (not escrowed)	10,994
	Prepaid Revenue	332
	Tenant Security Deposits Liability	36,858
	Total Current Obligations	<u>60,390</u>
	Surplus Cash (Deficiency)	<u>37,923</u>
Amount Available for Distribution During Next Fiscal Period:		
	Surplus Cash	<u>\$ 37,923</u>

BOOTHE ★ VASSAR

1001 EAST FM 700 (432) 263-1324
BIG SPRING, TEXAS 79720 WWW.BOOTHEVASSAR.COM

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH C. BOOTHE, CPA
KENNETH@BOOTHEVASSAR.COM

MARK S. VASSAR, CPA
MARK@BOOTHEVASSAR.COM

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cimmaron II Apartments Limited Partnership which comprise the balance sheet as of December 31, 2014, and related statements of operations, changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

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.

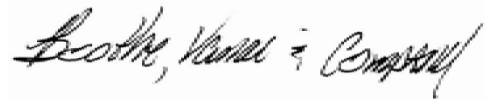
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Boothe, Vassar & Company

May 21, 2015
Big Spring, Texas

BOOTHE ★ VASSAR

1001 EAST FM 700 (432) 263-1324
BIG SPRING, TEXAS 79720 WWW.BOOTHEVASSAR.COM

CERTIFIED PUBLIC ACCOUNTANTS

KENNETH C. BOOTHE, CPA
KENNETH@BOOTHEVASSAR.COM

MARK S. VASSAR, CPA
MARK@BOOTHEVASSAR.COM

INDEPENDENT AUDITOR'S REPORT ON 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
Tim Keller, 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, 2014. Cimmaron II Apartments Limited Partnership's major HUD program is a HUD insured mortgage.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major HUD Program

In our opinion, Cimmaron II Apartments Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2014.

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.



Boothe, Vassar & Company

May 21, 2015
Big Spring, Texas

Cimmaron II Apartments Limited Partnership
Schedule of Findings and Responses
December 31, 2014

Current Year Audit Findings: December 31, 2014

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

Cimmaron II Apartments Limited Partnership
Schedule of the Status of Prior Audit Findings,
Questioned Costs, and Recommendations
December 31, 2014

Prior Year Audit Findings: December 31, 2013

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

Cimmaron II Apartments Limited Partnership

Mortgagor's Certification

December 31, 2014

We hereby certify that we have examined the accompanying financial statements and supplemental information of Cimmaron II Apartments Limited Partnership as of December 31, 2014, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 6/5/15

Name: Juan Olvera

Title: Executive Director
Mesilla Valley Public Housing Authority

Auditee Information:

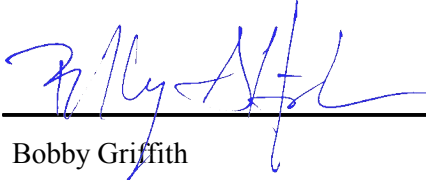
505-325-6515
May 21, 2015
Cimmaron II Apartments Limited Partnership
825 4th St.
Anthony, New Mexico 88021

Cimmaron II Apartments Limited Partnership

Management Agent's Certification

December 31, 2014

We hereby certify that we have examined the accompanying financial statements and supplemental information of Cimmaron II Apartments Limited Partnership as of December 31, 2014, and to the best of our knowledge and belief, the same are complete and accurate.

Signed:  _____ Date: _____

Name: Bobby Griffith

Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.
Farmington, NM 87401

Federal I.D. Number: 85-0327246

