

Montana Senior Village II Limited Partnership

Financial Statements and Supplemental Information
with Report of Independent Auditors

December 31, 2019 and 2018

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Report of Independent Auditors

To the Partners of Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II 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, Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II Limited Partnership's internal control over financial reporting and compliance.

Novogradac & Company LLP

Austin, Texas

March 31, 2020

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
BALANCE SHEETS
December 31, 2019 and 2018

	ASSETS	
	2019	2018
Current assets		
Cash and cash equivalents	\$ 62,308	\$ 49,416
Tenant accounts receivable	630	-
Accounts receivable - HAP	3,097	444
Prepaid expenses	12,459	10,768
Total current assets	78,494	60,628
Restricted deposits and funded reserves		
Tenant security deposits	33,734	36,651
Real estate tax & insurance	11,684	11,307
Replacement reserve	236,495	202,730
Guaranty reserve	314,636	314,471
Total restricted deposits and funded reserves	596,549	565,159
Property and equipment		
Land	195,230	195,230
Building	5,036,380	5,036,380
Land improvements	354,615	354,615
Furniture, fixtures, and equipment	302,232	302,232
Total property and equipment	5,888,457	5,888,457
Less: accumulated depreciation	(3,572,156)	(3,384,885)
Net property and equipment	2,316,301	2,503,572
Entity assets		
Operating reserve	94,689	94,661
Total entity assets	94,689	94,661
Total assets	\$ 3,086,033	\$ 3,224,020

see accompanying notes

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
BALANCE SHEETS (CONTINUED)
December 31, 2019 and 2018

LIABILITIES AND PARTNERS' CAPITAL	2019	2018
Current liabilities		
Current maturities of long-term debt	\$ 68,497	\$ 51,700
Accounts payable	6,999	7,873
Accrued interest	8,525	8,008
Accrued expenses	11,088	9,116
Accrued property taxes	13,430	13,348
Total current liabilities	108,539	90,045
Deposits and prepaid liabilities		
Tenant security deposits	32,692	33,572
Prepaid rent	1,329	6,453
Total deposits and prepaid liabilities	34,021	40,025
Long-term liabilities		
Long-term debt, net of current maturities	2,867,038	2,886,241
Long-term accrued interest	55,320	96,628
Asset management fee payable	9,489	4,675
Total long-term liabilities	2,931,847	2,987,544
Total liabilities	3,074,407	3,117,614
Partners' capital	11,626	106,406
Total liabilities and partners' capital	\$ 3,086,033	\$ 3,224,020

see accompanying notes

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
STATEMENTS OF OPERATIONS
For the years ended December 31, 2019 and 2018

	2019	2018
REVENUE		
Rental income		
Potential rental income	\$ 462,600	\$ 462,600
Lease excess	42,233	42,956
Less: vacancies	(15,782)	(8,336)
Less: concessions	(971)	(1,504)
Net rental income	488,080	495,716
Other income		
Interest income	455	307
Laundry and vending	1,233	1,336
Tenant charges	1,251	5,519
Miscellaneous income	-	1,502
Total other income	2,939	8,664
Total revenue	491,019	504,380
OPERATING EXPENSES		
Administrative	77,683	80,536
Utilities	28,550	30,586
Maintenance	112,607	108,093
Taxes and insurance	66,763	70,269
Financial expenses	108,111	110,658
Total operating expenses	393,714	400,142
Total operating income	97,305	104,238
OTHER EXPENSES		
Administrative fees	4,814	44,675
Depreciation expense	187,271	206,842
Total other expenses	192,085	251,517
Net loss	\$ (94,780)	\$ (147,279)

see accompanying notes

MONTANA SENIOR VILLAGE II 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	\$ 297,731	\$ (44,046)	\$ 253,685
Net loss	(15)	(147,264)	(147,279)
BALANCE, DECEMBER 31, 2018	297,716	(191,310)	106,406
Net loss	(9)	(94,771)	(94,780)
BALANCE, DECEMBER 31, 2019	\$ 297,707	\$ (286,081)	\$ 11,626

see accompanying notes

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Rental receipts	\$ 479,673	\$ 497,046
Other operating receipts	2,939	8,665
Total receipts	482,612	505,711
CASH PAID FOR:		
Administrative expenses	(68,108)	(76,472)
Utilities expenses	(28,550)	(30,586)
Operating and maintenance expenses	(112,607)	(108,220)
Taxes and insurance expenses	(68,372)	(69,844)
Financial expenses	32,831	(10,242)
Interest paid	(144,922)	(95,377)
Tenant security deposits	(880)	-
Administrative fees	-	(44,538)
Total disbursements	(390,608)	(435,279)
Net cash provided by operating activities	92,004	70,432
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchase of fixed assets	-	(9,515)
Net deposits to operating reserve	(28)	(29)
Net cash used in investing activities	(28)	(9,544)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage	(6,386)	(45,496)
Long-term accrued interest	(41,308)	6,000
Net cash used in financing activities	(47,694)	(39,496)
Net change in cash, cash equivalents and restricted cash	44,282	21,392
Cash, cash equivalents and restricted cash at beginning of year	614,575	593,183
Cash, cash equivalents and restricted cash at end of year	\$ 658,857	\$ 614,575
Cash and cash equivalents	\$ 62,308	\$ 49,416
Restricted cash	596,549	565,159
Total cash, cash equivalents and restricted cash	\$ 658,857	\$ 614,575

see accompanying notes

MONTANA SENIOR VILLAGE II 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	\$ (94,780)	\$ (147,279)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation expense	187,271	206,842
Amortization of debt issuance costs	3,980	5,306
Changes in asset and liability accounts		
Decrease (increase) in assets		
Tenant accounts receivable	(630)	-
Accounts receivable - HAP	(2,653)	(182)
Prepaid expenses	(1,691)	(213)
Increase (decrease) in liabilities		
Accounts payable	(874)	3,745
Accrued interest	517	(266)
Accrued expenses	1,972	368
Accrued property taxes	82	428
Tenant security deposits held in trust	(880)	34
Deferred income	(5,124)	1,512
Accrued owner fees	4,814	137
Net cash provided by operating activities	\$ 92,004	\$ 70,432

see accompanying notes

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

1. Organization

Montana Senior Village II Limited Partnership (the “Entity”) was formed in January 2001 to construct, develop and operate an 84-unit property located in Las Cruces, New Mexico known as Montana Senior Village 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 The Housing Outreach Fund IX, LP (the “Limited Partner”). The general partner is Montana Street, LLC (the “General Partner”). Pursuant to the Amended and Restated Agreement of Limited Partnership and the subsequent amendments (“the Partnership Agreement”), profits, losses and tax credits are allocated 0.01% to the General Partner and 99.99% to the Limited Partner.

Pursuant to the terms of the Partnership Agreement, the Limited Partner was required to provide capital contributions totaling \$2,285,313 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 required 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.

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.

MONTANA SENIOR VILLAGE II 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)

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 tenant security deposits, funding of operating deficits, repairs and replacements to fixed assets, 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.

Fixed assets and depreciation

Fixed assets are recorded at cost. Buildings, which include building improvements, are depreciated over their estimated useful lives of 27.5 years using the straight-line method. Site improvements are depreciated over their estimated useful lives of 15-20 years using the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of 3-7 years using the straight-line method. Depreciation expense for the years ended December 31, 2019 and 2018 was \$187,271 and \$206,842, 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.

MONTANA SENIOR VILLAGE II 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)

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.

Economic concentrations

The Entity operates one property in Las Cruces, 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.

Advertising

Advertising costs are expensed as incurred. During the years ended December 31, 2019 and 2018, the Entity incurred \$3,293 and \$1,479, respectively, in advertising costs, which are included in "Administrative" on the accompanying statements of operations.

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.

MONTANA SENIOR VILLAGE II 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

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.

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	\$ 68,944	\$ 2,120	\$ 70,432
Net cash flows from investing activities	(\$39,260)	\$ 29,716	(\$ 9,544)

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 \$33,734 and \$36,651, respectively.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

3. Restricted deposits and funded reserves (continued)

Real estate tax and insurance escrows

Pursuant to the Operating Agreement, required monthly payments to the mortgagee include amounts for deposit to mortgage escrow funds. These are held by the mortgagee for future payment of property insurance and property tax. This fund is restricted in accordance with the provisions of the regulatory agreement. As of December 31, 2019 and 2018, the balance was \$11,684 and \$11,307, respectively.

Replacement reserve

Pursuant to the Partnership Agreement, annual deposits of \$16,800, increased annually by 3%, 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 \$236,495 and \$202,730, respectively.

Guaranty reserve

Pursuant to the Partnership Agreement, the General Partner is required to fund a guaranty reserve in the amount of \$300,000 in order to guarantee construction, operating deficit, and partnership obligations. Upon dissolution of the Entity, the reserve shall be disbursed to the General Partner. As of December 31, 2019 and 2018, the balance was \$314,636 and \$314,471, respectively.

4. Entity assets

Operating reserve

Pursuant to the Partnership Agreement, the Entity funded an operating reserve fund in the amount of \$89,000. Funds from the operating reserve are to be used for operating and debt service deficits. As of December 31, 2019 and 2018, the balance was \$94,689 and \$94,661, respectively.

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 5.25% of gross rental collections excluding any service or laundry income. During 2019 and 2018, property management fees of \$25,633 and \$26,231, respectively, were incurred and are included in "Administrative" on the accompanying statement of operations. As of December 31, 2019 and 2018, property management fees of \$446 and \$478, respectively, remained payable.

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

5. Related party transactions (continued)

Reimbursed expenses

The Management Sub-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.

Investor services fee

Pursuant to the Partnership Agreement, the Entity pays an investor services fee to the Limited Partner. The fee is cumulative and payable subject to available cash flow, as defined in the Partnership Agreement. The annual fee is \$3,000, beginning in 2003, and increasing at a rate of 3% each year. During 2019 and 2018, investor services fees of \$4,814 and \$4,675, respectively, were incurred and are included in "Administrative fees" on the accompanying statements of operations. As of December 31, 2019 and 2018, investor services fees of \$9,489 and \$4,675, respectively, were outstanding.

Partnership administration fee

Pursuant to the Partnership Agreement, the Entity pays a partnership administration fee to the Mesilla Valley Public Housing Authority ("MVPHA"), a related party of the General Partner. The fee is non-cumulative and paid annually from available cash flow, as defined in the Partnership Agreement. The annual fee is \$20,000 for managing the Entity's assets and operations. During 2019 and 2018, partnership administration fees of \$0 and \$20,000, respectively, were incurred and are included in "Administrative fees" on the accompanying statements of operations. As of December 31, 2019 and 2018, no partnership administration fees were outstanding.

Tenant services fee

Pursuant to a Tenant Services Agreement, the Entity pays a tenant services fee to MVPHA, a related party of the General Partner, for providing social services to the tenants of the Property. The fee is non-cumulative and paid annually from available cash flow, as defined in the Partnership Agreement. The annual fee is \$20,000, beginning in 2003, and increasing at a rate of 3% each year. During 2019 and 2018, tenant services fees of \$0 and \$20,000, respectively, were incurred and are included in "Administrative fees" on the accompanying statements of operations. As of December 31, 2019 and 2018, no tenant services fees were outstanding.

Operating deficit guaranty

Pursuant to the Partnership Agreement, the General Partner is required to fund any operating expenses, debt service payments, reserve and escrow accounts, capital improvements, and maintenance expenses during the period set forth in the Partnership Agreement. Any funds provided by the General Partner shall not exceed \$250,000, and the obligation to provide such funds terminates upon achievement of certain operating milestones. Pursuant to the Partnership Agreement, losses equal to any such operating deficit payments are allocated to the General Partner.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

6. Long-term debt

The Entity has four notes payable to three entities. The notes include certain covenants and other performance requirements, for which management has reported compliance. The following are notes payable as of December 31, 2019 and 2018:

	2019	2018
<p>18 year Mortgage from Enterprise Mortgage Investments, Inc., a related party of the Limited Partner, in the amount of \$1,790,000. The Mortgage has an interest rate of 7.03% per annum and matures on October 1, 2022. Principal and interest payments of \$11,945 are due monthly through the maturity date. The mortgage is secured by the Property. During 2019 and 2018, interest expense of \$86,076 and \$89,111, respectively, was incurred. As of December 31, 2019 and 2018, interest of \$7,722 and \$8,008, respectively, was accrued.</p>	\$ 1,318,101	\$ 1,366,920
<p>32 year Second Mortgage from the City of Las Cruces, New Mexico in the amount of \$275,000. The Second Mortgage has an interest rate of 1.0% per annum for the first 17 years. During 2019, outstanding interest of \$46,750 converted to principal and the balance accrues interest 3.0% per annum, payable in 180 monthly installments of \$2,243. The mortgage is secured by the Property. During 2019 and 2018, interest expense of \$5,427 and \$2,750, respectively, was incurred. As of December 31, 2019 and 2018, interest of \$803 and \$44,558, respectively, was accrued.</p>	317,434	275,000
<p>32 year Promissory Note with MVPHA, a related party of the General Partner, in the amount of \$700,000 to partially finance the predevelopment and construction costs. The Promissory Note has an interest rate of 0.25% per annum. Principal and interest payments are subject to available cash flow, as defined in the Partnership Agreement. During 2004, \$100,000 of development advances were added to the loan balance, making the total note balance \$800,000. Unpaid principal is due November 2034. During 2019 and 2018, interest expense of \$2,000 was incurred each year. As of December 31, 2019 and 2018, long-term interest of \$33,861 and \$31,861, respectively, was accrued.</p>	800,000	800,000

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

6. Long-term debt (continued)

	2019	2018
<p>32 year Promissory Note with MVPHA, a related party of the General Partner, in the amount of \$500,000 to partially finance the predevelopment and construction costs. The Promissory Note has an interest rate of 0.25% per annum. Principal and interest payments are subject to available cash flow, as defined in the Partnership Agreement. Unpaid principal is due November 2034. During 2019 and 2018, interest expense of \$1,250 was incurred each year. As of December 31, 2019 and 2018, long-term interest of \$21,459 and \$20,209, respectively, was accrued.</p>	500,000	500,000
Long-term debt	\$ 2,935,535	\$ 2,941,920

Total interest expense for 2019 and 2018 was \$94,753 and \$ 95,111, respectively. As of December 31, 2019 and 2018, total accrued interest was \$63,845 and \$104,636, respectively.

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

	2019	2018
Principal balance	\$ 2,935,535	\$ 2,941,920
Less: unamortized debt issuance costs	(0)	(3,979)
Long-term debt, net of unamortized debt issuance costs	2,935,535	2,937,941
Less: current portion	(68,497)	(51,700)
Long-term debt	\$ 2,867,038	\$ 2,886,241

Aggregate annual principal payments are due as follows:

Year ending December 31,		
2020	\$	69,676
2021		74,003
2022		1,228,018
2023		18,963
2024		19,540
2025 - 2029		106,985
2030 - 2034		1,418,350
Total	\$	2,935,535

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

7. Service contract

On March 13, 2012, the Entity entered into a Service Agreement and a Compensation Agreement with Comcast of California XIV, LLC (“Comcast”). The Service Agreement is for a term of 15 years, with an automatic biannual renewal period. Per the Compensation Agreement, Comcast agreed to pay the Entity a one-time fee of \$10,500 as consideration for the agreement. The total fee was received by the Entity upon execution of the agreements.

8. 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**

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
SCHEDULES OF EXPENSES
For the years ended December 31, 2019 and 2018

	2019	2018
ADMINISTRATIVE		
Professional management fees	\$ 25,633	\$ 26,231
Salaries and wages	21,514	23,549
Telephone, cable, internet	5,617	8,790
Professional services	8,592	5,941
Training	4,170	4,037
Compliance and monitoring fees	1,511	3,428
Bad debt and adjustments	391	2,141
Technical support	1,800	1,805
Dues, fees, and subscriptions	545	559
Supplies and office expenses	1,916	1,416
Credit/criminal reports	400	615
Advertising	3,293	1,479
Equipment and furniture	530	341
Service for residents	1,028	105
Travel, meals, and entertainment	743	99
	\$ 77,683	\$ 80,536
UTILITIES		
Electricity	\$ 16,038	\$ 17,503
Water	5,996	6,858
Gas	1,222	1,520
Sewer	5,294	4,705
	\$ 28,550	\$ 30,586
TAXES & INSURANCE		
Insurance	\$ 23,689	\$ 21,783
Property taxes	26,861	27,377
Payroll taxes	4,495	5,578
Miscellaneous taxes and insurance	11,718	15,531
	\$ 66,763	\$ 70,269

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
SCHEDULES OF EXPENSES - CONTINUED
For the years ended December 31, 2019 and 2018

	2019	2018
MAINTENANCE		
Maintenance payroll	\$ 12,148	\$ 21,302
Contracts	29,464	30,069
Appliance and equipment replacement	21,521	14,939
Elevator maintenance	13,152	16,113
Supplies	7,776	9,367
Repairs and maintenance	16,989	9,853
Security	5,480	2,948
Trash removal	1,849	1,885
Painting and drywall	2,767	1,291
Pest control	1,461	326
	\$ 112,607	\$ 108,093
FINANCIAL EXPENSES		
Interest expense	\$ 94,753	\$ 95,111
Mortgage insurance premium	8,179	8,467
Debt issuance costs	3,980	5,306
Service charges	1,199	1,774
	\$ 108,111	\$ 110,658
Total operating expenses	\$ 393,714	\$ 400,142
NON-OPERATING EXPENSES		
Depreciation expense	\$ 187,271	\$ 206,842
Administrative fees	4,814	44,675
	\$ 192,085	\$ 251,517
Total expenses	\$ 585,799	\$ 651,659

see report of independent auditors

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
SCHEDULE OF CHANGES IN RESTRICTED CASH
For the year ended December 31, 2019

Schedule of Reserve for Replacements

BALANCE, JANUARY 1, 2019	\$	202,730
Monthly deposits		33,540
Interest income		225
Approved withdrawals		-
		-
BALANCE, DECEMBER 31, 2019	\$	236,495

Schedule of Operating Reserve

BALANCE, JANUARY 1, 2019	\$	94,661
Monthly deposits		-
Interest income		28
Approved withdrawals		-
		-
BALANCE, DECEMBER 31, 2019	\$	94,689

Schedule of Guaranty Reserve

BALANCE, JANUARY 1, 2019	\$	314,471
Monthly deposits		-
Interest income		165
Approved withdrawals		-
		-
BALANCE, DECEMBER 31, 2019	\$	314,636

see report of independent auditors

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
 COMPUTATION OF SURPLUS CASH
 For the year ended December 31, 2019

COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS, AND RESIDUAL RECEIPTS

Cash	\$	62,308
Accounts receivable - HUD		<u>3,097</u>
Total cash		65,405
Accrued mortgage (or bond) interest payable		8,525
Accounts payable (due within 30 days)		6,999
Accrued expenses (not escrowed)		24,072
Prepaid revenue		1,329
Tenant deposits held in trust		<u>32,692</u>
Less total current obligations		<u>73,617</u>
Surplus cash (deficiency)	\$	<u><u>(8,212)</u></u>
Amount available for distribution during next fiscal period	\$	<u><u>-</u></u>

see report of independent auditors

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
SCHEDULE OF CHANGES IN FIXED ASSETS
For the year ended December 31, 2019

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 195,230	\$ -	\$ -	\$ 195,230
Buildings	5,036,380	-	-	5,036,380
Site improvements	354,615	-	-	354,615
Furnishings	302,232	-	-	302,232
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	5,888,457	<u>\$ -</u>	<u>\$ -</u>	5,888,457
Accumulated depreciation	<u>3,384,885</u>	<u>\$ 187,271</u>	<u>\$ -</u>	<u>3,572,156</u>
Net book value	<u>\$ 2,503,572</u>			<u>\$ 2,316,301</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 Montana Senior Village II Limited Partnership, Las Cruces, New Mexico,
and Brian S. Colón, New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montana Senior Village II 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 Montana Senior Village II Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana Senior Village II Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana Senior Village II Limited Partnership's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana Senior Village II Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II Limited Partnership's major U.S. Department of Housing and Urban Development ("HUD") program for the year ended December 31, 2019. Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II Limited Partnership's compliance.

Opinion on The Major HUD Program

In our opinion, Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II 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 Montana Senior Village II 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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
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.

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
MORTGAGOR'S (OWNERS) CERTIFICATION
December 31, 2019

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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP



Signature

March 31, 2020
Date

Name of Signatory

Juan Olvera

Title of Certifying Official

Executive Director

Auditee Telephone Number

575-528-2007

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
MANAGING AGENT CERTIFICATION
December 31, 2019

We hereby certify that we have examined the accompanying financial statements and supplemental data of Montana Senior Village II 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

MONTANA SENIOR VILLAGE II LIMITED PARTNERSHIP
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.