



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**RIO PECOS ESTATES
LIMITED PARTNERSHIP.
(A Component Unit of the Eastern Plains
Council of Governments)
Financial Statements
For The Year Ended December 31, 2012**

**Rio Pecos Estates Limited Partnership
Independent Auditors' Report
And
Financial Statements**

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**Rio Pecos Estates Limited Partnership
 Official Roster
 As of December 31, 2012**

<u>Directors</u>	<u>Position</u>	<u>Government Represented</u>
EXECUTIVE COMMITTEE		
Gary Watkins	Chairman	Roosevelt County
Caleb Chandler	Vice-Chairman	Curry County
Wesley Shafer	Treasurer	Curry County
Vanita Menapace	Member	Harding County
Alvin Maestas, Sr.	Member	Guadalupe County
George Gonzales	Member	De Baca County
Apolonio Ramirez	Member	Quay County
Van Robertson	Member	Union County
CURRY COUNTY		
Caleb Chandler	Member	Curry County
Fidel Madrid	Member	City of Clovis
Wesley Shafer	Member	Village of Grady
Lewis Cooper	Member	Town of Texico
Tuck Monk	Member	Village of Melrose
DE BACA COUNTY		
George Gonzales	Member	De Baca County
GUADALUPE COUNTY		
Vincente Cordova	Member	Guadalupe County
Alvin Maestas, Sr.	Member	City of Santa Rosa
Paul Madrid	Member	Town of Vaughn
HARDING COUNTY		
Vanita Menapace	Member	Harding County
Linda Lewis	Member	Village of Mosquero
Stella Devers	Member	Village of Roy
QUAY COUNTY		
Apolonio Ramirez	Member	Village of Logan
Cynthia Lee	Member	Village of San Jon
ROOSEVELT COUNTY		
Bill Cathey	Member	Roosevelt County
Gary Watkins	Member	City of Portales
LaVerne Sheller	Member	Village of Causey
Kay Nuckols	Member	Village of Elida
Becky Frazee	Member	Village of Dora
Toni Whitecotton	Member	Village of Floyd
UNION COUNTY		
Van Robertson	Member	Union County
Jack Chosvig	Member	City of Clayton
Lee Dixon	Member	Village of Des Moines
Terry McNabb	Member	Village of Folsom
Staff		
Sandy Chancey	Executive Director (EPCOG)	



INDEPENDENT AUDITORS' REPORT

To the Partners of the
Rio Pecos Estates Limited Partnership
(A component unit of the Eastern Plains Council of Governments)
Clovis, New Mexico
and
Mr. Hector H. Balderas, State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying balance sheet of the Rio Pecos Estates Limited Partnership (the Partnership) as of December 31, 2012, and the related statements of operations, changes in partners' equity, and cash flows which collectively comprise the Partnership's basic financial statements as listed in the table of contents.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of the Partnership, as of December 31, 2012, and the respective statement of operations, changes in partners' equity, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Partnership taken as a whole. The schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenses is fairly stated, in all material respects, in relation to the basic 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 2, 2013, on our consideration of the Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Partnership's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.
Albuquerque, NM
May 2, 2013

RIO PECOS ESTATES LIMITED PARTNERSHIP
BALANCE SHEET
As of December 31, 2012

ASSETS

	<u>Notes</u>	<u>2012</u>
Current Assets		
Cash	\$	536
Accounts receivable		2,287
Prepaid expenses and deposits		6,426
Total current assets		9,249
Deposits Held in Trust		
Cash restricted to meet tenant deposit liabilities		9,212
Restricted Deposits and Funded Reserves		
Replacement reserve		18,147
Tax and insurance escrow		5,896
Total restricted deposits and funded reserves		24,043
Rental Property, Net of Accumulated Depreciation		987,077
Other Assets		
Deferred financing cost, net of accumulated amortization		26,451
Total Assets	\$	1,056,032
LIABILITIES		
Current Liabilities		
Accounts payable	\$	2,769
Accrued expenses		13,620
Accrued interest		11,372
Deferred rental income		270
Mortgage loan payable - NMMFA (current portion)		4,192
Total Current Liabilities		32,223
Deposit Liability		
Deposit held for tenants		8,162
Long Term Liabilities		
Mortgage loan payable - NMMFA (long-term portion)		527,306
Mortgage loan payable - MFA Home Loan		240,000
Mortgage loan payable - General Partner		152,789
Accrued interest		151,052
Total Long Term Liabilities		1,071,147
Total Liabilities		1,111,532
PARTNERS' EQUITY		(55,500)
Total Liabilities and Net Assets	\$	1,056,032

SEE INDEPENDENT AUDITORS' REPORT
The accompanying notes are an integral part of these financial statements

RIO PECOS ESTATES LIMITED PARTNERSHIP
STATEMENT OF OPERATIONS
For The Year Ended December 31, 2012

	2012 Total
RENT REVENUE	
Gross rental revenue - tenant	\$ 134,061
Subsidized tenant income	20,139
Vacancy	(29,882)
Lease adjustments	(14,106)
Unrentable units	(6,900)
Rent free unit	(6,900)
Concessions	(927)
Net rental and management income	95,485
FINANCIAL REVENUE	
Interest income - replacement reserves	20
Other income	15,669
Total Revenue	111,174
EXPENSES	
Interest	62,715
Depreciation	59,308
Taxes and insurance	42,532
Management fees	12,863
Repairs and maintenance	11,347
Utilities	10,497
Administrative	8,075
Professional fees	5,029
Total Expenses	212,366
NET LOSS	\$ (101,192)

SEE INDEPENDENT AUDITORS' REPORT
The accompanying notes are an integral part of these financial statements

RIO PECOS ESTATES LIMITED PARTNERSHIP
STATEMENT OF CHANGES IN PARTNERS' EQUITY
For The Year Ended December 31, 2012

RIO PECOS LIMITED PARTNERSHIP

	<u>General Partner</u>	<u>Limited Partner</u>	<u>Subscriptions Receivable</u>	<u>Syndication Costs</u>	
	Eastern Plains Council of Governments	Countryside Corporate Tax Credits VII Limited Partnership			Total
Percentage of Ownership	0.01%	99.99%			100.00%
Partners' Equity, January 1, 2012	(78)	(1,609)	(100)	(7,870)	(9,657)
Additional capital contributions	180,837	-	-	-	180,837
Amortization	-	-	-	(667)	(667)
Restatement	(130,429)	1,609	-	3,999	(124,821)
Net income (loss)	(101,192)	-	-	-	(101,192)
Partners' Equity, December 31, 2012	<u>\$ (50,862)</u>	<u>-</u>	<u>(100)</u>	<u>(4,538)</u>	<u>(55,500)</u>

SEE INDEPENDENT AUDITORS' REPORT

The accompanying notes are an integral part of these financial statements

RIO PECOS ESTATES LIMITED PARTNERSHIP
Statement of Cash Flows
For The Year Ended December 31, 2012

	2012
Cash flows from operating activities	
Cash received from rental activities	\$ 95,076
Cash received from other income	20
Other income received	15,669
Cash paid to employees and suppliers	<u>(119,387)</u>
Net cash provided (used) by operating activities	<u>(8,622)</u>
 Cash flows from investing activities	
(Deposits) withdraws to replacement reserve	<u>(4,868)</u>
Net cash provided (used) by investing activities	<u>(4,868)</u>
 Cash flows from financing activities	
Principal payments on mortgages	(3,839)
Proceeds from loans	<u>15,649</u>
Net cash provided by financing activities	<u>11,810</u>
 Net increase (decrease) in cash and cash equivalents	(1,680)
Cash and cash equivalents, beginning of year	<u>2,216</u>
Cash and cash equivalents, end of year	\$ <u><u>536</u></u>
 Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Change in Net Assets before development pass-through grants revenue	\$ (101,192)
Adjustments to reconcile increases in net assets to cash provided by operating activities:	
Adjustment for prior period adjustment	124,821
Depreciation expense and amortization	59,308
Bad debt expense	1,608
(Increase) decrease in receivables	(679)
(Increase) decrease in prepaid expenses	(6,426)
(Increase) decrease in insurance escrow	(1,281)
(Increase) decrease in tenant security deposit account	(5,178)
Increase (decrease) in payables and accrued expenses	(134,992)
Increase (decrease) in deferred rent	270
Increase (decrease) in accrued interest	59,499
Increase (decrease) in tenant security deposit liability	<u>(4,380)</u>
Net cash provided by operating activities	\$ <u><u>(8,622)</u></u>

SEE INDEPENDENT AUDITORS' REPORT
The accompanying notes are an integral part of these financial statements

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

Note 1—Organization and Nature of Operations

Rio Pecos Estates Limited Partnership (the Partnership) is a New Mexico Limited Partnership, which was formed to develop, construct, own, maintain, and operate a 24 unit multi-family low-income housing project called Rio Pecos Estates in Santa Rosa, New Mexico (the project). Project operation began in June 2011. As of December 31, 2012, the Partnership's one-hundredth percent (.01%) general partner is Eastern Plains Council of Governments, a New Mexico Nonprofit Corporation (EPCOG) and its ninety-nine and ninety-nine one-hundredths percent (99.99%) limited partner is Countryside Corporate Tax Credits VII Limited Partnership, a Massachusetts Limited Partnership (Limited Partner).

This Partnership provides for ownership and allocations of profits, losses and tax credits as follows:

General Partner	Percentage Interest
Easter Plain Council of Governments	0.01%
Investor Limited Partner	
Countryside Corporate Tax Credits VII L.P	99.99%
Total	100.00%

The Partnership meets the requirements of being a controlled affiliate of the Eastern Plains Council of Governments (EPCOG) under FASB ASC 958-810, and therefore, its accounts have been consolidated and presented as a whole with EPCOG. Please refer to the latest report of audited financial statements of EPCOG for additional information.

Note 2—Summary of Significant Accounting Policies

A. Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned rather than received, and expenses are recognized when the related liability is incurred rather than when paid.

B. Income Tax Status

The Partnership has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns. The Partnership's federal tax status as a pass-through entity is based on its legal status as a Partnership. Accordingly, the Partnership is not required to take any tax positions in order to qualify as a pass-through entity. The Partnership is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Partnership has no other tax positions, which must be considered for disclosure.

C. Use of 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.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

D. Risks and Uncertainties

The Partnership is subject to various risks and uncertainties in the ordinary course of business that could have adverse impacts on its operating results and financial condition. Future operations could be affected by changes in the economy or other conditions in the geographical area where the property is located or by changes in federal low-income housing subsidies or the demand for such housing.

E. Statement of Cash Flows

For purposes of the statement of cash flows, the Partnership considers all highly liquid investments with an original maturity of three months or less as cash equivalents.

F. Impairment of Long-Lived Assets

The Partnership reviews its investment in rental property for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. For assets held and used, if management's estimate of the aggregate future cash flows to be generated by the property, undiscounted and without interest charges, by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate are less than their carrying amounts, an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. The determination of undiscounted cash flows requires significant estimates by management. Subsequent changes in estimated undiscounted cash flows could impact the determination of whether impairment exists. No impairment loss has been recognized during the year ended December 31, 2012.

G. Fair Value Measurements

FASB ASC 820-10 and subsections establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). (The inputs and methodology used for valuing the Partnership's financial assets and liabilities are not indicators of the risks associated with those instruments.) The three levels of the fair value hierarchy under FASB ASC 820-10 are as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities. There were no assets and liabilities to be disclosed for this category.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Partnership significant financial instruments are cash and cash equivalents. For these financial instruments, carrying values approximate fair value.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

The following methods and assumptions were used by the Partnership in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

The following table summarizes the valuation of the Partnership’s financial instruments by the above ASC 820-10 categories as of December 31, 2012:

Description	Unadjusted Quoted Market Prices (Level 1)	Significant Other Observables Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 536	-	-	536

H. Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of operations. The Partnership capitalizes all expenditures for property and equipment with a cost of \$1,000 or more.

The major classifications of property and equipment and the related depreciable lives are as follows:

<u>Classification</u>	<u>Estimated Useful Lives</u>
Land	Perpetual
Buildings	27.5 years
Building Improvements	15 years
Furniture and Fixtures	5 years

I. Tenant Receivables and Allowance for Doubtful Accounts

Tenant receivables are reported net of an allowance for doubtful accounts. The Partnership provides an allowance for uncollectible accounts equal to the estimated uncollectible portion of a client rent receivable. Management's estimate is based on historical experience and its evaluation of the current status of the client rent receivable. It is the policy of the Partnership to allowance any rent receivable amounts that have not been collected over sixty (60) days.

J. Rental Income and Leasing Operations

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

K. Advertising

The Partnership expenses advertising costs as incurred. Advertising costs are incurred primarily for the leasing of units.

L. Tax Credits

The Project’s low-income tax credits are contingent on its ability to maintain compliance with applicable sections of Internal Revenue Code (IRC) 42 regulations. Failure to maintain

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

compliance with occupant eligibility, and/or unit gross rent, or to correct noncompliance within a specified time period could result in the recapture of previously taken tax credits plus interest. Also, such potential noncompliance may require an adjustment to the contributed capital by the limited partner.

In addition, non compliance with IRC 42 could result in the revocation of the general partner's 501(c)(3) exempt status.

M. Replacement Reserves

In accordance with the terms of the Partnership Agreement, the General Partner is required to fund a replacement reserve in the amount of \$350 per unit per year; however, the New Mexico Mortgage Finance Authority requires \$400 a month.

The Partnership has or is in the process of establishing reserves in accordance with agreements and loan documents. The funds in the accounts are intended to be used to fund operation and debt service deficits. The purposes of the replacement reserves are to fund major repairs, capital expenditures and replacement of capital items in the apartment buildings. Interest earned on the replacement reserve shall be added to the replacement reserve.

N. Operating Reserve

The Partnership is required to fund an operating reserve from Limited Partner capital contributions and surplus cash as defined in the Partnership Agreement. The Operating Reserve had been fully funded in accordance with the partnership agreement but has since been depleted.

O. Asset Management Agreement

The Partnership has entered into an asset management agreement requiring the Partnership to pay the asset manager for all the service rendered hereunder the sum of \$3,000 to be paid annually no later than 30 days after the end of the fiscal year. The fee was not paid this fiscal year.

P. Property Management Agreement

In accordance with the management agreement, the Partnership paid JL Gray Company, Inc. an agent of the General Partner, property management fees of \$12,863 in 2012. The fees are for services rendered in connection with leasing and operation of the Project. The property management fees are equal to 8% of monthly gross collections of the Project, net vacancy loss and bad debt

Q. Partnership Property Management Fee

The Partnership has entered into an agreement with the general partners' to perform property management services for a fee of 8% of the gross income collected. The amount due from previous years was \$33,497. No payments have been made on this obligation..

R. Budget

The Rio Pecos Limited Partnership only exists because of the tax credit funding used to construct the Rio Pecos Estates Apartments. As a non-governmental component unit, the Partnership has elected not to present the budget as supplementary information of the financial statements.

S. Reclassifications

Certain amounts may have been reclassified in the 2011 financial statements to be comparative with amounts reported in 2012. These reclassifications have no effect on net loss or partners' equity.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

Note 3—Cash and Cash Equivalents

Cash consisted of the following as of December 31:

	2012
Operating	
Operating account	\$ 505
Petty cash	31
	536
Restricted	
Replacement reserve	18,147
Security deposit escrow	9,212
Tax and insurance escrow	5,896
	33,255
Total	\$ 33,791

All deposits with financial institutions are fully insured with the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation.

Note 4—Receivables

Receivables as of the year ended December 31, 2012 are as follows:

	2012
AR - tenant rent, net of allowance	\$ 259
AR - PHA	2,028
	\$ 2,287

Note 5—Property and Equipment

Property and equipment consisted of the following as of December 31:

	2011	Additions	Deletions	Adjustments	2012
Land	\$ 50,800	-	-	-	50,800
Building	1,603,138	-	-	-	1,603,138
Building improvements	15,177	-	-	-	15,177
Furniture and equipment	28,643	-	-	-	28,643
Total property and equipment	1,697,758	-	-	-	1,697,758
Less accumulated depreciation					
Total accumulated depreciation	(519,196)	(59,308)	-	(132,177)	(710,681)
Total property and equipment, net	\$ 1,178,562	(59,308)	-	(132,177)	987,077

Depreciation expense for property and equipment was \$59,308 for the year ended 2012.

Note 6—Prepaid Expenses

Prepaid expense represents amounts paid in advance for the following:

	2012
Prepaid mortgage insurance	\$ 1,987
Prepaid property insurance	4,439
	\$ 6,426

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

Note 7 - Notes and Interest Payable

Notes and interest payable consisted of the following as of December 31:

	2012	
	Principal Outstanding	Interest Payable
The Partnership has an obligation to the New Mexico Finance Authority bearing an interest rate of 8.84%. The loan is secured by the property, matures November 2041	\$ 531,498	3,915
The Partnership has an obligation to the MFA Home Loan accruing interest at the rate of 6.22%. Monthly interest only payments in the amount of 1% of the outstanding principal are due on the tenth(10) day of each month until maturity on Juanaury 10, 2041.	240,000	151,252
The Partnership has an obligation to the Eastern Plains Council of Goverments (EPCOG), bearing interest of 1% and is payable from excess operating revenue. If not paid sooner, the entire principal amount, together with all accrued but unpaid interest, shall be due and payable on July 30, 2030; Unsecured.	64,500	7,256
The Partnership has an obligation to the Eastern Plains Council of Goverments (EPCOG) bearing no interest and payable solely from excess operating revenue. Loan is unsecured.	88,289	-
	\$ 924,287	162,423

Loan maturities for each of the five years to December 31, are as follows:

Year	Amount
2013	\$ 4,192
2014	4,578
2015	4,999
2016	5,460
2017	5,962
Therafter	899,096
	\$ 924,287

Interest expense for 2012 was as follows:

Interest Expense	2012
NMMFA	\$ 47,142
MFA Home Loan	14,928
EPCOG Loan	645
	\$ 62,715

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

Note 8—Accounts Payable

Accounts payable are invoiced amounts outstanding as of the year ended December 31, 2012 as follows:

	2012
Accounts payable	\$ 2,612
Management fee payable	157
	\$ 2,769

Note 9—Deposits Held for Tenants

Deposits collected from tenants held as rental security deposits amounted to \$9,212 at year end. The liability associated with these tenant deposits totaled \$8,162 at year end.

Note 10—Other Accrued Liabilities

Payroll related liabilities consist of accrued payroll, accrued payroll taxes, and related accrued payroll benefits. A summary of other accrued liabilities is listed below:

	2012
Accrued property taxes	\$ 6,627
Accrued audit fees	5,000
Accrued expenses - other	1,993
	\$ 13,620

Note 11—Related Party Transactions

The Partnership has entered into the following agreements with related parties as shown below.

Description of Agreement	Related Party	See Note
Asset Management Fees	General Partner	O
Property Management Fees	General Partner	P
Partnership Property Management Fee	General Partner	Q

Note 12—Operating Deficit Guarantee

As stipulated in the Limited Partnership Agreement (LPA), if at any time or from time to time after the completion date, an Operating Deficit exists, then the General Partner shall contribute funds to the Partnership as a contribution to capital in an amount equal to the amount of the Operating Deficit. The obligation of the General Partner to make Operating Deficit Contributions shall terminate on the date that the following have occurred simultaneously:

1. The Project has operated at break-even for at least three consecutive calendar years following the stabilization date and;
2. The balance in the operating reserve equals or exceeds the sum of the operating reserve amount.

Refer to the LPA for more details.

Note 13 – Partnership Profits, Losses, and Distributions

Profits and losses are allocated .01% to the General Partner and 99.99% to the Limited Partner, unless such allocation would result in the Limited Partner having an excess negative balance in its capital account. Such net losses shall be allocated to the General Partner. Cash flow to the extent available, as defined by the First Amended and Restated Agreement of Limited Partnership, shall be distributed 99.99% to the General Partner and .01% to the Limited

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2012

Partner. Profits and losses arising from the sale, refinancing, or other disposition of all or substantially all of the Partnership's assets will be specially allocated as prioritized by the latest agreement of Limited Partnership.

Note 14 – Property Purchase Option

According to the latest of Limited Partnership, the General Partner has an option to purchase partnership property at the end of the low-income housing tax credit compliance period at a price which would facilitate the purchase while protecting the Partnership's tax benefits from the Project. Such option is based on the General Partner or sponsor maintaining the low-income occupancy of the Project and is in a form satisfactory to legal and accounting counsel.

Note 15—Restatement of Prior Year Partner's Equity

As a result of adjustments made to accumulated depreciation, accrued interest, syndicated costs, and deferred developer fee payables, the prior year partner's equity account required an audit adjustment as follows:

Description	Amount
Partners' equity, beginning of year	\$ (9,657)
Adjustment for accumulated depreciation, accrued interest, syndicated costs, and developer fee payable	<u>(124,821)</u>
Partners' equity, beginning of year	<u><u>\$ (134,478)</u></u>

Note 16—Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Partnership recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Partnership's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Partnership has evaluated subsequent events through May 2, 2013, which is the date the financial statements were available to be issued.

RIO PECOS ESTATES LIMITED PARTNERSHIP
SCHEDULE OF EXPENSES
For The Year Ended December 31, 2012

	2012
Depreciation expense	
Depreciation expense	\$ <u>59,308</u>
Administrative	
Bad debts	1,852
Other office expenses	2,946
Training expense	1,608
Manager salaries	520
Technical support	505
Health insurance and other employee benefits	258
Payroll taxes	134
Advertising	102
Dues and subscriptions	85
Workman's compensation	45
Office furniture and equipment	14
Telephone and answering service	6
Total administrative expenses	<u>8,075</u>
Utilities	
Electric	6,129
Water and sewer	4,368
Total utility expenses	<u>10,497</u>
Interest	
Interest expense	<u>62,715</u>
Professional Fees	
Audit fees	5,000
Other professional fees	29
Total professional fees	<u>5,029</u>
Taxes and Insurance	
Real estate taxes	27,499
Property and liability insurance	10,699
Mortgage insurance expense	2,907
Miscellaneous tax, licenses, permits, and insurance	1,427
Total tax and insurance expenses	<u>42,532</u>
Operating	
Garbage and trash removal	3,979
Operating and maintenance contract	2,711
Maintenance and repairs supply	2,483
Maintenance and repairs	1,182
Operating and maintenance payroll	724
Grounds contract and supplies	268
Total repairs and maintenance	<u>11,347</u>
Management Fees	
Management fees	<u>12,863</u>
Total Expenses	<u>\$ <u>212,366</u></u>

SEE INDEPENDENT AUDITORS' REPORT



**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 the
Rio Pecos Estates Limited Partnership
(A component unit of the Eastern Plains Council of Governments)
Clovis, New Mexico
and
Mr. Hector H. Balderas, State Auditor
Santa Fe, New Mexico

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 the Rio Pecos Estates Limited Partnership (the Partnership), which comprise the balance sheet as of December 31, 2012, and the related statements of operations, changes in partners' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 *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. 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. We consider the deficiencies described in the schedule of findings and questioned costs to be material weaknesses: 12-01, 12-02, and 12-03.

May 2, 2013

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards, continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Responses as items 12-04 and 12-05.

The Partnership's Response to Findings

The Partnership's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Partnership's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



Hinkle + Landers, P.C.
Albuquerque, NM
May 2, 2013

**Rio Pecos Estates Limited Partnership
Schedule of Finding and Responses
For The Year Ended December 31, 2012**

Reference #	Findings	Status of Prior Year Findings	Financial Statement Finding	State Compliance Finding	Material Weakness	Significant Deficiency	Other Matters
<i>Prior year findings</i>							
None							
<i>Current year findings</i>							
12-01	DEPRECIATION EXPENSE/ ACCUMULATED DEPRECIATION	Current	Yes	No	Yes	No	No
12-02	DEFERRED DEVELOPER FEE LIABILITY	Current	Yes	No	Yes	No	No
12-03	ACCRUED INTEREST	Current	Yes	No	Yes	No	No
12-04	LATE AUDIT REPORT	Current	No	Yes	No	No	Yes
12-05	CONTRACT NOT SUBMITTED TO THE OSA IN A TIMELY MANNER	Current	No	Yes	No	No	Yes

Current Year

**12-01 – DEPRECIATION EXPENSE/ACCUMULATED DEPRECIATION –
Material Weakness**

Statement of Condition:

The Partnership has not properly accounted for depreciation expense and accumulated depreciation since 2010.

Criteria:

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its Exhibit B require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board. Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner or for reducing the opportunity for fraud to take place.

Cause:

The Partnership did not update its depreciation schedule or make the corresponding entries into the general ledger. In addition, it appeared that entries were made to depreciation expense and accumulated depreciation in order to reconcile with the tax return, further compounding the issue.

Effect:

Material adjustments were made to accumulated depreciation, depreciation expense, and partner's capital.

Recommendation:

The Partnership should update its depreciation schedule and make the appropriate adjustments in the general ledger.

Management Response:

EPCOG has contracted with a property management company experienced in such tax credit properties. Audit adjustments and adjusted schedules will be provided to JL Gray staff to ensure that they have the corrected information to work from.

**Rio Pecos Estates Limited Partnership
Schedule of Finding and Responses
For The Year Ended December 31, 2012**

12-02 – DEFERRED DEVELOPER FEE LIABILITY – Material Weakness

Statement of Condition:

The Partnership was unable to provide appropriate supporting documentation for its deferred developer fee payable. Further inquiry revealed that the \$180,837 shown in the Partnership's books was no longer a valid liability.

Criteria:

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its Exhibit B require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board. Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner or for reducing the opportunity for fraud to take place.

Cause:

The general and limited partners had not updated their understanding of the deferred developer fee agreement.

Effect:

Material adjustments were made to deferred fee payable and partner's equity accounts.

Recommendation:

Agreements between the general and limited partners should be reviewed and any changes should be accounted for in the Partnership's books.

Management Response:

EPCOG has contracted with a property management company experienced in such tax credit properties. Audit adjustments and adjusted schedules will be provided to JL Gray staff to ensure that they have the corrected information to work from.

12-03 – ACCRUED INTEREST – Material Weakness

Statement of Condition:

The Partnership has not properly accounted for accrued interest since 2007 resulting in an adjustment of \$43,718.

Criteria:

Professional auditing standards as illustrated in Statement on Auditing Standard (SAS) 115 and its Exhibit B require strong internal controls and these deficiencies and weaknesses are required to be disclosed to management and the governing board. Improving internal controls reduces the opportunity for mistakes or errors to take place or to be identified and corrected in a timely manner or for reducing the opportunity for fraud to take place.

Cause:

Unknown.

Effect:

Material adjustments were made to accrued interest and partner's capital.

Recommendation:

The Partnership should review its loan amortization schedules and make the appropriate adjustments in the general ledger.

**Rio Pecos Estates Limited Partnership
Schedule of Finding and Responses
For The Year Ended December 31, 2012**

Management Response:

EPCOG has contracted with a property management company experienced in such tax credit properties. Audit adjustments and adjusted schedules will be provided to JL Gray staff to ensure that they have the corrected information to work from.

12-04 – LATE AUDIT REPORT – State Compliance Other Matter

Statement of Condition:

This report was mailed to the Office of the State Auditor on January 15, 2014.

Criteria:

The New Mexico State Auditors' Office has issued 2 NMAC 2.2, *Requirements for Contracting and Conducting Audits of Agencies*, due dates for special purpose government audits to be in his office by December 1, 2012.

Cause:

Management was unaware of the fact that the Partnership's audit must also be submitted to the Office of the State Auditor.

Effect:

The report was not available for the New Mexico State Auditor and other state agencies to review on a timely basis.

Recommendation:

We recommend management continue to develop systems and personnel in order to keep records current and available for timely auditing.

Response:

The Eastern Plains Council of Governments understands the seriousness of these findings and has been working toward revising policies and procedures to address these issues as well as full reconciliation of all funds to ensure correct beginning account balances for 2013. The accounting system has been secured to limit access and ensure proper reports are produced. Personnel in charge at that time are no longer employed with the organization. This process has taken a significant amount of time to complete, and following the completion of the 2013 audit in early 2014, all late audits will be caught up and we will be on track to submit audits on time.

12-05-CONTRACT NOT SUBMITTED TO THE OSA IN A TIMELY MANNER – State Compliance and Other Matter

Statement of Condition:

The Partnership did not submit the completed contract to the Office of the State Auditor in a timely manner.

Criteria:

Section 2.2.2.8 (G)(c)(v) NMAC states, the agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the due date.

Cause:

The Partnership was unaware of the requirement to submit the IPA recommendation.

**Rio Pecos Estates Limited Partnership
Schedule of Finding and Responses
For The Year Ended December 31, 2012**

Effect:

Failure to submit the IPA Recommendation Form timely could increase the potential of a late audit report and ultimately untimely financial information.

Recommendation:

The Partnership should ensure the IPA Recommendation Form is completed, signed and delivered to the Office of the State Auditor prior to the due date, incorporating time for oversight agency review and approval when necessary.

Response:

In the future, proper steps will be taken to ensure the IPA recommendation and contract are submitted in a timely manner.

**Rio Pecos Estates Limited Partnership
Exit Conference
For The Year Ended December 31, 2012**

An exit conference was held in a closed session on November 8, 2013, and the contents of this report were discussed. Present at the exit conference were:

Representing Rio Pecos Estates Limited Partnership:

Fidel Madrid

Vice Chairperson of the EPCOG

Sandy Chancey

Executive Director of the EPCOG

Representing Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE

Independent auditor, Hinkle + Landers, P.C.

Maclen Enriquez

Independent auditor, Hinkle + Landers, P.C.

PREPARATION OF FINANCIAL STATEMENTS

The accompanying financial statements of the Partnership have been prepared by Hinkle + Landers, P.C., the organization's independent public auditors; however, the financial statements are the responsibility of management.