HINKLE + LANDERS

Certified Public Accountants + Business Consultants

RIO PECOS ESTATES LIMITED PARTNERSHIP

Financial Statements

For The Year Ended December 31, 2015, With Comparative Totals for 2014

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Independent Auditor's Report
And
Financial Statements

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INDEPENDENT AUDITOR'S REPORT

The Partners of
Rio Pecos Estates Limited Partnership
A component unit of the Eastern Plains Council of Governments
Clovis, New Mexico and
Mr. Tim Keller, State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the Rio Pecos Estates Limited Partnership (the Partnership), which comprise the balance sheet as of December 31, 2015, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Partnership, as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Partnership's 2014 financial statements, and our report dated February 26, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Going Concern

The accompanying financial statements have been prepared assuming that the Partnership will continue as a going concern. As discussed in Note 18 to the financial statements, the Partnership has suffered recurring losses from operations and have a net capital deficiency that raises substantial doubt about their ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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. The 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2016, 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.

Hinkle + Landers, P.C.
Albuquerque, NM
March 7, 2016

Rio Pecos Estates Limited Partnership
Balance Sheet
As of December 31, 2015, With Comparative Totals for 2014

	Notes	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	3	$ **2,088**	31
Accounts receivable, net of allowance for doubtful accounts	4	**1,323**	-
Prepaid expenses and deposits	6	**4,159**	4,059
Total current assets		**7,570**	4,090
Deposits Held in Trust			
Cash restricted to meet tenant deposit liabilities	3	**10,281**	7,572
Restricted Deposits and Funded Reserves			
Replacement reserve	3	**13,088**	18,458
Tax and insurance escrow	3	**6,180**	5,642
Total restricted deposits and funded reserves		**19,268**	24,100
Rental Property, Net of Accumulated Depreciation	5	**1,050,084**	1,091,594
Other Assets			
Deferred financing cost, net of accumulated amortization	7	**23,667**	24,595
Total Assets		$ **1,110,870**	1,151,951
LIABILITIES			
Current Liabilities			
Bank overdraft	3	$ **-**	208
Accounts payable	8	**33,916**	30,367
Accrued expenses	9	**14,044**	16,505
Accrued interest (current portion)	11	**13,205**	12,597
Deferred rental income	2J	7	68
Mortgage loan payable - NMMFA (current portion)	11	**5,460**	4,999
Total Current Liabilities		**66,632**	64,744
Deposit Liability			
Deposit held for tenants	10	**9,656**	7,572
Long Term Liabilities			
Mortgage loan payable - NMMFA (long-term portion)	11	**512,269**	517,729
Mortgage loan payable - MFA Home Loan	11	**240,000**	240,000
Mortgage loan payables - General Partner	11	**187,739**	177,930
Accrued interest (long-term portion)	11	**188,636**	176,108
Total Long Term Liabilities		**1,128,644**	1,111,767
Total Liabilities		**1,204,932**	1,184,083
PARTNERS' EQUITY		**(94,062)**	(32,132)
Total Liabilities and Partners' Equity		$ **1,110,870**	1,151,951

Rio Pecos Estates Limited Partnership
Statement of Operations
For The Year Ended December 31, 2015, With Comparative Totals for 2014

	2015 Total	2014 Total
RENT REVENUE		
Gross rental revenue - tenant	$ **148,608**	146,150
Subsidized tenant income	**12,492**	14,950
Vacancy	**(24,249)**	(49,998)
Lease adjustments	**(17,081)**	(7,905)
Unrentable units	**-**	(4,600)
Rent free unit	**-**	(5,750)
Concessions	**(10,513)**	(2,378)
Net rental and management income	**109,257**	90,469
FINANCIAL REVENUE		
Interest income - replacement reserves	**13**	17
Other income	**5,781**	2,918
Total Revenue	**115,051**	93,404
EXPENSES		
Interest	**61,546**	61,971
Taxes and insurance	**18,151**	22,271
Management fees	**9,924**	11,413
Repairs and maintenance	**12,259**	15,392
Utilities	**13,780**	11,922
Administrative	**12,669**	12,524
Professional fees	**6,214**	5,634
Total Expenses	**134,543**	141,127
NET LOSS BEFORE DEPRECIATION AND AMORTIZATION	**(19,492)**	(47,723)
Depreciation and amortization	**42,438**	43,671
NET LOSS	$ **(61,930)**	(91,394)

Rio Pecos Estates Limited Partnership
Statement of Changes in Partners' Equity
For The Year December 31, 2015, With Comparative Totals for 2014

	General Partner	Limited Partner	Subscriptions Receivable	Syndication Costs	
	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, 2014 $	(14)	(136,937)	(100)	(4,538)	(141,589)
Restatement	20	200,831	-	-	200,851
Net income (loss)	(9)	(91,385)	-	-	(91,394)
Partners' Equity, January 1, 2015	(3)	(27,491)	(100)	(4,538)	(32,132)
Net income (loss)	(6)	(61,924)	-	-	(61,930)
Partners' Equity, December 31, 2015 $	(9)	(89,415)	(100)	(4,538)	(94,062)

Rio Pecos Estates Limited Partnership
Statement of Cash Flows
For The Year December 31, 2015, With Comparative Totals for 2014

		2015	2014
Cash flows from operating activities			
Cash received from rental activities	$	**107,873**	86,998
Cash received from other income		**13**	17
Other income received		**5,781**	2,918
Cash paid to employees and suppliers		**(73,380)**	(112,642)
Cash paid to interest		**(48,410)**	(48,831)
Net cash provided (used) by operating activities		**(8,123)**	(71,540)
Cash flows from investing activities			
(Deposits) withdrawals to/from replacement reserve		**5,370**	(4,817)
Purchase of fixed assets		**-**	-
Net cash provided (used) by investing activities		**5,370**	(4,817)
Cash flows from financing activities			
Principal payments on mortgages		**(4,999)**	(4,578)
Principal payments on loans		**6,741**	-
Proceeds from loans		**3,068**	18,400
Net cash provided (used) by financing activities		**4,810**	13,822
Net increase (decrease) in cash and cash equivalents		**2,057**	(62,535)
Cash and cash equivalents, beginning of year		**31**	62,566
Cash and cash equivalents, end of year	$	**2,088**	31

Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities

		2015	2014
Net income (loss)	$	**(61,930)**	(91,394)
Adjustments to reconcile increases in net income (loss) to cash provided by operating activities:			
Depreciation expense and amortization		**42,438**	43,671
Bad debt expense		**-**	2,517
(Increase) decrease in receivables		**(1,323)**	(2,409)
(Increase) decrease in prepaid expenses		**(100)**	981
(Increase) decrease in insurance escrow		**(538)**	4,915
(Increase) decrease in tenant security deposit account		**(2,709)**	(674)
Increase (decrease) in bank overdraft		**(208)**	208
Increase (decrease) in payables and accrued expenses		**1,088**	20,190
Increase (decrease) in deferred rent		**(61)**	(1,062)
Increase (decrease) in deferred construction		**-**	(62,297)
Increase (decrease) in accrued interest		**13,136**	13,139
Increase (decrease) in tenant security deposit liability		**2,084**	675
Net cash provided by operating activities	$	**(8,123)**	(71,540)

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 2001. As of December 31, 2015, 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
Eastern Plain Council of Governments	0.01%
Investor Limited Partner	
Countryside Corporate Tax Credits VII L.P	99.99%
Total	100.00%

For accounting presentation purposes, the Partnership is reported in the financial statements of the EPCOG as a component unit in accordance with the requirements of Governmental Accounting Standards Board Pronouncement No. 61, Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14 and 39.

The accompanying financial statements present only the financial position, results of operations and cash flows of the Partnership and are not intended to present fairly the financial position of the EPCOG and results of its operations and cash flows of its proprietary fund types. The Partnership does not have a legally adopted budget and therefore does not present budgets in its financial statements. The Partnership has no component units or operating affiliates and associates.

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 and Accounting for Uncertainty in Income Taxes

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.

The Partnership has adopted the provisions of FASB ASC 740-10, Accounting for Uncertainty in Income Taxes). Under ASC 740-10, an organization must recognize the tax benefit/liability associated with any uncertain tax positions taken by the organization when it is more likely than not the position will be sustained by review of the taxing authority. An analysis of the Partnership's tax positions performed by management during the year ended December 31, 2015, revealed no positions that met the requirements for disclosure as identified by ASC 740-10. If any penalties or interest were recorded related to uncertain tax positions, they would be identified in the Statement of Operations.

C. <u>Use of Estimates</u>

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.

D. <u>Risks and Uncertainties</u>

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. <u>Statement of Cash Flows</u>

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

F. <u>Impairment of Long-Lived Assets</u>

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, 2015.

G. <u>Fair Value Measurements</u>

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 of 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's significant financial instruments are cash and cash equivalents. For these financial instruments, carrying values approximate fair value. All financial instruments for the Partnership fall into Level 1.

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:

Classification	Estimated Useful Lives
Land	Perpetual
Buildings	40 years
Building Improvements	5-15 years
Furniture and Fixtures	3-7 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 Partnership'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 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 incurred but not paid during the current and prior fiscal years.

P. Property Management Agreement

In accordance with the management agreement, the Partnership accrued property management fees of $9,174 and $11,413 to JL Gray Company, Inc. an agent of the General Partner, in 2015 and 2014, respectively. 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 previously had 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 and is included in the obligation due to the EPCOG in Note 9 (#4). 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 2014 financial statements to be comparative with amounts reported in 2015. These reclassifications have no effect on net loss or partners' equity.

T. Prior Year Comparative Totals

The financial statements include certain prior-year summarized comparative information in total. Such information may not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Partnership's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Note 3—Cash and Cash Equivalents

Cash consisted of the following as of December 31:

Operating		2015	2014
Operating account	$	**2,057**	(208)
Petty cash		**31**	31
		2,088	(177)
Restricted			
Replacement reserve		**13,088**	18,458
Security deposit escrow		**10,281**	7,572
Tax and insurance escrow		**6,180**	5,642
		29,549	31,672
Total	$	**31,637**	31,495

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, 2015 are as follows:

		2015	2014
AR - tenant rent	$	**1,323**	1,000
Allowance for doubtful accounts		**-**	(1,000)
	$	**1,323**	-

Note 5—Property and Equipment

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

		2014	Additions	Deletions	2015
Land	$	50,800	-	-	**50,800**
Building		1,603,138	-	-	**1,603,138**
Building improvements		21,177	-	-	**21,177**
Furniture and equipment		28,768	-	-	**28,768**
Total property and equipment		1,703,883	-	-	**1,703,883**
Less accumulated depreciation					
Total accumulated depreciation		(612,289)	(41,510)	-	**(653,799)**
Total property and equipment, net	$	1,091,594	(41,510)	-	**1,050,084**

Depreciation expense for property and equipment was $41,510 and $42,743 for the years ended 2015 and 2014, respectively.

Note 6—Prepaid Expenses

Prepaid expense represents amounts paid in advance for the following:

		2015	2014
Prepaid mortgage insurance	$	**1,934**	1,953
Prepaid property insurance		**2,225**	2,106
	$	**4,159**	4,059

Note 7—Capitalized Costs - Deferred Financing Fees

Financing fees are related to the Rio Pecos Estates Limited Partnership project. The financing fees are expenses required to be capitalized and amortized over the life of the loan. Deferred financing fees are as follows:

		2015	2014
Deferred financing fees	$	**37,124**	37,124
Accumulated amortization		**(13,457)**	(12,529)
Net deferred financing fees	$	**23,667**	24,595

Note 8—Accounts Payable

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

		2015	2014
Accounts payable	$	**26,240**	27,847
Management fee payable		**7,676**	2,520
	$	**33,916**	30,367

Note 9—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:

		2015	2014
Accrued property taxes	$	**5,098**	6,518
Accrued audit fees		**8,580**	8,609
Accrued expenses - other		**366**	1,378
	$	**14,044**	16,505

Note 10—Deposits Held for Tenants

Deposits collected from tenants held as rental security deposits amounted to $10,281 at year end. The liability associated with these tenant deposits totaled $9,656 at year end and $625 in accounts payable due to tenant.

Note 11 - Notes and Interest Payable

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

	2015		2014	
	Principal Outstanding	**Interest Payable**	Principal Oustanding	Interest Payable
#1-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.	$ **517,729**	**3,814**	522,728	3,851
#2-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 January 10, 2041.	**240,000**	**188,836**	240,000	176,308
#3-The Partnership has an obligation to the Eastern Plains Council of Governments (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**	**9,191**	64,500	8,546
#4-The Partnership has an obligation to the Eastern Plains Council of Governments (EPCOG) bearing no interest and payable solely from excess operating revenue. Loan is unsecured.	**123,239**	**-**	113,430	-
	$ **945,468**	**201,841**	940,658	188,705

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

Year	**Amount**
2016	$ 5,460
2017	5,962
2018	6,511
2019	7,111
2020	7,765
2021-2025	50,963
2026-2030	79,161
2031-2035	187,460
2036-2040	190,993
2041	280,843
Thereafter	123,239
	$ 945,468

Interest expense for December 31 was as follows:

		2015	2014
NMMFA	$	**45,973**	46,398
MFA Home Loan		**14,928**	14,928
EPCOG Loan		**645**	645
	$	**61,546**	61,971

<u>Note 12—Related Party Transactions</u>

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

<u>Note 13—Operating Deficit Guarantee</u>

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.

<u>Note 14 – Partnership Profits, Losses, and Distributions</u>

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 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.

<u>Note 15 – Property Purchase Option</u>

According to the latest partnership agreement of the 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 16 – Vendor Information

Schedule of vendor information can be seen in EPCOG 2015 and 2016 audited financials.

Note 17—Evaluation of 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 March 7, 2016, which is the date the financial statements were available to be issued.

Note 18—Going Concern

The Partnership has experienced net losses of $(61,930) and $(91,394) in 2015 and 2014, respectively, related to its operations. The losses in the recent years have led to a deficiency in its partners' equity and cash flow available to fund operations is significantly limited. The Partnership's plan to ensure the sustainability of the organization primarily involves receiving subsidies from the General Partner, the EPCOG. The Partnership expects the subsidies to continue for the foreseeable future.

Rio Pecos Estates Limited Partnership
Schedule of Expenses
For The Year Ended December 31, 2015, With Comparative Totals for 2014

		2015	2014
Depreciation and Amortization			
Depreciation expense	$	**41,510**	42,743
Amortization expense		**928**	928
Total depreciation and amortization expenses		**42,438**	43,671
Administrative			
Training expense		**796**	1,128
Other office expenses		**1,962**	1,936
Bad debts		**-**	2,517
Technical support		**600**	600
Manager salaries		**3,479**	2,306
Health insurance and other employee benefits		**3,107**	1,903
Advertising		**463**	805
Telephone, answering service, and internet		**365**	293
Payroll taxes		**1,217**	712
Legal		**117**	-
Dues and subscriptions		**208**	85
Workman's compensation		**355**	239
Total administrative expenses		**12,669**	12,524
Utilities			
Electric		**4,236**	8,364
Water and sewer		**9,544**	3,558
Total utilitity expenses		**13,780**	11,922
Interest			
Interest expense		**61,546**	61,971
Professional Fees			
Audit/bookkeeping fees		**5,000**	5,000
Other professional fees		**1,214**	634
Total professional fees		**6,214**	5,634
Taxes and Insurance			
Real estate taxes		**10,195**	13,037
Property and liability insurance		**4,331**	5,175
Mortgage insurance expense		**2,598**	2,622
Fidelity bond insurance		**30**	31
Miscellaneous tax, licenses, permits, and insurance		**997**	1,406
Total tax and insurance expenses		**18,151**	22,271
Operating			
Maintenance and repairs		**1,368**	4,479
Garbage and snow removal		**1,872**	1,626
Maintenance and repairs supply		**-**	814
Operating and maintenance payroll		**5,218**	3,379
Operating and maintenance contract		**2,050**	4,962
Operating and maintenance HVAC		**1,619**	-
Grounds contract and supplies		**132**	132
Total repairs and maintenance		**12,259**	15,392
Management Fees			
Management fees		**9,924**	11,413
Total Expenses	$	**176,981**	184,798

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

The Partners of
Rio Pecos Estates Limited Partnership
A component unit of the Eastern Plains Council of Governments
Clovis, New Mexico and
Mr. Tim Keller, 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, 2015, 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 March 7, 2016.

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.

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 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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, which is described in the accompanying Schedule of Findings and Responses as item 2015-001.

The Rio Pecos Estates Limited Partnership's Response to the Findings

The Rio Pecos Estates Limited Partnership's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Rio Pecos Estates Limited Partnership's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Hinkle + Landers, P.C.
Albuquerque, NM
March 7, 2016

Rio Pecos Estates Limited Partnership
Schedule of Findings and Responses
For The Year Ended December 31, 2015

Reference #	Findings	Status of Prior Year Findings	Type of Finding*
Prior year findings			
None			
Current year findings			
2015-001	CONTRACT NOT SUBMITTED TO THE OSA IN A TIMELY MANNER	Current	D

* Legend for Type of Findings
A. Material Weakness in Internal Control Over Financial Reporting
B. Significant Deficiency in Internal Control Over Financial Reporting
C. Other Matters Involving Internal Control Over Financial Reporting
D. Non-compliance with State Audit Rule, NM State Statutes Annotated 1978 and other NM Administrative Code or other entity compliance.

2015-001–CONTRACT NOT SUBMITTED TO THE OSA IN A TIMELY MANNER

Type of Finding: D

Statement of Condition:
Rio Pecos Estates Limited 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.

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

Cause:
Because of budget limitations, EPCOG (the general partner of Rio Pecos Limited Partnership) has a very small staff. Tasks such as the procurement and contracting of audit services fall to the Executive Director, who has many other duties and obligations in addition to ensuring that the IPA Recommendation Form is submitted to OSA in a timely manner.

Recommendation:
Rio Pecos Estates Limited 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.

Management Response:
To ensure that this does not happen again, the Executive Director will enlist the assistance of the EPCOG Contract Accountant and the EPCOG Executive Assistant to assist with the preparation and submittal of the contract paperwork. With more people trained in the process and watching deadlines, this should not occur again.

Employee position responsible for corrective action plan:
Sandy Chancey, Executive Director, Eastern Plains Council of Governments

Timeline when corrective action will be started and completed:
This will be added to our system of internal controls immediately, therefore this is considered completed.

Rio Pecos Estates Limited Partnership
Exit Conference
For The Year Ended December 31, 2015

An exit conference was held on March 7, 2016, with the following in attendance:

For the Rio Pecos Estates Limited Partnership:

Fidel Madrid	Chairperson of the EPCOG
Sandy Chancey	Executive Director of the EPCOG

For Hinkle + Landers, PC:

Farley Vener, CPA	President
Maclen Enriquez	Audit Manager

PREPARATION OF THE FINANCIAL STATEMENTS

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