



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**RIO PECOS ESTATES
LIMITED PARTNERSHIP
Financial Statements
For The Year Ended December 31, 2016,
With Comparative Totals for 2015**

**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, 2016, 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, 2016, 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.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the 2015 Partners' Equity have been restated to remove accrued audit fees and an accounts payable balance that the client disputed with the vendor from 2014. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the Partnership's 2015 financial statements, and our report dated March 7, 2016 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, 2015, 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.

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017, 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
March 30, 2017

Rio Pecos Estates Limited Partnership
Balance Sheet
As of December 31, 2016, With Comparative Totals for 2015

ASSETS

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Current Assets			
Cash and cash equivalents	3	\$ -	2,088
Accounts receivable, net of allowance for doubtful accounts	4	13	1,323
Prepaid expenses and deposits	6	<u>5,251</u>	<u>4,159</u>
Total current assets		<u>5,264</u>	<u>7,570</u>
Deposits Held in Trust			
Cash restricted to meet tenant deposit liabilities	3	<u>8,509</u>	<u>10,281</u>
Restricted Deposits and Funded Reserves			
Replacement reserve	3	17,909	13,088
Tax and insurance escrow	3	<u>4,326</u>	<u>6,180</u>
Total restricted deposits and funded reserves		<u>22,235</u>	<u>19,268</u>
Rental Property, Net of Accumulated Depreciation			
	5	<u>1,008,639</u>	<u>1,050,084</u>
Other Assets			
Deferred financing cost, net of accumulated amortization	7	<u>22,738</u>	<u>23,667</u>
Total Assets		<u>\$ 1,067,385</u>	<u>1,110,870</u>

LIABILITIES

Current Liabilities

Bank overdraft	3	\$ 11	-
Accounts payable	8	30,064	33,916
Accrued expenses	9	6,442	14,044
Accrued interest (current portion)	11	13,819	13,205
Deferred rental income	2J	60	7
Mortgage loan payable - NMMFA (current portion)	11	<u>5,962</u>	<u>5,460</u>
Total Current Liabilities		<u>56,358</u>	<u>66,632</u>

Deposit Liability

Deposit held for tenants	10	<u>8,506</u>	<u>9,656</u>
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Long Term Liabilities

Mortgage loan payable - NMMFA (long-term portion)	11	506,298	512,269
Mortgage loan payable - MFA Home Loan	11	240,000	240,000
Mortgage loan payables - General Partner	11	201,359	187,739
Accrued interest (long-term portion)	11	<u>201,164</u>	<u>188,636</u>
Total Long Term Liabilities		<u>1,148,821</u>	<u>1,128,644</u>

Total Liabilities

	<u>1,213,685</u>	<u>1,204,932</u>
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PARTNERS' EQUITY

	<u>(146,300)</u>	<u>(94,062)</u>
Total Liabilities and Partners' Equity	<u>\$ 1,067,385</u>	<u>1,110,870</u>

See independent auditor's report

Rio Pecos Estates Limited Partnership
Statement of Operations
For The Year Ended December 31, 2016, With Comparative Totals for 2015

	2016 Total	2015 Total
RENT REVENUE		
Gross rental revenue - tenant	\$ 153,128	148,608
Subsidized tenant income	7,972	12,492
Vacancy	(28,919)	(24,249)
Lease adjustments	(20,767)	(17,081)
Unrentable units	-	-
Rent free unit	-	-
Concessions	(6,950)	(10,513)
Net rental and management income	104,464	109,257
FINANCIAL REVENUE		
Interest income - replacement reserves	21	13
Other income	14,538	5,781
Total Revenue	119,023	115,051
EXPENSES		
Interest	61,082	61,546
Taxes and insurance	18,619	18,151
Management fees	8,720	9,924
Repairs and maintenance	13,404	12,259
Utilities	19,406	13,780
Administrative	13,629	12,669
Professional fees	6,843	6,214
Total Expenses	141,703	134,543
NET LOSS BEFORE DEPRECIATION AND AMORTIZATION	(22,680)	(19,492)
Depreciation and amortization	42,373	42,438
NET LOSS	\$ (65,053)	(61,930)

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Rio Pecos Estates Limited Partnership
Statement of Changes in Partners' Equity
For The Year Ended December 31, 2016, With Comparative Totals for 2015

	<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, 2015	\$ (3)	(27,491)	(100)	(4,538)	(32,132)
Restatement	-	-	-	-	-
Net income (loss)	(6)	(61,924)	-	-	(61,930)
Partners' Equity, January 1, 2016	(9)	(89,415)	(100)	(4,538)	(94,062)
Restatement	1	12,814	-	-	12,815
Net income (loss)	(7)	(65,046)	-	-	(65,053)
Partners' Equity, December 31, 2016	\$ (14)	(141,648)	(100)	(4,538)	(146,300)

See independent auditor's report

Rio Pecos Estates Limited Partnership
Statement of Cash Flows
For The Year Ended December 31, 2016, With Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from rental activities	\$ 105,827	107,873
Cash received from interest income	21	13
Other income received	14,620	5,781
Cash paid to employees and suppliers	(76,174)	(73,380)
Cash paid to interest	(47,940)	(48,410)
Net cash provided (used) by operating activities	<u>(3,646)</u>	<u>(8,123)</u>
Cash flows from investing activities		
(Deposits) withdrawals to/from replacement reserve	(4,821)	5,370
Tenant security deposit accounts paid out	(1,772)	
Purchase of fixed assets	-	-
Net cash provided (used) by investing activities	<u>(6,593)</u>	<u>5,370</u>
Cash flows from financing activities		
Principal payments on mortgages	(5,469)	(4,999)
Proceeds from loans	13,620	9,809
Net cash provided (used) by financing activities	<u>8,151</u>	<u>4,810</u>
Net increase (decrease) in cash and cash equivalents	(2,088)	2,057
Cash and cash equivalents, beginning of year	2,088	31
Cash and cash equivalents, end of year	\$ <u>-</u>	<u>2,088</u>
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Net income (loss)	\$ (65,053)	(61,930)
Adjustments to reconcile increases in net income (loss) to cash provided by operating activities:		
Adjustment for prior period adjustment	12,815	-
Noncash adjustments by bookkeeper	82	-
Depreciation expense and amortization	42,373	42,438
Bad debt expense	1,692	-
(Increase) decrease in receivables	1,310	(1,323)
(Increase) decrease in prepaid expenses	(1,093)	(100)
(Increase) decrease in tax and insurance escrow	1,854	(538)
(Increase) decrease in tenant security deposit account	1,772	(2,709)
Increase (decrease) in bank overdraft	11	(208)
Increase (decrease) in payables and accrued expenses	(11,454)	1,088
Increase (decrease) in deferred rent	53	(61)
Increase (decrease) in accrued interest	13,142	13,136
Increase (decrease) in tenant security deposit liability	(1,150)	2,084
Net cash provided by operating activities	<u>\$ (3,646)</u>	<u>(8,123)</u>

See independent auditor's report

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

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, 2016, the Partnership’s one-hundredth percent (.01%) general partner is Eastern Plains Council of Governments, a New Mexico governmental entity, under section 170(c)(1), (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.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

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, 2016, 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. 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.

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 unrestricted 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, 2016.

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

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

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.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

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 \$8,720 and \$9,174 to JL Gray Company, Inc. an agent of the General Partner, in 2016 and 2015, 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 11 (#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.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

S. Reclassifications

Certain amounts may have been reclassified in the 2015 financial statements to be comparative with amounts reported in 2016. 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, 2015, from which the summarized information was derived.

Note 3—Cash and Cash Equivalents

Cash consisted of the following as of December 31:

Operating	2016	2015
Operating account	\$ (42)	2,057
Petty cash	31	31
	(11)	2,088
Restricted		
Replacement reserve	17,909	13,088
Security deposit	8,509	10,281
Tax and insurance escrow	4,326	6,180
	30,744	29,549
Total	\$ 30,733	31,637

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, 2016 are as follows:

	2016	2015
AR - tenant rent	\$ 185	1,323
Allowance for doubtful accounts	-	-
AR - PHA	(172)	-
	\$ 13	1,323

Note 5—Property and Equipment

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

	2015	Additions	Deletions	2016
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	(653,799)	(41,445)	-	(695,244)
Total property and equipment, net	\$ 1,050,084	(41,445)	-	1,008,639

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

Depreciation expense for property and equipment was \$41,445 and \$41,510 for the years ended 2016 and 2015, respectively.

Note 6—Prepaid Expenses

Prepaid expense represents amounts paid in advance for the following:

	<u>2016</u>	<u>2015</u>
Prepaid mortgage insurance	\$ 2,550	1,934
Prepaid property insurance	<u>2,701</u>	<u>2,225</u>
	<u>\$ 5,251</u>	<u>4,159</u>

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:

	<u>2016</u>	<u>2015</u>
Deferred financing fees	\$ 37,124	37,124
Accumulated amortization	<u>(14,386)</u>	<u>(13,457)</u>
Net deferred financing fees	<u>\$ 22,738</u>	<u>23,667</u>

Note 8—Accounts Payable

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

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 15,587	26,240
Management fee payable	<u>14,477</u>	<u>7,676</u>
	<u>\$ 30,064</u>	<u>33,916</u>

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:

	<u>2016</u>	<u>2015</u>
Accrued property taxes	\$ 5,892	5,098
Accrued audit fees	-	8,580
Accrued expenses - other	<u>550</u>	<u>366</u>
	<u>\$ 6,442</u>	<u>14,044</u>

Note 10—Deposits Held for Tenants

Deposits collected from tenants held as rental security deposits amounted to \$8,509 at year end. The liability associated with these tenant deposits totaled \$8,506 at year end and \$0 in accounts payable due to tenant.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

Note 11 - Notes and Interest Payable

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

	<u>2016</u>		<u>2015</u>	
	<u>Principal Outstanding</u>	<u>Interest Payable</u>	<u>Principal Outstanding</u>	<u>Interest Payable</u>
#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.	\$ 512,260	3,783	517,729	3,814
#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	201,364	240,000	188,836
#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	9,836	64,500	9,191
#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.	136,859	-	123,239	-
	<u>\$ 953,619</u>	<u>214,983</u>	<u>945,468</u>	<u>201,841</u>

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

<u>Year</u>	<u>Amount</u>
2017	\$ 5,962
2018	6,511
2019	7,111
2020	7,765
2021	8,480
2022-2026	55,655
2027-2031	150,949
2032-2036	134,281
2037-2041	440,044
Thereafter	<u>136,859</u>
	<u>\$ 953,619</u>

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

Interest expense for December 31 was as follows:

	2016	2015
NMMFA	\$ 45,509	45,973
MFA Home Loan	14,928	14,928
EPCOG Loan	645	645
	\$ 61,082	61,546

Note 12—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 13—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 14 – 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 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 15 – Property Purchase Option

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.

Rio Pecos Estates Limited Partnership
Notes To Financial Statements
For The Year Ended December 31, 2016, With Comparative Totals for 2015

Note 16—Restatement of Prior Year Partner’s Equity

As a result of removing accrued audit fees and adjusting an accounts payable from 2014, the beginning year partner’s equity account required an adjustment as follow:

<u>Description</u>	<u>Amount</u>
Partners' equity, beginning of year	\$ (94,062)
Adjustment for accrued audit fees	8,580
Adjustment for accounts payable	<u>4,235</u>
Partners' equity, beginning of year as restated	\$ <u><u>(81,247)</u></u>

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 30, 2017, which is the date the financial statements were available to be issued.

Note 18—Going Concern

The Partnership has experienced net losses of \$(65,053) and \$(61,930) in 2016 and 2015, 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, 2016, With Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
Depreciation and Amortization		
Depreciation expense	\$ 41,445	41,510
Amortization expense	928	928
Total depreciation and amortization expenses	<u>42,373</u>	<u>42,438</u>
Administrative		
Training expense	2,168	796
Other office expenses	1,987	1,962
Bad debts	1,692	-
Technical support	600	600
Manager salaries	3,070	3,479
Health insurance and other employee benefits	2,069	3,107
Advertising	296	463
Telephone, answering service, and internet	354	365
Payroll taxes	824	1,217
Legal	-	117
Dues and subscriptions	326	208
Workman's compensation	243	355
Total administrative expenses	<u>13,629</u>	<u>12,669</u>
Utilities		
Electric	5,064	4,236
Water and sewer	14,342	9,544
Total utility expenses	<u>19,406</u>	<u>13,780</u>
Interest		
Interest expense	<u>61,082</u>	<u>61,546</u>
Professional Fees		
Audit/bookkeeping fees	6,431	5,000
Other professional fees	412	1,214
Total professional fees	<u>6,843</u>	<u>6,214</u>
Taxes and Insurance		
Real estate taxes	10,502	10,195
Property and liability insurance	4,481	4,331
Mortgage insurance expense	2,607	2,598
Fidelity bond insurance	30	30
Miscellaneous tax, licenses, permits, and insurance	999	997
Total tax and insurance expenses	<u>18,619</u>	<u>18,151</u>
Operating		
Maintenance and repairs	2,237	1,368
Garbage and snow removal	1,829	1,872
Maintenance and repairs supply	471	-
Operating and maintenance payroll	3,127	5,218
Operating and maintenance contract	2,693	2,050
Operating and maintenance HVAC	1,223	1,619
Grounds contract and supplies	1,824	132
Total repairs and maintenance	<u>13,404</u>	<u>12,259</u>
Management Fees		
Management fees	<u>8,720</u>	<u>9,924</u>
Total Expenses	<u>\$ 184,076</u>	<u>176,981</u>

See independent auditor's report

**Rio Pecos Estates Limited Partnership
 Schedule of Vendor Information (Unaudited)
 For The Year Ended December 31, 2016**

Agency Number	Agency Name	Agency Type	RFB#/RFP #	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Contract Awarded	\$ Amount of Contract Amended	Physical Address of the Vendor	Did the Vendor Provide Documentation of Eligibility for In-State Preference?	Did the Vendor Provide Documentation of Eligibility for Veteran's Preference?	Brief Description of the Scope of Work	If the Procurement is Attributable to a Component Unit, Name of Component Unit
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NONE

See independent auditor's report



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, 2016, 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 30, 2017.

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

March 30, 2017

**Independent Auditor's 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**

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 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 30, 2017

**Rio Pecos Estates Limited Partnership
Schedule of Findings and Responses
For The Year Ended December 31, 2016, With Comparative Totals for 2015**

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

* 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.

Rio Pecos Estates Limited Partnership
Exit Conference
For The Year Ended December 31, 2016, With Comparative Totals for 2015

An exit conference was held on March 30, 2017, with the following in attendance:

For the Rio Pecos Estates Limited Partnership:

Fidel Madrid
Sandy Chancey

Chairperson of the EPCOG
Executive Director of the EPCOG

For Hinkle + Landers, PC:

Farley Vener, CPA
Maclen Enriquez

President
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.