



FOX, GARCIA & Co, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## **Rio Pecos Estates Limited Partnership**

**Independent Auditor's Report**

**and Financial Statements**

**For the Year Ended**

**December 31, 2019**

**Supplementary Information**

**For the Year Ended**

**December 31, 2019**

# Rio Pecos Estates Limited Partnership

## Table of Contents

|  | <u>Page</u> |
|--|-------------|
| <b>Independent Auditor's Report</b> .....  | 1 - 3       |
| <b>Financial Statements</b>  |             |
| Balance Sheet.....   | 4 - 5       |
| Statement of Operations.....   | 6           |
| Statement of Changes in Partners' Equity (Deficit).....  | 7           |
| Statement of Cash Flows.....   | 8 - 9       |
| <b>Notes to Financial Statements</b> .....   | 10 - 18     |
| <b>Supplementary Information</b>   |             |
| Supplementary Information Required by HUD.....   | 20          |
| <b>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 <i>Government Auditing Standards</i></b> ..... | 21 - 22     |
| <b>Schedule of Findings and Responses</b> .....  | 23 - 24     |
| <b>Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations</b> .....   | 25          |
| <b>Mortgagor's Certification</b> .....   | 26          |
| <b>Management Agent's Certification</b> .....  | 27          |
| <b>Information on Auditor</b> .....  | 28          |
| <b>Exit Conference</b> .....   | 29          |



**FOX, GARCIA & Co, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**Diane R. Fox, CPA**  
**Shelley D. Garcia, CPA**

**INDEPENDENT AUDITOR'S REPORT**

To the Partners of

Rio Pecos Estates Limited Partnership  
Santa Rosa, New Mexico  
and State Auditor, Brian S. Colón, Esq.

**Report on the Financial Statements**

We have audited the accompanying financial statement of Rio Pecos Estates Limited Partnership, which comprise the balance sheet as of December 31, 2019, and the related statement of operations, changes in partners' equity (deficit), 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 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 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 Rio Pecos Estates Limited Partnership, as of December 31, 2019, 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.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on page 20 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on page 20 is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2020, on our consideration of Rio Pecos Estates Limited Partnership's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of December 31, 2019's 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 Rio Pecos Estates Limited Partnership's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Fox, Garcia & Company". The signature is written in black ink and is positioned to the left of the printed name.

Fox, Garcia & Company, LLC

May 21, 2020  
Big Spring, Texas

Rio Pecos Estates Limited Partnership

Balance Sheet

December 31, 2019

|   | <u>12/31/2019</u> |
|---|-------------------|
| <b>ASSETS</b>   |                   |
| <b>Current Assets:</b>  |                   |
| Cash and Cash Equivalents                                       | \$ 2,625          |
| Accounts Receivable - Tenants                                   | 1,256             |
| Prepaid Expenses  | 5,424             |
| <b>Total Current Assets</b>                                     | <u>9,305</u>      |
| <b>Tenant Deposits Held in Trust &amp; Restricted Reserves:</b> |                   |
| Tenant Security Deposits  | 9,941             |
| Real Estate Tax & Insurance                                     | 1,374             |
| Replacement Reserve   | 32,035            |
| <b>Total Restricted Deposits &amp; Funded Reserves</b>          | <u>43,350</u>     |
| <b>Property &amp; Equipment:</b>                                |                   |
| Land  | 50,800            |
| Buildings   | 1,603,138         |
| Site Improvements   | 21,177            |
| Furnishings   | 28,768            |
| Accumulated Depreciation  | (816,023)         |
| <b>Net Property &amp; Equipment</b>                             | <u>887,860</u>    |
| <b>Total Assets</b>   | <u>\$ 940,515</u> |

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

Rio Pecos Estates Limited Partnership

Balance Sheet

December 31, 2019

LIABILITIES & PARTNERS' EQUITY

12/31/2019

**Liabilities:**

**Current Liabilities:**

|                                      |               |
|--------------------------------------|---------------|
| Current Maturities of Long-Term Debt | \$ 8,387      |
| Accounts Payable                     | 50,280        |
| Accrued Interest                     | 19,239        |
| Accrued Expenses                     | 3,500         |
| Accrued Property Taxes               | 4,467         |
| <b>Total Current Liabilities</b>     | <u>85,873</u> |

**Deposits & Prepaid Liabilities:**

|   |               |
|---|---------------|
| Tenant Security Deposits                        | 9,901         |
| Prepaid Tenant Fees                             | 1,175         |
| <b>Total Deposits &amp; Prepaid Liabilities</b> | <u>11,076</u> |

**Long-Term Liabilities:**

|  |                  |
|--|------------------|
| Long-Term Debt (net of current maturities) | 704,956          |
| Long-Term Accrued Interest                 | 238,748          |
| Misc Notes Payable - Partners              | 224,814          |
| <b>Total Long-Term Liabilities</b>         | <u>1,168,518</u> |
| <b>Total Liabilities</b>                   | <u>1,265,467</u> |

**Partners' Equity (Deficit)**

|                            |                  |
|----------------------------|------------------|
| Partners' Equity (Deficit) | (320,315)        |
| Syndication Costs          | (4,637)          |
| <b>Total Equity</b>        | <u>(324,952)</u> |

**Total Liabilities & Partners' Equity**

\$ 940,515

*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, 2019**

|  | <b>12/31/2019</b>  |
|--|--------------------|
| <b>Rental Income:</b>                              |                    |
| Potential Rental Income                            | \$ 159,600         |
| Less: Vacancies                                    | (42,732)           |
| Less: Concessions                                  | (11,823)           |
| <b>Total Rental Income</b>                         | <b>105,045</b>     |
| <br><b>Other Income:</b>                           |                    |
| Interest Income                                    | 57                 |
| Tenant Charges                                     | 4,964              |
| Miscellaneous Income                               | 3,077              |
| <b>Total Other Income</b>                          | <b>8,098</b>       |
| <b>Total Income</b>                                | <b>113,143</b>     |
| <br><b>Operating Expenses:</b>                     |                    |
| Administrative                                     | 24,856             |
| Utilities  | 14,773             |
| Operating & Maintenance                            | 13,876             |
| Taxes & Insurance                                  | 15,621             |
| Financial Expense                                  | 64,425             |
| <b>Total Cost of Operations</b>                    | <b>133,551</b>     |
| <b>Net Income/(Loss) from Operations</b>           | <b>(20,408)</b>    |
| <br><b>Non-Operating Income &amp; (Expenses):</b>  |                    |
| Depreciation Expense                               | (40,259)           |
| <b>Total Non-Operating Income &amp; (Expenses)</b> | <b>(40,259)</b>    |
| <b>Net Income/(Loss)</b>                           | <b>\$ (60,667)</b> |

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



**Rio Pecos Estates Limited Partnership**  
**Statement of Changes in Partners' Equity (Deficit)**  
**For the Year Ended December 31, 2019**

|  | <u>Total</u>        | <u>General<br/>Partner<br/>Equity</u> | <u>Limited<br/>Partner<br/>Equity</u> |
|--|---------------------|---------------------------------------|---------------------------------------|
| <b>Partners' Equity (Deficit), December 31, 2018</b> | \$ (259,648)        | \$ (25)                               | \$ (259,623)                          |
| Net Income/(Loss): 12/31/2019                        | (60,667)            | (6)                                   | (60,661)                              |
| Partners' Capital Contributions                      | 0                   | 0                                     | 0                                     |
| Partners' Distributions                              | <u>0</u>            | <u>0</u>                              | <u>0</u>                              |
| <b>Partners' Equity (Deficit), December 31, 2019</b> | <u>\$ (320,315)</u> | <u>\$ (31)</u>                        | <u>\$ (320,284)</u>                   |

*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, 2019**  
**Increase (Decrease) in Cash and Cash Equivalents**

|  | <b>12/31/2019</b> |
|--|-------------------|
| <b>Cash Flows From Operating Activities:</b>       |                   |
| <b>Revenue:</b>                                    |                   |
| Rental Receipts                                    | \$ 104,474        |
| Other Income                                       | 8,098             |
| <b>Total Receipts</b>                              | 112,572           |
| <b>Expenses:</b>                                   |                   |
| Administrative                                     | (14,944)          |
| Utilities  | (14,773)          |
| Operating & Maintenance                            | (13,876)          |
| Taxes & Insurance                                  | (15,637)          |
| Financial Expense                                  | (59,275)          |
| Tenant Security Deposits                           | (40)              |
| Asset Management Expense                           | (3,000)           |
| <b>Total Disbursements</b>                         | (121,545)         |
| <b>Net Cash from Operating Activities:</b>         | (8,973)           |
| <b>Cash Flows From Investing Activities:</b>       |                   |
| <b>Net Cash from Investing Activities:</b>         | 0                 |
| <b>Cash Flows From Financing Activities:</b>       |                   |
| Principal Payments on Mortgage                     | (6,488)           |
| Long-Term Accrued Interest                         | 12,528            |
| Misc Notes Payable - Partners                      | 7,000             |
| <b>Net Cash from Financing Activities:</b>         | 13,040            |
| <b>Increase (Decrease) In Cash</b>                 | 4,067             |
| <b>Cash, Restricted Cash, and Cash Equivalents</b> |                   |
| <b>at the Beginning of Period</b>                  | 31,967            |
| <b>at the End of Period</b>                        | \$ 36,034         |

*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, 2019**  
**Increase (Decrease) in Cash and Cash Equivalents**

|  | <b>12/31/2019</b> |
|--|-------------------|
| <b>Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:</b> |                   |
| Net Income (Loss)  | \$ (60,667)       |
| <b>Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in)</b>      |                   |
| <b>Operating Activities:</b>   |                   |
| Depreciation Expense   | 40,259            |
| Non-Cash Interest for Debt Issuance Costs  | 928               |
| (Increase) Decrease In Assets  |                   |
| Accounts Receivable - Tenants  | (556)             |
| Prepaid Expenses   | 143               |
| Tenant Security Deposits   | (1,816)           |
| Increase (Decrease) In Liabilities   |                   |
| Accounts Payable   | 13,269            |
| Accrued Interest   | 4,222             |
| Accrued Expenses   | (3,500)           |
| Accrued Property Taxes   | (16)              |
| Tenant Security Deposits   | 1,776             |
| Prepaid Tenant Fees  | (15)              |
| Asset Management Fee / Return to Owner   | (3,000)           |
| Net Cash from Operating Activities   | \$ (8,973)        |
| <br><b><u>Supplemental Disclosures:</u></b>  |                   |
| Interest Paid  | \$ 42,669         |
| <br><b>Cash, Restricted Cash, and Cash Equivalents:</b>                                  |                   |
| Cash and Cash Equivalents  | 2,625             |
| Real Estate Tax & Insurance  | 1,374             |
| Replacement Reserve  | 32,035            |
| Total Cash, Restricted Cash, and Cash Equivalents  | \$ 36,034         |

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

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE A - ORGANIZATION**

Rio Pecos Estates Limited Partnership (the Partnership) was organized in 2004 as a Limited Partnership to develop, construct, own, maintain, and operate a 24-unit multi-family low-income housing project. The Project is located in the city of Santa Rosa, New Mexico, and is currently known as Rio Pecos Estates. The major activities of the Partnership are governed by the Partnership Agreement and the Internal Revenue Service Code Section 42. The apartment community began operations in June 2001.

For accounting presentation purposes, the Partnership is reported in the financial statements of the Eastern Plains Council of Governments (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.

The management of the Partnership and the ongoing management of Rio Pecos Estates are vested in the Partners. The Partnership has hired JL Gray Company to provide day-to-day management for the property. Compensation for such services is as determined under the Partnership Agreement, Management Agreement, and Management Certification.

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

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

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

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)***

Basis of Accounting

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

Rio Pecos Estates Limited Partnership adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that restricted cash and cash equivalents be included in beginning and ending cash in the statement of cash flows. The adoption of ASU 2016-18 resulted in the reclassification of certain items related to restricted cash in the cash flows statement.

Cash Equivalents

For purposes of the statement of cash flows, all investment instruments purchased with a maturity of three months or less are considered to be cash equivalents. At December 31, 2019, there were no cash equivalents.

Cash and Credit Risk

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Collateralization of Deposits

The Project is a component unit of the Eastern Plains Council of Governments (EPCOG) and as such, is not required to secure collateralization on cash deposits.

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account. This account was funded in an amount greater than the security deposit liability as of December 31, 2019.

Tenant Receivable and Bad Debt Policy

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

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)***

Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Property and Equipment with a unit cost of \$5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets. Property and Equipment purchases less than \$5,000 or with lives of one year or less, and maintenance and repairs which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statement of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

|                   | <u>Estimated Life</u> |
|-------------------|-----------------------|
| Buildings         | 40                    |
| Site Improvements | 5-15                  |
| Furnishings       | 3-7                   |

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization, are reported as a direct reduction of the obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2019.

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes

No income tax provision has been included in the financial statements since income or loss of the Project is required to be reported by the Owner. Further, income or loss of a partnership is required to be reported by the respective partners on their income tax returns.

Estimates

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

Rental Income

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

Advertising Costs

Advertising Costs are expensed as incurred.

GASB Disclosure

Rio Pecos Estates Limited Partnership is not a state or local government; therefore, it is not subject to disclosure requirements under GASB. Rio Pecos Estates Limited Partnership does not have any taxing authority that would require disclosure in compliance with GASB Statement 77, and the financial statements are not prepared in accordance with GASB standards.

**NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS**

The Partners of Rio Pecos Estates Limited Partnership and their respective profit and loss percentages were as follows as of December 31, 2019:

|  | <u>1/1/19 to<br/>3/15/19</u> | <u>3/16/19 to<br/>12/31/19</u> |
|--|------------------------------|--------------------------------|
| General Partner:   |                              |                                |
| <i>Eastern Plains Council of Governments</i>                     | 0.01 %                       | 0.01 %                         |
| Limited Partner:   |                              |                                |
| <i>Countryside Corporate Tax Credits VII Limited Partnership</i> | 99.99 %                      | 0.00 %                         |
| <i>JLG Properties, LLC</i>                                       | 0.00 %                       | 99.99 %                        |
| Total  | <u>100.00 %</u>              | <u>100.00 %</u>                |

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS (continued)**

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.

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 D - LONG-TERM DEBT**

The Project is financed with a 480-month note payable to New Mexico Mortgage Finance Authority under the 542(c) FHA-Insured Multifamily Loan Program in the original amount of \$560,000, with an interest rate of 8.84%. The note is payable in monthly installments of \$4,251 including interest through the maturity date. The unpaid principal of the loan is due November 2041. The accrued interest was \$7,268 as of December 31, 2019. Interest expensed on this note was \$43,846 as of December 31, 2019.

12/31/2019

\$ 493,297

The project is financed with a 480-month note payable to New Mexico Mortgage Finance Authority in the original amount of \$240,000, with an interest rate of 1.00%. The accrued interest rate is 6.22%. The note is payable in monthly installments of \$1,244 including interest through the maturity date. The unpaid principal of the loan is due January 2041. The accrued interest was \$200 as of December 31, 2019. Interest expensed on this note was \$14,928 as of December 31, 2019.

Less: Unamortized Debt Issuance Costs

240,000

(19,954)

Total

713,343

Less: Current Portion

(8,387)

Long-Term Notes Payable

\$ 704,956



**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE D - LONG-TERM DEBT (continued)**

Aggregate maturities of the loans are approximated as follows

|                                       | <u>Principal</u>  | <u>Interest</u>   |
|---------------------------------------|-------------------|-------------------|
| December 31, 2020                     | \$ 8,387          | \$ 58,172         |
| 2021                                  | 8,481             | 57,457            |
| 2022                                  | 9,261             | 56,676            |
| 2023                                  | 10,114            | 55,823            |
| 2024                                  | 11,045            | 54,892            |
| 2025-2029                             | 72,487            | 257,199           |
| 2030-2034                             | 112,594           | 217,092           |
| 2035-2039                             | 174,892           | 154,794           |
| 2040-2044                             | 326,036           | 41,893            |
| Less: Unamortized Debt Issuance Costs | <u>(19,954)</u>   |                   |
| Total                                 | <u>\$ 713,343</u> | <u>\$ 953,998</u> |

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

**NOTE E - RESERVE FUNDS**

Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve to fund major repairs or replacements of the Project Property. The deposits state in the Partnership Agreement shall be \$350 per month. However; per the terms set forth by the New Mexico Mortgage Finance Authority Regulatory Agreement, the Partnership shall make deposits into the Replacement Reserve fund of \$200 per unit per year, which is \$400 per month and \$4,800 annually. The Replacement Reserve balance was \$32,035 as of December 31, 2019.

**NOTE F - COMMITMENTS AND CONTINGENCIES**

Housing Tax Credits

As incentive for investment equity, the Partnership applied for and received an allocation certificate for Housing Tax Credits established by the Tax Reform Act of 1986. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management has certified that each Tax Credit unit has met these qualifications to allow the credits allocated to each unit be claimed.

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE F - COMMITMENTS AND CONTINGENCIES *(continued)***

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

Land Use Restriction Agreement

The Partnership is bound by a Land Use Restriction Agreement. This agreement states that 100% of the project property must be maintained as low-income housing for 30 years after the date on which the project is placed in service.

In addition, the Agreement requires rent restrictions so that the units can be rented at a level that is affordable to persons with income at or below specific percentages of the area median gross income. The agreement requires that 100% of the units be leased to individuals or families whose income is 60% or less of the applicable area median gross income as determined in accordance with Section 42 of the Internal Revenue Code.

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.

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**

**December 31, 2019**

**NOTE F - COMMITMENTS AND CONTINGENCIES *(continued)***

Regulatory Agreement Provisions

On February 5, 2001, the Company executed a 542 (c) Multifamily Insurance Program Regulatory Agreement with the New Mexico Mortgage Finance Authority in order to obtain the "risk-sharing" mortgage loan. The Company is required to abide by the Regulatory Agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) Replacement Reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

HOME Investment Partnerships Program

In addition, the Partnership received funding from the HOME Investment Partnerships Program to assist with financing the development of the Project. Under the terms of the agreement, ten units shall be designated as floating HOME assisted units.

**NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES**

Management Fee

The Partnership has entered into a Management Agreement with JL Gray Company to manage the rental operations of the apartment community. The management fee is equal to 8% of gross rental collections. Property Management Fees expensed were \$8,490 during 2019. The amounts due to the Management Agent related to Management Fees were \$41,525 as of December 31, 2019.

Due to General Partner

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 the previous years was \$33,497 and is included in the Misc Notes Payable - Partners on the Balance Sheet. There is a loan due to the general partner for \$64,500 with an interest rate of 1.00%. The accrued interest on this loan is \$11,771 as of December 31, 2019. The Partnership has additional liabilities for advances made in order to cover operating deficits. The amount due to the General Partner is \$224,814 not including interest as of December 31, 2019.

Reimbursed Expenses

The Management Agent, an affiliate of one of the Partners, is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. There was no amount due to the Management Agent related to reimbursed expenses as of December 31, 2019.

**Rio Pecos Estates Limited Partnership**

**Notes to Financial Statements**

**December 31, 2019**

**NOTE H - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

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

**NOTE I - ACCRUED EXPENSES**

The accrued expenses on the balance sheet contain the following:

|                               | <u>12/31/2019</u>       |
|-------------------------------|-------------------------|
| Accrued Interest              | \$ 19,239               |
| Accrued Property Taxes        | 4,467                   |
| Accrued Expenses - Audit Fees | <u>3,500</u>            |
| Total Accrued Liabilities     | <u><u>\$ 27,206</u></u> |

**NOTE J - SUBSEQUENT EVENTS**

The Project has evaluated subsequent events through May 21, 2020 which is the date the financial statements were available to be issued, and the following significant subsequent events have occurred:

The owners are involved in negotiations to sale the apartment complex and related fixed assets in order to obtain tax credits and rehabilitate the project. The sale is pending as of the May 21, 2020.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Project's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work or the tenants ability to pay the required monthly rent. The project currently has rental assistance which could mitigate the potential for significant collection losses. Operating functions that may be changed include intake, recertifications and maintenance. Changes to the operating environment may increase operating costs. Additional impacts may include the ability of tenants to continue making rental payments as a result of job loss or other pandemic related issues. The future effects of these issues are unknown.

**Rio Pecos Estates Limited Partnership**  
**Supplementary Information**  
**Year Ended December 31, 2019**

**Rio Pecos Estates Limited Partnership**  
**Supplementary Information Required by HUD**  
**Year Ending December 31, 2019**

**1. SCHEDULE OF RESERVE FOR REPLACEMENTS**

|   |                  |
|---|------------------|
| Balance as of January 1, 2019   | \$ 27,577        |
| Total Monthly Deposit   | 4,400            |
| Interest Earned on Reserve for Replacement Account<br>(Net of Service Fees) | 58               |
| Approved Withdrawals  | 0                |
| Balance as of December 31, 2019   | <u>\$ 32,035</u> |

**2. SCHEDULE OF CHANGES IN FIXED ASSETS**

|                                      | Balance<br>12/31/2018 | Additions | Deductions | Balance<br>12/31/2019 |
|--------------------------------------|-----------------------|-----------|------------|-----------------------|
| Land                                 | \$ 50,800             | \$ 0      | \$ 0       | \$ 50,800             |
| Buildings                            | 1,603,138             | 0         | 0          | 1,603,138             |
| Site Improvements/Building Equipment | 21,177                | 0         | 0          | 21,177                |
| Furnishings                          | 28,768                | 0         | 0          | 28,768                |
| Totals                               | <u>1,703,883</u>      | <u>0</u>  | <u>0</u>   | <u>1,703,883</u>      |
| Accumulated Depreciation             | 775,764               | \$ 40,259 | \$ 0       | 816,023               |
| Net Book Value                       | <u>\$ 928,119</u>     |           |            | <u>\$ 887,860</u>     |



**FOX, GARCIA & Co, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**Diane R. Fox, CPA**  
**Shelley D. Garcia, CPA**

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

To the Partners of  
Rio Pecos Estates Limited Partnership  
Santa Rosa, New Mexico  
and State Auditor, Brian S. Colón, Esq.

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 Rio Pecos Estates Limited Partnership which comprise the balance sheet as of December 31, 2019, and related statement of operations, changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rio Pecos Estates Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rio Pecos Estates Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Rio Pecos Estates Limited Partnership's internal control.

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Fox, Garcia & Company".

Fox, Garcia & Company, LLC

May 21, 2020  
Big Spring, Texas



**Rio Pecos Estates Limited Partnership**

**Summary of Audit Results**

*Financial Statements:*

|  |            |
|--|------------|
| 1. Type of auditor's report issued   | Unmodified |
| 2. Internal control over financial reporting:                                    |            |
| a. Material weakness identified?   | No         |
| b. Significant deficiency identified not considered to be a material weaknesses? | No         |
| c. Control deficiency identified not considered to be a significant deficiency?  | No         |
| d. Noncompliance material to financial statements noted?                         | No         |

**Rio Pecos Estates Limited Partnership**  
**Schedule of Findings and Responses**  
**December 31, 2019**

**Current Year Audit Findings: December 31, 2019**

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

**Rio Pecos Estates Limited Partnership**  
**Schedule of the Status of Prior Audit Findings,**  
**Questioned Costs, and Recommendations**  
**December 31, 2019**

**Prior Year Audit Findings: December 31, 2018**

The prior year audit disclosed no findings that are required to be reported.

**Rio Pecos Estates Limited Partnership**

**Mortgagor's Certification**

**December 31, 2019**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Rio Pecos Estates Limited Partnership as of December 31, 2019, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 5/21/2020

Name: Sandy Chancey

Title: Executive Director  
Eastern Plains Council of Governments

**Auditee Information:**

844-662-1088  
Rio Pecos Estates Limited Partnership  
1005 McCarley Loop  
Santa Rosa, New Mexico 88001

**Rio Pecos Estates Limited Partnership**

**Management Agent's Certification**

**December 31, 2019**

We hereby certify that we have examined the accompanying financial statements and supplemental data of Rio Pecos Estates Limited Partnership as of December 31, 2019, and to the best of our knowledge and belief, the same are complete and accurate.

Signed:  \_\_\_\_\_ Date: \_\_\_\_\_

Name: Bobby Griffith

Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.  
Farmington, NM 87401

**Rio Pecos Estates Limited Partnership**

**Information on Auditor**

**December 31, 2019**

**Auditor's Transmittal Letter**

Audit Firm: Fox, Garcia & Company, LLC  
State of New Mexico License No. 00557

Lead Auditor: Diane Fox  
Certified Public Accountant

Audit Firm Address: P.O. Box 3538  
Big Spring, Texas 79721  
214-842-8464

Auditor's Report Date: May 21, 2020

Contacts: diane@foxgarcia.com  
shelleyn@foxgarcia.com

**Rio Pecos Estates Limited Partnership**

**Exit Conference**

**December 31, 2019**

**EXIT CONFERENCE**

An exit conference was held on May 21, 2020, which was attended by the following:

**Eastern Plains Council of Governments**

Sandy Chancey Executive Director

**Fox, Garcia & Company, LLC**

Diane Fox Owner/Engagement Partner

**Management Agent**

Bobby Griffith Chief Financial Officer

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Fox, Garcia & Company, LLC. However, the contents of the financial statements remain the responsibility of management.