

Accounting & Consulting Group, LLP

Certified Public Accountants

STATE OF NEW MEXICO
CITY OF EUNICE HOUSING AUTHORITY
A COMPONENT UNIT OF
THE CITY OF EUNICE, NEW MEXICO

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010



**STATE OF NEW MEXICO
CITY OF EUNICE HOUSING AUTHORITY**

**A COMPONENT UNIT OF
THE CITY OF EUNICE, NEW MEXICO**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

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INTRODUCTORY SECTION

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City of Eunice Housing Authority
A Component Unit of the City of Eunice
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June 30, 2010

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Official Roster
June 30, 2010

Board of Directors

Chairman

Allen Pickerel

Member

George Goforth

Member

Newman Shanks

Board Member

Bill Robinson

Administrative Officials

Executive Director

David Reed

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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico
and
Chairman and Board Members
Eunice Housing Authority
Eunice, New Mexico

We have audited the accompanying financial statements of the business-type activities of the Eunice Housing Authority (the "Authority"), a component unit of the City of Eunice, New Mexico (the "City"), as of and for the year ended June 30, 2010, which collectively comprise the Eunice Housing Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison for the year ended June 30, 2010 listed as supplementary information in the table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities that are attributable to the transactions of the Authority. They do not purport to and do not present fairly the financial position of the City of Eunice as of June 30, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Eunice Housing Authority as of June 30, 2010, and the respective change in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the year ended June 30, 2010, in conformity with a budgetary basis more fully described in Note 1 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 21, 2011, on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Eunice Housing Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the basic financial statements and the budgetary comparison. The accompanying financial information listed as supporting Schedule I in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Financial Data Schedule is presented as supporting Schedule II for purposes of additional analysis as required by U.S. Department of Housing and Urban Development and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
March 21, 2011

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
City of Eunice Housing Authority Housing Authority
A Component Unit of the City of Eunice
Statement of Net Assets
June 30, 2010

ASSETS

Current assets:

| | | |
|--------------------------------|----|--------|
| Cash and temporary investments | \$ | 79,482 |
| Inventory | | 1,373 |
| Prepaid expenses | | 3,676 |
| | | 84,531 |
| <i>Total current assets</i> | | 84,531 |

Restricted assets:

| | | |
|--------------------------------|--|-------|
| Cash - tenant deposits | | 2,625 |
| | | 2,625 |
| <i>Total restricted assets</i> | | 2,625 |

Noncurrent Assets

| | | |
|--------------------------------|--|-----------|
| <i>Capital assets</i> | | |
| Land | | 20,392 |
| Buildings and improvements | | 567,388 |
| Machinery & Equipment | | 56,350 |
| Vehicles | | 17,390 |
| CFP Assets | | 21,670 |
| Less: accumulated depreciation | | (571,513) |
| | | 111,677 |

| | | |
|--|--|---------|
| Total capital assets (net of accumulated depreciation) | | 111,677 |
|--|--|---------|

| | | |
|---------------------|----|---------|
| <i>Total assets</i> | \$ | 198,833 |
|---------------------|----|---------|

The accompanying notes are an integral part of these financial statements

LIABILITIES AND NET ASSETS*Current liabilities*

| | |
|---------------------------------------|-------|
| Accounts payable-suppliers | 1,724 |
| Accrued expenses | 2,053 |
| Compensated absences, current portion | 728 |

| | |
|----------------------------------|--------------|
| <i>Total current liabilities</i> | <u>4,505</u> |
|----------------------------------|--------------|

Non-current liabilities

| | |
|---|-------|
| Tenant deposits | 2,625 |
| Compensated absences, long-term portion | 2,400 |

| | |
|--------------------------------------|-------|
| <i>Total non-current liabilities</i> | 5,025 |
|--------------------------------------|-------|

| | |
|--------------------------|--------------|
| <i>Total liabilities</i> | <u>9,530</u> |
|--------------------------|--------------|

Net assets:

| | |
|---|---------|
| Invested in capital assets, net of related debt | 111,677 |
| Restricted for tenant deposits | 2,625 |
| Unrestricted | 75,001 |

| | |
|-------------------------|----------------|
| <i>Total net assets</i> | <u>189,303</u> |
|-------------------------|----------------|

| | |
|---|--------------------------|
| <i>Total liabilities and net assets</i> | <u><u>\$ 198,833</u></u> |
|---|--------------------------|

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2010

Exhibit A-2

| | |
|--|--------------------------|
| <i>Operating revenues:</i> | |
| Intergovernmental | \$ 41,187 |
| Charges for services | 43,031 |
| Miscellaneous | <u>15,590</u> |
| <i>Total operating revenues</i> | <u>99,808</u> |
| <i>Operating expenses:</i> | |
| Administration | 32,146 |
| Sundry administration | 5,077 |
| Utilities | 5,922 |
| Ordinary maintenace | 40,116 |
| Contract Costs | 4,750 |
| Insurance | 11,097 |
| Other general expense | 9,213 |
| Depreciation | <u>16,757</u> |
| <i>Total operating expenses</i> | <u>125,078</u> |
| <i>Operating income (loss)</i> | <u>(25,270)</u> |
| <i>Non-operating revenues (expenses):</i> | |
| Intergovernmental | 36,400 |
| CFP costs | <u>(36,400)</u> |
| <i>Total non-operating revenues (expenses)</i> | <u>-</u> |
| <i>Change in net assets</i> | <u>(25,270)</u> |
| <i>Total net assets - beginning of year</i> | <u>214,573</u> |
| <i>Total net assets - end of year</i> | <u><u>\$ 189,303</u></u> |

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Statement of Cash Flows
For the Year Ended June 30, 2010

| | |
|---|-------------------------|
| <i>Cash flows from operating activities:</i> | |
| Receipts from customers, users and granters | \$ 117,857 |
| Cash payments to suppliers for goods and services | (77,733) |
| Cash payments to employees for services | <u>(47,209)</u> |
| <i>Net cash provided (used) by operating activities</i> | <u>(7,085)</u> |
| <i>Cash flows from capital and related financing activities:</i> | |
| Acquisitions and construction of capital assets | |
| CFP costs | 36,400 |
| Proceeds from capital grant program | <u>(36,400)</u> |
| <i>Net cash provided (used) by capital and related financing activities</i> | <u>-</u> |
| <i>Net increase (decrease) in cash and temporary investments</i> | (7,085) |
| <i>Cash and temporary investments - beginning of year</i> | <u>89,192</u> |
| <i>Cash and temporary investments - end of year</i> | <u><u>\$ 82,107</u></u> |

The accompanying notes are an integral part of these financial statements

*Reconciliation of operating income (loss) to
net cash provided (used) by operating activities:*

| | |
|---|--------------------------|
| Operating income (loss) | <u>\$ (25,270)</u> |
| Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities: | |
| Depreciation expense | 16,757 |
| Increase(decrease) in: | |
| Accounts receivable - tenants | 27 |
| Accounts receivable - CFP | 18,637 |
| Accounts receivable - interest | 11 |
| Inventory | (51) |
| Prepaid expenses | 541 |
| Decrease(increase) in: | |
| Accounts payable | (2,048) |
| Accrued expenses | (16,278) |
| Prepaid expenses | (701) |
| Accrued compensated absences | 1,215 |
| Refundable tenant deposits | <u>75</u> |
| <i>Net cash provided (used) by operating activities</i> | <u><u>\$ (7,085)</u></u> |

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing Authority of the City of Eunice was organized February 28, 1967. The Cooperative Agreement between the City of Eunice and the Housing Authority was entered into February 28, 1967. The Agency has an elected Chairman, four member council and a resident member. The Agency manages one lower rent public housing development containing 20 total units.

The Agency administers the following federal award program reported in the following major proprietary fund.

- Low-Rent Public Housing – Funded through direct grants from HUD, the program is designed to provide adequate living accommodations to qualified families through reduced rate rentals built and owned by the Agency.

The more significant accounting policies and procedures of the Agency are more fully described below.

The primary goal of the Low Rent Public Housing Program is the provision of a decent home in a suitable living environment for families that cannot afford standard private housing. Under this program, decent, safe and sanitary housing is made available to families having incomes lower than those serviced by Public Housing Agencies (PHA) which are organized and authorized in accordance with State Law to engage or assist in the development of operation of a Low Rent Public Housing Program. The PHA is a local housing authority (LHA) governed by an appointed board of directors who employ an administrative staff headed by an executive director.

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management, who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* for the year ended June 30, 2010. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Accounting Principles Board Opinions and Accounting Research Bulletins of the committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

The Authority reports the following quantitatively major enterprise funds:

- Low Rent Public Housing Program – Funded through direct grants from HUD, the program is designed to provide adequate living accommodations to qualified families through reduced rate rentals built and owned by the Authority.

A. Financial Reporting Entity

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential programs and operations of the Authority. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its residents and participants, or whether the activity is conducted within

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

the geographic boundaries of the Authority and is generally available to its residents and participants. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, the Authority has no component units; however, the Authority is a component unit of the City of Eunice.

The City of Eunice does issue separately audited financial statements. Additional information regarding the City of Eunice may be obtained directly from their administrative office as follows: City of Eunice Business Office, 1106 Ave J. Eunice, New Mexico 88231

B. Basis of Accounting and Measurement Focus

The Authority's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as set forth or adopted by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), and their predecessors, the National Council on Governmental Accounting ("NCGA") and the Accounting Principles Board ("APB"), respectively. Generally accepted accounting principles for local governments include those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The Authority's proprietary (enterprise) funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for rent and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue Recognition

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned.

Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The Authority has entered into contracts with HUD to develop, manage and own public housing projects. HUD makes monthly operating subsidy contributions within the public housing program. Such contributions are reflected as operating grants revenue. Contributions received from HUD for capital additions and improvements are reported as capital grants revenue.

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets

Deposits and Investments

The Authority is authorized under the provision of 6-10-10 NMSA 1978, as amended, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an Agency of the United States. The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

All money not immediately necessary for the public uses of the Agency may be invested in:

- a. bonds or negotiable securities of the United States, the State or any county, municipality, school, or agency which has taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bond maturities at any time within the preceding five years; or
- b. securities that are issued by the United States Government or by its agencies or instrumentalities that are either direct obligations of the United States or are backed by the full faith and credit of the United States Governments or agencies guaranteed by the United States Government; and
- c. contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices as a price differential representing the interest income to be earned by the investor. The contract shall be on the books of the financial institution as being the property of the investor and designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The contract required for investment in the contracts provided for in the subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. State statutes authorize the investment of Agency funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations.

Pursuant to Section 6-10-10.1 NMSA 1978, as amended, if the Agency is unable to receive payment on a public money at the rate of interest as set forth in Section 6-10-36 NMSA 1978 from financial institutions within the geographic boundaries of the governmental unit, then a local public finance official having money of that local public body in custody not required for expenditure within thirty days or less may, with the consent of the appropriate local board of finance, if any, remit some or all of such money to the state treasurer, banks, savings and loan associations or credit unions for deposit for the purpose of short-term investment as allowed by law

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to Section 6-10-10.1 NMSA 1978, as amended, the local public body finance official shall notify and make such funds available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts. To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the state treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments.

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets (continued)

Deposits and Investments (continued)

statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized, with higher requirements up to one hundred percent (100%) for financially troubled institutions. If the securities pledged are United States government securities, they are pledged at market value, if they are New Mexico municipal bonds, they are pledged at par value.

Receivables and Payables

All receivables, including tenant receivables, are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred.

Inventory

The inventory held consists of expendable supplies held for consumption and recorded at cost. The cost is recorded as an expenditure at the time of consumption. Inventory for the Authority is valued at cost using the First In, First Out Method.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the Authority as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Although state statutes allow for capitalization of capital assets in excess of \$5,000, the Authority continues to use its policy of \$500 capitalization. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) are included as part of the governmental capital assets reported in the government wide statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

STATE OF NEW MEXICO
 Eunice Housing Authority
 A Component Unit of the City of Eunice
 Notes to the Financial Statements
 For the Year Ended June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Assets (continued)

Capital Assets (continued)

| <u>Assets</u> | <u>Years</u> |
|---------------------------|----------------|
| Land improvements | 40 yrs |
| Building and improvements | 40 yrs |
| Machinery and equipment | 5 yrs – 10 yrs |
| Computers and software | 3yrs – 5yrs |
| Vehicles | 5 yrs – 10 yrs |

Accrued Expenses

Accrued expenses are comprised of accrued salaries, wages, related employment taxes and current maturities of compensated absences, discussed more fully below.

Compensated Absences

Agency employees are entitled to certain compensated absences based on their employment classification and length of employment. With minor exceptions, the Agency employees accumulate unlimited sick leave, although amounts are not eligible for payment upon termination. Earned vacation, up to three weeks, is allowed to be carried over from one calendar year to the next. Upon termination, employees shall receive payment for unused, accrued vacation. All vacation pay is accrued when incurred and reported as accrued expenses in the financial statements.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components:

- **Invested in Capital Assets, Net of Related Debt** – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Assets** – Net assets are reported as restricted when constraints placed on net asset use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – Net assets that do not meet the definition of “restricted” and “Invested in capital assets, net of related debt.”

Unrestricted and Restricted Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants for services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations.

The principal operating revenues of the proprietary funds are charges to housing residents for rental charges and services. Operating subsidies provided by HUD comprise a substantial degree of assistance and are reported as operating revenue. When both restricted and unrestricted resources are available for

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities, and Net Assets (continued)

Unrestricted and Restricted Revenues(continued)

use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

Allocation of Expenses

For purposes of the statement of revenues, expenses and changes in net assets, compensation is allocated based on time, with related employment taxes and benefits allocation based on direct salaries and wages.

Statement of Cash Flows

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Reclassifications

Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

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 certain reported amounts and disclosures such as the lives of capital assets. Accordingly, actual results could differ from those estimates. Significant estimates in the Authority's financial statements include depreciation on capital assets, the current portion of accrued compensated absences and the allowance for uncollectible accounts.

D. Budgets

The Authority adheres to the following regarding the budget:

1. The executive director and the fee accountant prepare the budget in accordance with HUD guidelines.
2. Capital expenditures for the Capital Fund Program (CFP) are budgeted for grant purposes. Expenditures capitalized are reflected as increases to capital assets and reported on the statement of net assets. The Authority does not budget for depreciation expense.
3. HUD reviews the proposed budget and makes corrections, revisions and amendments as necessary.
4. The executive director submits the budget to the Authority's Board of Directors for approval.
5. The Board of Director's approves the budget.

The Authority does not budget depreciation expense; therefore, the budget is not prepared in accordance with generally accepted accounting principles. The budget is a guideline to operations and is not a legally enforceable document. The Authority's level of budgetary control is at the total fund level and the individual capital projects level.

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 2. DEPOSITS AND INVESTMENTS

State Statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Authority properly followed State investment requirements as of June 30, 2010.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Authority. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee Program, that provides depositors' with unlimited coverage for noninterest-bearing transaction accounts. With regards to this Transaction Guarantee Program, noninterest-bearing checking accounts include Demand Deposit Accounts (DDA's) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this program are low-interest NOW accounts that cannot earn more than 0.5% interest.

New Mexico State statutes requires collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the Authority for at least one-half of the amount on deposit with the institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2010, \$0 of the Authority's deposits of \$82,343 was exposed to custodial credit risk. \$0 was uninsured and uncollateralized. As of June 30, 2010, the carrying amount of these deposits was \$82,343.

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

| | Wells Fargo |
|--|-------------|
| Amount of deposits | \$ 82,343 |
| FDIC Coverage | (82,343) |
| Total uninsured public funds | - |
| Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name | - |
| Uninsured and uncollateralized | \$ - |
| Collateral requirement | |
| (50% of uninsured funds) | \$ - |
| Pledged Collateral | - |
| Over (Under) collateralized | \$ - |

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, city or political subdivision of the State of New Mexico.

Reconciliation to Statement of Net Assets

The carrying amount of deposits and investments shown above are included in the Authority's statement of net assets as follows:

| | |
|--|-----------|
| Cash and cash equivalents per Exhibit A-1 | \$ 79,482 |
| Restricted cash and cash equivalents per Exhibit A-1 | 2,625 |
| Add: Outstanding checks and other reconciling items | 286 |
| | 82,393 |
| Less: petty cash | (50) |
| Bank balance of deposits | \$ 82,343 |

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 3. CAPITAL ASSETS

Land, structures, equipment and furnishings capital asset activity consists of the following at June 30, 2010:

| | Balance June 30, 2009 | Additions | Deletions | Balance June 30, 2010 |
|--|--------------------------|-------------|-----------|--------------------------|
| Low Rent Public Housing | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 20,392 | \$ - | \$ - | 20,392 |
| | | | | - |
| Total capital assets not being depreciated | 20,392 | - | - | 20,392 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 567,388 | - | - | 567,388 |
| Equipment | 56,350 | - | - | 56,350 |
| Vehicle | 17,390 | - | - | 17,390 |
| CFP Funds | 21,670 | - | - | 21,670 |
| Total capital assets being depreciated | 662,798 | - | - | 662,798 |
| Total capital assets | 683,190 | - | - | 683,190 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 544,324 | 10,854 | - | 555,178 |
| Equipment | - | - | - | - |
| Vehicle | 10,434 | 3,478 | - | 13,912 |
| CFP Funds | - | 2,425 | - | 2,425 |
| Total accumulated depreciation | 554,758 | 16,757 | - | 571,515 |
| Total capital assets, net of depreciation | \$ 128,432 | \$ (16,757) | \$ - | 111,675 |

The Authority has continued to maintain the cost of its property and equipment and update its depreciation schedule as information becomes available. Depreciation expense for the year ended June 30, 2010, totaled \$16,757.

STATE OF NEW MEXICO
Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
For the Year Ended June 30, 2010

NOTE 4. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2010.

| | Balance, July 1, 2009 | Additions | Retirements | Balance, June 30, 2010 | Due Within One Year |
|------------------------------|--------------------------|-----------------|---------------|---------------------------|------------------------|
| Accrued compensated absences | \$ 1,912 | \$ 2,400 | \$ 728 | \$ 3,584 | \$ 728 |
| Totals | <u>\$ 1,912</u> | <u>\$ 2,400</u> | <u>\$ 728</u> | <u>\$ 3,584</u> | <u>\$ 728</u> |

NOTE 5. PERA PENSION PLAN

The Agency has not elected to participate in Public Employees Retirement Act plan and there are no required contributions for fiscal year ending June 30, 2010.

NOTE 6. RETIREE HEALTH CARE ACT

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments of out-of-pocket payments of eligible retirees. As authorized under Section 9D of Chapter 6, Laws of 1990, the Authority has elected not to participate in the program by adoption of an ordinance.

NOTE 7. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

NOTE 8. RISK MANAGEMENT

Eunice Housing Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets: errors and omissions: injuries to employees: and natural disasters. The Authority at present does not maintain any insurance to minimize its exposure. Through the City of Eunice, the Authority obtains coverage from commercial insurance companies for the risks of loss mentioned above, except for injuries to employees. For risks of loss related to injuries to employees the Authority has not obtained coverage from a commercial insurance company but has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the City of Eunice's Internal Service Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 10. CONCENTRATIONS

Substantially all revenues of the Authority are received from programs directed by the United States Department of Housing and Urban Development. Receipt of these funds is contingent upon the Authority's continued compliance with grant provisions and the continuance of the grant programs by this U.S. Governmental agency.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Statement of Revenues, Expenses and Changes in
Net Assets - Budget (GAAP Basis) and Actual
For the Year Ended June 30, 2010

Statement A-1

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|--|------------------|-----------------|--------------------|--|
| | Original | Final | | |
| <i>Operating revenues:</i> | | | | |
| Intergovernmental | \$ 51,121 | \$ 51,121 | \$ 41,187 | \$ (9,934) |
| Charges for services | 45,000 | 45,000 | 43,031 | (1,969) |
| Miscellaneous | 700 | 700 | 15,590 | 14,890 |
| <i>Total operating revenues</i> | <u>96,821</u> | <u>96,821</u> | <u>99,808</u> | <u>2,987</u> |
| <i>Operating expenses:</i> | | | | |
| Personnel services | - | - | - | - |
| Supplies and materials | - | - | - | - |
| Purchased services | - | - | - | - |
| Administration | 27,590 | 27,590 | 32,146 | (4,556) |
| Sundry administration | 7,100 | 7,100 | 5,077 | 2,023 |
| Tenant services | 500 | 500 | - | 500 |
| Utilities | 7,700 | 7,700 | 5,922 | 1,778 |
| Ordinary maintenance | 44,670 | 44,670 | 40,116 | 4,554 |
| Contracts costs | 7,000 | 7,000 | 4,750 | 2,250 |
| Insurance | 12,400 | 12,400 | 11,097 | 1,303 |
| Other general expense | 8,110 | 8,110 | 9,213 | (1,103) |
| <i>Total operating expenses</i> | <u>115,070</u> | <u>115,070</u> | <u>108,321</u> | <u>6,749</u> |
| <i>Operating income (loss)</i> | <u>(18,249)</u> | <u>(18,249)</u> | <u>(8,513)</u> | <u>9,736</u> |
| <i>Non-operating revenues (expenses):</i> | | | | |
| Intergovernmental | 8,000 | 8,000 | 36,400 | 28,400 |
| Proceeds from insurance | - | - | - | - |
| Indirect costs | - | - | (36,400) | (36,400) |
| <i>Total non-operating revenues (expenses)</i> | <u>8,000</u> | <u>8,000</u> | <u>-</u> | <u>(8,000)</u> |
| <i>Change in net assets before GAAP Adjustment</i> | (10,249) | (10,249) | (8,513) | 1,736 |
| <i>(Expenses) not budgeted</i> | | | | |
| Depreciation | - | - | 16,757 | (16,757) |
| Designated cash (Budgeted increase in cash) | 10,249 | 10,249 | - | 10,249 |
| <i>Total net assets, beginning of year</i> | <u>-</u> | <u>-</u> | <u>214,573</u> | <u>214,573</u> |
| <i>Total net assets, end of year</i> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 206,060</u> | <u>\$ 189,303</u> |
| Change in net assets, above | | | \$ (8,513) | |
| No adjustments to revenues | | | - | |
| Adjustments for depreciation | | | <u>(16,757)</u> | |
| Change in net assets (Exhibit A-2) | | | <u>\$ (25,270)</u> | |

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Schedule of Deposit and Investment Accounts
For the Year Ended June 30, 2010

Schedule I

| Financial Institution | Account Number | Bank Balance | Deposits in Transit | Outstanding Checks | Book Balance |
|--|----------------|--------------|---------------------|--------------------|------------------|
| Wells Fargo Bank: | | | | | |
| General Fund | 1103416607 | \$ 57,294 | \$ - | \$ 287 | \$ 57,007 |
| Certificate of deposit | 3266083439 | \$ 10,020 | \$ - | \$ - | 10,020 |
| Certificate of deposit | 3266083421 | 15,030 | - | - | 15,030 |
| Total Wells Fargo Bank | | 82,343 | - | 287 | 82,057 |
| Total deposits | | \$ 82,343 | \$ - | \$ 287 | \$ 82,057 |
| Petty cash | | | | | 50.00 |
| Total cash and cash equivalents- June 30, 2010 | | | | | <u>\$ 82,107</u> |
| Statement of Net Assets (Exhibit A-1): | | | | | |
| Cash and cash equivalents | | | | | 79,482 |
| Restricted cash and cash equivalents | | | | | <u>2,625</u> |
| Total cash and cash equivalents | | | | | <u>\$ 82,107</u> |

See accompanying independent auditors' report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2010

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Public Housing Capital Fund Program 14.872 | Total |
|---------------------|--|---|---|-------------------|
| 111 | Cash - Unrestricted | \$ 79,482 | \$ - | \$ 79,482 |
| 114.5 | Cash - Tenant Security Deposits | <u>2,625</u> | <u>-</u> | <u>2,625</u> |
| 115 | Cash - Restricted- Payment of Current liabilities | | | |
| 100 | Total Cash | <u>82,107</u> | <u>-</u> | <u>82,107</u> |
| 120 | Total Receivables, Net of Allowance for Doubtful Accounts | - | - | - |
| 130 | Total Investments | - | - | - |
| 142 | Prepaid Expenses and Other Assets | 3,677 | - | 3,677 |
| 143 | Inventories | <u>1,374</u> | <u>-</u> | <u>1,374</u> |
| 150 | Total Current Assets | <u>87,158</u> | <u>-</u> | <u>87,158</u> |
| 161 | Land | 20,392.00 | - | 20,392 |
| 162 | Buildings | 567,387 | 21,669 | 589,056 |
| 163 | Furniture, Equipment & Machinery - Dwellings | 73,740 | - | 73,740 |
| 166 | Accumulated Depreciation | <u>(571,513)</u> | <u>-</u> | <u>(571,513)</u> |
| 160 | Total Capital Assets, Net of Accumulated Depreciation | <u>90,006</u> | <u>21,669</u> | <u>111,675</u> |
| 180 | Total Non-Current Assets | <u>90,006</u> | <u>21,669</u> | <u>111,675</u> |
| 190 | Total Assets | <u>\$ 177,164</u> | <u>\$ 21,669</u> | <u>\$ 198,833</u> |

See independent auditors' report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2010

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Public Housing Capital Fund Program 14.872 | Total |
|---------------------|---|---|---|-------------------|
| 311 | Bank Overdraft | | | |
| 312 | Accounts Payable <= 90 Days | \$ 1,724 | \$ - | \$ 1,724 |
| 321 | Accrued Wage/Payroll Taxes Payable | 2,053 | - | 2,053 |
| 322 | Accrued Compensated Absences - Current Portion | 728 | - | 728 |
| 341 | Tenant Security Deposits | 2,625 | - | 2,625 |
| 310 | Total Current Liabilities | <u>7,130</u> | <u>-</u> | <u>7,130</u> |
| 354 | Accrued Compensated Absences - Non-Current | <u>2,400</u> | <u>-</u> | <u>2,400</u> |
| 350 | Total Non-Current Liabilities | <u>2,400</u> | <u>-</u> | <u>2,400</u> |
| 300 | Total Liabilities | <u>9,530</u> | <u>-</u> | <u>9,530</u> |
| 508.1 | Invested in Capital Assets, Net of Related Debt | 90,006 | 21,669 | 111,675 |
| 511 | Restricted Net Assets | 2,625 | - | 2,625 |
| 512.1 | Unrestricted Net Assets | <u>75,003</u> | <u>-</u> | <u>75,003</u> |
| 513 | Total Equity/Net Assets | <u>167,634</u> | <u>21,669</u> | <u>189,303</u> |
| 600 | Total Liabilities and Equity/Net Assets | <u>\$ 177,164</u> | <u>\$ 21,669</u> | <u>\$ 198,833</u> |

See independent auditors' report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2010

Schedule II
Page 3 of 4

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Public Housing Capital Fund Program 14.872 | Total |
|---------------------|---|---|---|----------------|
| 70300 | Net Tenant Rental Revenue | \$ 43,031 | \$ - | \$ 43,031 |
| 70500 | Total Tenant Revenue | <u>43,031</u> | <u>-</u> | <u>43,031</u> |
| 70600 | HUD PHA Operating Grants | 41,187 | - | 41,187 |
| 70610 | Capital Grants | 36,399 | 10,312 | 46,711 |
| 71500 | Other Revenue | 5,278 | - | 5,278 |
| 70000 | Total Revenue | <u>125,895</u> | <u>10,312</u> | <u>136,207</u> |
| 91100 | Administrative Salaries | 26,430 | - | 26,430 |
| 91200 | Auditing Fees | 2,253 | - | 2,253 |
| 91300 | Outside Management Fees | - | - | - |
| 91310 | Book-keeping Fee | - | - | - |
| 91400 | Advertising and Marketing | - | - | - |
| 91500 | Employee Benefit Contributions - Administrative | 2,904 | - | 2,904 |
| 91600 | Office Expenses | 3,384 | - | 3,384 |
| 91700 | Legal Expense | - | - | - |
| 91800 | Travel | 648 | - | 648 |
| 91810 | Allocated Overhead | - | - | - |
| 91900 | Other Operating - Administrative | 1,693 | - | 1,693 |
| 91000 | Total Operating - Administrative | <u>37,312</u> | <u>-</u> | <u>37,312</u> |
| 93100 | Water | 2,904 | - | 2,904 |
| 93200 | Electricity | 1,595 | - | 1,595 |
| 93300 | Gas | 863 | - | 863 |
| 93400 | Fuel | - | - | - |
| 93500 | Labor | - | - | - |
| 93600 | Sewer | 560 | - | 560 |
| 93000 | Total Utilities | <u>5,922</u> | <u>-</u> | <u>5,922</u> |
| 94100 | Ordinary Maintenance & Operation - Labor | 25,576 | - | 25,576 |
| | Ordinary Maintenance & Operation - Materials & | | | |
| 94200 | Other | 14,540 | - | 14,540 |
| 94300 | Ordinary Maintenance & Operation Contracts | 4,750 | - | 4,750 |
| | Employee Benefit Contributions - Ordinary | | | |
| 94500 | Maintenance | 2,598 | - | 2,598 |
| 94000 | Total Maintenance | <u>47,464</u> | <u>-</u> | <u>47,464</u> |
| 96110 | Property Insurance | 3,999 | - | 3,999 |
| 96120 | Liability Insurance | 3,174 | - | 3,174 |
| 96130 | Workmen's Compensation | 1,625 | - | 1,625 |
| 96140 | All Other Insurance | 2,299 | - | 2,299 |
| 96100 | Total Insurance Premiums | <u>11,097</u> | <u>-</u> | <u>11,097</u> |
| 96200 | Other General Expenses | 36,400 | - | 36,400 |
| 96210 | Compensated Absences | 2,815 | - | 2,815 |
| 96300 | Payment In Lieu of Taxes | 3,711 | - | 3,711 |
| 96400 | Bad Debt - Tenant Rents | - | - | - |
| 96000 | Total Other General | <u>42,926</u> | <u>-</u> | <u>42,926</u> |

See independent auditors' report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2010

Schedule II
Page 4 of 4

| Line Item Number | Description | Low Rent Public Housing Program 14.850 | Public Housing Capital Fund Program 14.872 | Total |
|---------------------|---|---|---|-------------------|
| 96900 | Total Operating Expenses | 144,721 | - | 144,721 |
| 97000 | Excess Operating Revenue Over Operating Expenses | (18,826) | 10,312 | (8,514) |
| 97100 | Extraordinary Maintenance | - | - | - |
| 97300 | Housing Assistance Payments | - | - | - |
| 97400 | Depreciation Expense | 16,756 | - | 16,756 |
| 97500 | Fraud Losses | - | - | - |
| 90000 | Total Expenses | <u>\$ 161,477</u> | <u>\$ -</u> | <u>\$ 161,477</u> |
| 10010 | Operating Transfers In | \$ - | \$ - | \$ - |
| 10020 | Operating Transfers Out | - | - | - |
| 10100 | Total Other Financing Sources (Uses) | - | - | - |
| 10000 | Excess (Deficiency) of Operating Revenue Over (Under) Expenses | (35,582) | 10,312 | (25,270) |
| 11030 | Beginning Equity | 214,573 | - | 214,573 |
| 11040-010 | Prior Period Adjustments and Correction of Errors | - | - | - |
| 11040-070 | Equity Transfers | - | - | - |
| 11040 | Prior period Adjustments, Equity Transfers and Correction of Errors | - | - | - |
| | Ending Equity (deficit) | <u>\$ 178,991</u> | <u>\$ 10,312</u> | <u>\$ 189,303</u> |
| 11190 | Unit Months Available | 240 | - | 240 |
| 11210 | Number of Unit Months Leased | 215 | - | 215 |
| 11650 | Leasehold Improvements | \$ - | \$ - | \$ - |

See independent auditors' report

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COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

**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**

Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico
and
Chairman and Board Members
Eunice Housing Authority
Eunice, New Mexico

We have audited the financial statements of the business-type activities of the Eunice Housing Authority (the “Authority”), a component unit of the City of Eunice, New Mexico (the “City”), as of and for the year ended June 30, 2010, which collectively comprise the Eunice Housing Authority’s basic financial statements as listed in the table of contents and have issued our report thereon dated March 21, 2011. We have also audited the budgetary comparisons presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2010 as listed in the table of contents. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures 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 Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses and other deficiencies that we considered to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS2010-2 and FS 2010-4 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item FS2007-1, FS2009-1 and FS2010-3 to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings FS 2009-2, FS 2009-3 FS 2010-1, FS 2010-2, FS 2010-5, FS 2010-6 and FS 2010-7.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the New Mexico Legislature, the New Mexico Department of Finance and Administration, the Office of the State Auditor, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
March 21, 2011

STATE OF NEW MEXICO
 City of Eunice Housing Authority
 A Component Unit of the City of Eunice
 Schedule of Findings and Responses
 For the Year Ended June 30, 2010

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

| | | |
|----|--|-------------------------------|
| 1. | Type of auditors’ report issued | Unqualified |
| 2. | Internal control over financial reporting: | |
| a. | Material weaknesses identified? | Yes |
| b. | Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. | Noncompliance material to the financial statements? | No |
| 3. | Summary of audit findings: | |
| a. | Current Year Audit Findings: | |
| | | Type of <u>Finding*</u> |
| | FS 2007-1 — Preparation of Financial Statements | B |
| | FS 2009-1 — Internal Controls/Segregation of Duties | B |
| | FS 2009-2 — Violation of Internal Control Policy | F |
| | FS 2010-1 — Insufficient Documentation on Credit Cards | D |
| | FS 2010-2 — Submission of Proposed Budget | B |
| | FS 2010-3 — Deficiencies in Internal Control Structure Design, Operation, and Oversight | A B |
| | FS 2010-4 — Stale Dated Checks | D |
| | FS 2010-5 — Capital Assets Threshold of Capitalization | D |
| | FS 2010-6 — Voided Checks | F |
| | FS 2010-7 — Late Audit Report | F |

* Legend for Type of Finding:

- A. Material Weakness in the Internal Control Structure Over Financial Reporting
- B. Significant Deficiency Related to the Internal Control Structure Over Financial Reporting
- C. Direct and Material Instance of Noncompliance
- D. Significant Instance of Noncompliance
- E. Immaterial Instance of Noncompliance
- F. Other Matters Involving the Internal Control Structure

STATE OF NEW MEXICO
 City of Eunice Housing Authority
 A Component Unit of the City of Eunice
 Schedule of Findings and Responses
 For the Year Ended June 30, 2010

SECTION I – SUMMARY OF AUDIT RESULTS (continued)

Financial Statements (continued):

b. Follow-up on Prior-Year Audit Findings:

| | <u>Type of Finding*</u> | <u>Status of Prior Year Findings**</u> |
|---|---------------------------------|--|
| FS 2007-1 — Preparation of Financial Statements | B | RM |
| FS 2008-3 — Missing I-9 Forms | E | R |
| FS 2009-1 — Internal Controls/Segregation of Duties | B | RM |
| FS 2009-2 — Violation of Internal Control Policy | F | RM |

* Legend for Type of Finding:

- A. Material Weakness in the Internal Control Structure Over Financial Reporting
- B. Significant Deficiency Related to the Internal Control Structure Over Financial Reporting
- C. Direct and Material Instance of Noncompliance
- D. Significant Instance of Noncompliance
- E. Immaterial Instance of Noncompliance
- F. Other Matters Involving the Internal Control Structure

** Legend for Status of Prior Year Findings

- R. Resolved
- RM. Repeated and modified

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2007-1: Preparation of Financial Statements

Condition

The financial statements and related disclosures are not being prepared by the Agency.

Criteria

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems include controls over financial statement preparation, including footnote disclosures.

Effect

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

Cause

The Agency's personnel do not have the time and have not been adequately trained in understanding the elements of external financial reporting, including the preparation of financial statements and related footnote disclosures.

Recommendation

We recommend the Agency's management and personnel receive training on understanding the requirements of external financial reporting.

The training should include, but not be limited to:

- Selection of appropriate accounting policies:
 - Governmental Accounting Standards Board (GASB)
 - Generally Accepted Accounting Principles (specifically as applied to governmental units)
 - Financial Accounting Standards Board (FASB)
- Understanding the financial reporting entity
- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information
 - Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor

In addition, we recommend that the Agency develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Agency Response

The Eunice Housing Authority will be working closer with the housing's fee accountant in order to reach a better understanding of the requirements of external financial reporting. The EHA will be implementing policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2009-1: Internal Controls/Segregation of Duties

Condition

The Agency is lacking adequate internal controls over its accounting processes. During review of internal control procedures, we noted that the secretary has the ability to receive rent payments, record payments, prepare deposits, make deposits, and process tenant calls and complaints. The secretary also has the ability to prepare checks, sign checks as a second signature and mail checks.

Criteria

Systems of internal control with the most favorable designs allow for an adequate segregation of duties to reduce the risk of error or fraud because they are structured using a combination of controls designed to either detect instances of error or fraud that occur, or optimally, to prevent instances of error or fraud before they occur. (AU 325) Section 6-5-2, NMSA 1978, requires that state agencies shall implement internal control accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters.

Effect

The Agency's books or records may be at risk of containing misstatements, as errors may occur and may not be detected within a timely manner. Insufficient controls over receipts creates an opportunity/incentive for misappropriation of funds.

Cause

The Agency has only two employees, accordingly, a proper segregation of duties is not possible.

Recommendation

Proper segregation is not always possible in a small organization. We recommend that the "Board" provide extensive oversight, and implement limited segregation to the extent possible to reduce the risk of errors or fraud.

Agency Response

The Eunice Housing Authority Board approves the bills at each board meeting and the chairman initials each invoice. Copies of all checks and invoices are made and shown to the board. The secretary signs a check only when the ED or Chairman are not available. The board will be shown all rent receipts issued and deposits made to the bank. Copies will be made of both receipts and deposits. Chairman will initial both.

FS 2009-2: Violation of Internal Control Policy

Condition

During our testwork, we noted that the housing authority is not following their internal control policy in the following ways:

- The bookkeeper has the ability to sign checks for the Agency.
- The Housing Authority accepts cash from certain tenants.

Criteria

Per Check Signing Authorization Policy of the Agency, "The City of Eunice Housing Authority hereby establishes a policy that identifies those people who are authorized to sign and issue checks on its behalf. The purpose of the policy is to update instructions to depositories so that there is a clear understanding regarding this important matter. It's also necessary to implement appropriate internal controls over our financial matters." Following is the policy for issuing and signing checks:

1. All checks shall bear two signatures, one of which must be a Commissioner of the City of Eunice Housing Authority.
2. The second signature must be that of either the Executive Director or the Director of Finance.

Per the Eunice Public Housing Authority Internal Control Policy, "No Cash will be accepted for the payment of rent. All tenants shall be required to pay by check or money order."

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2009-2: Violation of Internal Control Policy (continued)

Effect

The Agency is circumventing their own internal controls and the potential for fraud or material misstatement is present.

Cause

The Agency has not placed the appropriate emphasis on adherence to their own control policies.

Recommendation

We recommend that the Agency follow their own internal control and check writing policies.

Agency Response

The EHA will no longer make any exceptions to receiving cash from certain tenants.

FS 2010-1: Insufficient Documentation on Credit Cards

Condition

During our testwork we noted the following:

- Of the \$859.60 tested, 1 payment was missing a receipt or other supporting documentation totaling \$244.19

Criteria

New Mexico Procurement Code 13-1-1 to 13-1-99, NMSA 1978, states that payments must be supported by valid receipts and that payment may only be made for valid charges.

Effect

The Authority may be paying for unallowable expenses. Inconsistent monitoring of compliance with requirements could result in abuse or fraud.

Cause

Employees are turning in meal receipts that do not have adequate detail and the Authority is paying credit card charges without obtaining the corresponding receipts for charges.

Recommendation

We recommend that the Authority require credit card holders to turn in receipts as charges are incurred. In the case of an occasional lost receipt, have the credit card holder sign and date an explanation as to the amount of the charge as well as the purpose of the charge.

Agency Response

The EHA will have the appropriate documentation needed to be compliance with the NM Procurement Code 13-1-1 to 13-1-99 NMSA 1978.

FS 2010-2: Submission of Proposed Budget

Condition

The Housing Authority failed to submit its proposed budget for the 2010 fiscal year to DFA by June 1, 2009.

Criteria

Section 6-6-2A, NMSA 1978, requires each local public body to furnish and file with the local government division, on or before June 1 of each year, a proposed budget for the next fiscal year.

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2010-2: Submission of Proposed Budget (continued)

Effect

The Housing Authority is in violation of Section 6-6-2A, NMSA 1978.

Cause

The Housing Authority was not aware of the requirement to submit the proposed budget to DFA as well as to HUD.

Auditors' Recommendation

We recommend that the Authority file their proposed budgets as required by state statutes.

Agency's Response

The EHA is now aware of the requirement to submit the proposed budget to DFA and will be filing our budgets as required by state statutes.

FS 2010-3: Deficiencies in Internal Control Structure Design, Operation, and Oversight

Condition

The Housing Authority does not have a comprehensive documented internal control structure. The internal control structure should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. Also, controls in certain specific areas are not operating as designed. These include:

- There is not a fraud risk assessment done at the Housing Authority
- There is inadequate segregation of duties.

Criteria

As required by NMSA 1978 Section 6-6-3, the Housing Authority should design and maintain an internal control structure that enables it to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Under SAS 112, the internal control and financial reporting process should have adequate oversight provided by the body charged with governance.

Effect

Because there is not an adequate internal control structure or oversight by the governing body, complete and accurate financial data cannot be verified, assets are not properly safeguarded, reconciliations are not performed, or at a minimum not performed on a timely basis, and adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause

For the fiscal year 2010 management, the body charged with governance, and staff did not have expertise and/or training to implement an adequate internal control structure.

Auditors' Recommendation

The Housing Authority should ensure that a comprehensive internal control structure is designed, documented and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. Additionally, the Housing Authority management should give annual consideration to how fraud might occur in their organization, develop procedures to address fraud risk and document those risks and procedures.

Agency's Response

The housing authority is small. There is only 1 office personnel to perform duties. Fee accountant oversees all work performed in the office on a monthly basis. Copies of all paperwork such as rent receipts, rent registers, deposits, draw downs of grant

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2010-3: Deficiencies in Internal Control Structure Design, Operation, and Oversight (continued)

funding, copies of checks, bank statements, etc. are sent to the fee accountant on a monthly basis. This helps to alleviate any risks that could occur.

FS 2010-4: Stale Dated Checks

Condition

The Authority is in violation of state statute regarding stale dated checks. In the Public Housing operating account, the Authority has 2 checks at June 30, 2010 that are over one year old. They are written in the amounts \$128.31 and \$33.11.

Criteria

New Mexico Statutes, Section 6-10-57, NMSA, 1978 compilation requires local public bodies to cancel or void any check that is unpaid for one year after it is written.

Effect

The Authority is in violation of New Mexico Statute, Section 6-10-57, NMSA, 1978. Also, the Authority's cash balances are not accurately reflected as a result of stale-dated checks appearing on the outstanding check listings.

Cause

The Authority was unaware of the requirement to escheat these checks to the State.

Auditors' Recommendation

We recommend that the Authority implement a procedure to review the outstanding check listings for all bank accounts and track stale-dated checks. If checks on the outstanding check listings are greater than one year old we recommend these checks be voided and escheated to the State.

Agency's Response

The EHA will review the outstanding check listings for all bank accounts closer. Any checks greater than one year old will be voided and escheated to the state.

FS 2010-5— Capital Assets Threshold for Capitalization

Condition

During our audit we noted the Housing Authority has implemented a \$5,000 limit for capitalization of capital assets, however has not been following this policy.

Criteria

According to the State Audit Rule Section 2.2.2.10 Y, "The Audit Act (12-6-10, NMSA 1978) requires agencies to capitalize only chattels and equipment that cost over \$5,000. All agencies should update their capitalization policies in accordance with the law. The State Auditor still encourages agencies to maintain a separate accountability report of those items that cost \$5,000 or less, for asset safeguarding and management purposes."

Effect

There are more assets included on the capital assets listing than are allowed by the State's capitalization policy. While not material to the financial statements, in continuing with this capitalization policy the Authority is overstating its capital assets and depreciation expense while understating actual expenses because the expenses are being capitalized rather than expensed.

Cause

The Authority has not updated its capitalization policy to reflect the State Auditor requirement that does not allow for capitalization thresholds which are more restrictive than the applicable law.

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2010-5— Capital Assets Threshold for Capitalization (continued)

Auditors' Recommendation

We recommend that the Authority maintain capital assets records and record depreciation only for those assets with a cost in excess of \$5,000. For accountability purposes, the Authority should continue to track assets in accordance with the existing policy, although these assets should not be included in the capital assets reported on the financial statements.

Agency Response

Will be working with fee accountants to update the capital assets records and record depreciation.

FS 2010-6: Voided Checks

Criteria

When it is necessary to void a check, the check should be voided both physically and in the accounting system.

Condition

During testwork over voided checks, the auditor noted fourteen checks that had been physically voided, listed on the reconciliation and retained by the Authority. However, five of these checks were not included in the accounting system.

Effect

Expenses were overstated, by the amount of the improperly voided checks.

Cause

The checks were not voided by the fee accountant or by management.

Auditors' Recommendation

We recommend that the Authority develop procedures for the handling of voided checks in the accounting system, in addition to the existing controls over the physical process of voiding checks.

Agency's Response

All voided checks will be listed in the general ledger. This will be addressed to our fee accountants.

FS 2010-07 Late Audit Report

Condition:

The Housing Authority's June 30, 2010 audit report was submitted to the Office of the State Auditor by the due date of December 1, 2010. However, it was not accepted by the Office of the State Auditor as originally submitted.

Criteria:

New Mexico State Auditor Rule 2.2.2 NMAC Section 2.2.2.9 (A) (g) requires that the audit report be filed no later than 5 months after fiscal year-end.

Effect:

Additional state and federal reporting requirements could be delayed until the report is approved by the Office of the State Auditor.

Cause:

Due to differences in interpreting reporting requirements between the auditor and the Office of the State Auditor, the report was considered not timely filed.

SECTION II – FINANCIAL STATEMENT FINDINGS

FS 2010-07 Late Audit Report (continued)

Recommendation:

The auditors will submit the report sooner so that disagreements can be resolved prior to the deadline.

Agency's Response:

The Eunice Housing Authority will work on a timely basis in order to submit the audit report by the due date of December 1st.

SECTION III –PRIOR YEAR AUDIT FINDINGS

FSHA 2007-1: Preparation of Financial Statements – REPEATED

FSHA 2008-3: Missing I-9 Forms - RESOLVED

FSHA 2009-1: Internal Controls/Segregation of Duties – REPEATED AND MODIFIED

FSHA 2009-2: Violation of Internal Control Policy – REPEATED AND MODIFIED

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Other Disclosures
For the Year Ended June 30, 2010

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Although it would be preferred and desirable for the Authority to prepare its own GAAP-basis financial statements, it is felt that the Authority's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

B. EXIT CONFERENCE

The contents of this report were discussed on March 23, 2011. The following individuals were in attendance.

Eunice Housing Authority Officials

David Reed, Executive Director
Allen Pickerel, Chairman

Accounting and Consulting Group, LLP

James Hartogenesis, Manager



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