

**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, 2011**

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
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June 30, 2011

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Official Roster
For the Year Ended June 30, 2011

Board of Directors

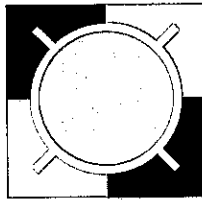
Allen Pickerel	Chairman
George Goforth	Board Member
Newman Shanks	Board Member
Bill Robinson	Board Member

Administrative Official

David Reed	Executive Director
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FINANCIAL SECTION



Accounting & Consulting Group, LLP

INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Chairman and Board Members of
City of Eunice Housing Authority
Eunice, New Mexico

We have audited the accompanying financial statements of the business-type activities of the City of 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, 2011, which collectively comprise the 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, 2011 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 Authority'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Eunice Housing Authority as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, 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 budget comparison referred to above presents fairly, in all material respects, the respective budgetary comparison for the year then ended in conformity with the cash basis of accounting and more fully described in Note 1 to the financial statements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Certified Public Accountants

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Alamogordo □ Albuquerque □ Carlsbad □ Clovis

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements and the budgetary comparisons. 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 of the Authority. 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants

Clovis, New Mexico
November 30, 2011

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
 City of Eunice Housing Authority
 A Component Unit of the City of Eunice
 Statement of Net Assets
 June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$	70,672
Accounts receivable - tenants		37
Inventory		965
Prepaid expenses		<u>3,644</u>
<i>Total current assets</i>		<u>75,318</u>

Restricted assets:

Cash - tenant deposits		<u>2,725</u>
<i>Total restricted assets</i>		<u>2,725</u>

Noncurrent Assets:

Capital assets

Land		20,392
Buildings and improvements		567,389
Machinery and equipment		56,350
Vehicles		17,390
Capital funds project assets		21,669
Less: accumulated depreciation		<u>(585,430)</u>

Total capital assets (net of accumulated depreciation)

97,760

Total assets

\$ 175,803

LIABILITIES AND NET ASSETS*Current liabilities:*

Accounts payable-suppliers	\$ 1,520
Accounts payable-other	595
Accrued expenses	1,068
Prepaid tenant rents	4
Compensated absences, current portion	<u>2,000</u>

Total current liabilities 5,187

Non-current liabilities:

Tenant deposits	2,600
Compensated absences, long-term portion	<u>2,859</u>

Total non-current liabilities 5,459

Total liabilities 10,646

Net assets:

Invested in capital assets, net of related debt	97,760
Unrestricted	<u>67,397</u>

Total net assets 165,157

Total liabilities and net assets \$ 175,803

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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, 2011

Exhibit A-2

<i>Operating revenues:</i>	
Intergovernmental	\$ 16,488
Charges for services	44,932
Miscellaneous	<u>1,229</u>
<i>Total operating revenues</i>	<u>62,649</u>
 <i>Operating expenses:</i>	
Administration	43,117
Sundry administration	5,655
Utilities	6,546
Ordinary maintenance	26,544
Contract costs	4,730
Insurance	10,135
Other general expenses	8,002
Depreciation	<u>13,917</u>
<i>Total operating expenses</i>	<u>118,646</u>
<i>Operating income (loss)</i>	<u>(55,997)</u>
 <i>Non-operating revenues (expenses):</i>	
Intergovernmental	66,791
Capital funds project costs	<u>(34,940)</u>
<i>Total non-operating revenues (expenses)</i>	<u>31,851</u>
<i>Change in net assets</i>	<u>(24,146)</u>
<i>Total net assets - beginning of year</i>	<u>189,303</u>
<i>Total net assets - end of year</i>	<u><u>\$ 165,157</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, 2011

<i>Cash flows from operating activities:</i>	
Receipts from customers, users and grantors	\$ 62,591
Cash payments to suppliers for goods and services	(60,781)
Cash payments to employees for services	<u>(42,371)</u>
<i>Net cash provided (used) by operating activities</i>	<u>(40,561)</u>
 <i>Cash flows from capital and related financing activities:</i>	
Proceeds from capital grant programs	66,791
Capital funds project costs	<u>(34,940)</u>
<i>Net cash provided (used) by capital and related financing activities</i>	<u>31,851</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(8,710)
<i>Cash and cash equivalents - beginning of year</i>	<u>82,107</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>\$ 73,397</u></u>

The accompanying notes are an integral part of these financial statements

<i>Reconciliation of operating income (loss) to</i>	
<i>net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (55,997)
Adjustments to reconcile operating (loss) to net cash provided	
(used) by operating activities:	
Depreciation expense	13,917
Decrease (increase) in:	
Accounts receivable - tenants	(37)
Inventory	407
Prepaid expenses	33
Increase (decrease) in:	
Accounts payable - suppliers	(204)
Accounts payable - other	595
Accrued expenses	(985)
Prepaid tenant rents	4
Accrued compensated absences	1,731
Refundable tenant deposits	(25)
	<hr/>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ (40,561)</u></u>

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eunice Housing Authority (Authority) was organized February 28, 1967. The Cooperative Agreement between the City of Eunice and the Housing Authority was entered into February 28, 1967. The Authority has an elected Chairman, four member council and a resident member (vacant during current year). The Authority manages one lower rent public housing development containing 20 total units. The City of Eunice agreed to operate and maintain the Housing Authority in accordance with the requirements of the United States Department of Housing and Urban Development (HUD).

The primary goal of the Low Income Housing Fund 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 and operation of a Low Income Housing Fund 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 (GAAP) as applied to governmental units. 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, 2011. 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. Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance in the government wide financial statements. The more significant of the Authority's accounting policies are described below.

The Authority reports the following quantitatively major enterprise funds:

- **Low Income Housing Fund 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.
- **Public Housing Capital Fund Program** – This program is funded by HUD and is for the purpose of upgrading existing rental properties.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14 and 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 used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or 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, it is a component unit of the City of Eunice, New Mexico.

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 Statement of Net Assets. 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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting and Measurement Focus (continued)

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, if any, 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 annual contributions 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 revenue in the accompanying financial statements, except for annual debt service contributions, which are recorded as nonoperating revenues. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 of America. 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 Authority 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

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deposits and Investments (continued)

- 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 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.

Pursuant to Section 6-10-10.1 NMSA 1978, as amended, if the Authority 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 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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Restricted Assets

Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Inventories

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 Items

Certain payments to vendors for items that include insurance reflect costs to future accounting periods and are recorded as prepaid items in the Authority's 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 \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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 Authority's capital assets reported in the basic financial statements. Donated capital assets are recorded at estimated fair market value at the date of donation. Information technology equipment, including software, is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5).

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

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

Property, plant and equipment of the Authority are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40 years
Machinery and equipment	5 – 10 years
Vehicles	5 – 10 years

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

Authority employees are entitled to certain compensated absences based on their employment classification and length of employment. With minor exceptions, the Authority 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; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets: debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net assets consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

Unrestricted and Restricted Revenues

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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Unrestricted and Restricted Revenues (continued)

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 use, it is the Authority'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 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.

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. Accordingly, actual results could differ from those estimates. Significant estimates in the Authority's financial statements consist of depreciation and estimated useful lives of capital assets.

Inter-fund Transactions

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund from expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
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.

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, 2011.

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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (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. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts in all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts

Through July 20, 2011, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's policy regarding types of deposits allowed and collateral requirements is to deposit monies in compliance with state statute. New Mexico State Statutes require 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. As of June 30, 2011, \$-0- of the Authority's deposits of \$74,240 was exposed to custodial credit risk. \$-0- was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Authority's name and \$-0- was uninsured and uncollateralized.

Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation states the types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

	Wells Fargo
Year ended June 30, 2011	
Total amount of deposits	\$ 74,240
FDIC Coverage	(74,240)
Total uninsured public funds	-
Collateralized by securities held by the pledging institution or by its trust department or agent in other than the Authority's name	-
Uninsured and uncollateralized	\$ -
Collateral requirement (50% of uninsured public funds)	\$ -
Pledged securities	-
Over (under) collateralization	\$ -

STATE OF NEW MEXICO
 City of Eunice Housing Authority
 A Component Unit of the City of Eunice
 Notes to the Financial Statements
 June 30, 2011

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to the 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	\$	70,672
Restricted cash and cash equivalents per Exhibit A-1		<u>2,725</u>
 Total Cash and cash equivalents per Exhibit A-1		 73,397
 Add: outstanding checks and other reconciling items		 1,018
Less: petty cash		(50)
Less: deposits in transit and other reconciling items		<u>(125)</u>
 Bank balance of deposits	 \$	 <u><u>74,240</u></u>

NOTE 3. RECEIVABLES AND PAYABLES

Receivables as of June 30, 2011, are as follows:

	Low Income Housing Fund	Public Housing	Total
Tenants	<u>\$ 37</u>	<u>\$ -</u>	<u>\$ 37</u>

Accounts payable and accrued expenses as of June 30, 2011, are as follows:

Payable to suppliers	\$	1,520
Payable to vendors		595
Payable to and on behalf of employees		<u>1,068</u>
Total accounts payable and accrued expenses	\$	<u><u>3,183</u></u>

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 4. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2011 follows. Land and construction in process are not subject to depreciation.

	Balance June 30, 2010	Additions and Transfers in	Deletions and Transfers out	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 20,392	\$ -	\$ -	\$ 20,392
Total capital assets not being depreciated	<u>20,392</u>	<u>-</u>	<u>-</u>	<u>20,392</u>
Capital assets being depreciated:				
Buildings and improvements	567,389	-	-	567,389
Machinery and equipment	56,350	-	-	56,350
Vehicles	17,390	-	-	17,390
Capital funds project	21,669	-	-	21,669
Total capital assets being depreciated	<u>662,798</u>	<u>-</u>	<u>-</u>	<u>662,798</u>
Total capital assets	<u>683,190</u>	<u>-</u>	<u>-</u>	<u>683,190</u>
Less accumulated depreciation:				
Buildings and improvements	555,176	9,924	-	565,100
Machinery and equipment	-	-	-	-
Vehicles	13,912	3,478	-	17,390
Capital funds project	2,425	515	-	2,940
Total accumulated depreciation	<u>571,513</u>	<u>13,917</u>	<u>-</u>	<u>585,430</u>
Total capital assets, net of depreciation	<u>\$ 111,677</u>	<u>\$ (13,917)</u>	<u>\$ -</u>	<u>\$ 97,760</u>

The Authority has continued to maintain the cost of its buildings and equipment and update its depreciation schedule as information becomes available. Depreciation expense for the year ended June 30, 2011, totaled \$13,917.

NOTE 5. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2011.

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Compensated absences	<u>\$ 3,584</u>	<u>\$ 2,400</u>	<u>\$ 1,125</u>	<u>\$ 4,859</u>	<u>\$ 2,000</u>

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 6. 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 7. RISK MANAGEMENT

The 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 8. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PENSION PLAN

The Authority has not elected to participate in the Public Employees Retirement Act plan and there are no required contributions for fiscal year ending June 30, 2011.

NOTE 9. POST-EMPLOYMENT BENEFITS

The Authority has elected not to participate in the New Mexico Retiree Health Care Fund and there are no required contributions for fiscal year ending June 30, 2011.

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.

NOTE 11. CAPITAL FUNDS PROJECT

During the year under audit, Capital Funds Project NM02P027501-08 and the American Recovery and Reinvestment Act of 2009 Project NM02S027501-09 were completely expended and closed out.

NOTE 12. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 30, 2011 which is the date on which the financial statements were available to be issued.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2011

NOTE 13. SUBSEQUENT PRONOUNCEMENTS

In November 2010, GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, Effective Date: For financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority is still evaluating the possible effects of this standard.

In November 2010, GASB Statement No. 61 *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the Authority in upcoming years.

In December 2010, GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority will implement this standard during fiscal year June 30, 2013.

In June 2011, GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the Authority in upcoming years.

In June 2011, GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, Effective Date: The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the Authority in upcoming years.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Low Rent Public Housing Program
Statement of Revenues, Expenses and Changes in
Net Assets - Budget (Non-GAAP Budgetary Basis) and Actual
For the Year Ended June 30, 2011

Statement A-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Intergovernmental	\$ 32,249	\$ 32,249	\$ 16,488	\$ (15,761)
Charges for services	43,100	43,100	44,932	1,832
Miscellaneous	500	500	1,229	729
<i>Total operating revenues</i>	75,849	75,849	62,649	(13,200)
<i>Operating expenses:</i>				
Administration	38,186	38,186	43,117	(4,931)
Sundry administration	6,800	6,800	5,655	1,145
Utilities	7,050	7,050	6,546	504
Ordinary maintenance	37,000	37,000	26,544	10,456
Contracts costs	4,550	4,550	4,730	(180)
Insurance	12,450	12,450	10,135	2,315
Other general expense	4,610	4,610	8,002	(3,392)
<i>Total operating expenses</i>	110,646	110,646	104,729	5,917
<i>Operating income (loss)</i>	(34,797)	(34,797)	(42,080)	(7,283)
<i>Non-operating revenues (expenses):</i>				
Intergovernmental	10,500	10,500	66,791	56,291
Indirect costs	-	-	(33,985)	(33,985)
<i>Total non-operating revenues (expenses)</i>	10,500	10,500	32,806	22,306
Designated cash (budgeted increase in cash)	24,297	24,297	-	(24,297)
<i>Change in net assets</i>	\$ -	\$ -	(9,274)	\$ (9,274)
<i>Revenues (expenses) not budgeted:</i>				
Depreciation			(14,872)	
<i>Change in net assets per Exhibit A-2</i>			(24,146)	
<i>Total net assets, beginning of year</i>			189,303	
<i>Total net assets, end of year</i>			\$ 165,157	

The accompanying notes are an integral part of these financial statements

SUPPORTING SCHEDULES

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, 2011

Schedule I

Bank Name	Account umber	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Wells Fargo Bank					
General fund	1103416607	\$ 46,453	\$ 125	\$ 1,018	\$ 45,560
Tenant deposits	6173531283	2,725	-	-	2,725
Certificate of deposi	3266083439	10,025	-	-	10,025
Certificate of deposi	3266083421	15,037	-	-	15,037
Total cash in bank		<u>\$ 74,240</u>	<u>\$ 125</u>	<u>\$ 1,018</u>	<u>\$ 73,347</u>

Statement of Net Assets (Exhibit A-1):

Cash and cash equivalents	\$ 70,672
Restricted cash and cash equivalents	2,725
less: petty cash	<u>(50)</u>
Total cash and cash equivalents	<u>\$ 73,347</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2011

Schedule II
Page 1 of 4

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
111	Cash - unrestricted	\$ 70,672	\$ -	\$ 70,672
114.5	Cash - tenant security deposits	2,725	-	2,725
100	Total cash	<u>73,397</u>	<u>-</u>	<u>73,397</u>
126	Accounts receivable - tenants - dwelling rents	37	-	37
120	Total receivables, net of allowance for doubtful accounts	<u>37</u>	<u>-</u>	<u>37</u>
142	Prepaid expenses and other assets	3,644	-	3,644
143	Inventories	965	-	965
150	Total current assets	<u>78,043</u>	<u>-</u>	<u>78,043</u>
161	Land	20,392	-	20,392
162	Buildings	567,389	21,669	589,058
163	Furniture, equipment and machinery - dwellings	73,740	-	73,740
166	Accumulated depreciation	<u>(582,490)</u>	<u>(2,940)</u>	<u>(585,430)</u>
160	Total capital assets, net of accumulated depreciation	<u>79,031</u>	<u>18,729</u>	<u>97,760</u>
180	Total non-current assets	<u>79,031</u>	<u>18,729</u>	<u>97,760</u>
190	Total assets	<u>\$ 157,074</u>	<u>\$ 18,729</u>	<u>\$ 175,803</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2011

Schedule II
Page 2 of 4

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
312	Accounts payable <= 90 days	\$ 1,520	\$ -	\$ 1,520
321	Accrued wage/payroll taxes payable	1,068	-	1,068
322	Accrued compensated absences - current portion	2,000	-	2,000
341	Tenant security deposits	2,600	-	2,600
342	Deferred revenues	4	-	4
345	Other current liabilities	595	-	595
310	Total current liabilities	<u>7,787</u>	<u>-</u>	<u>7,787</u>
354	Accrued compensated absences - non-current	2,859	-	2,859
350	Total non-current liabilities	<u>2,859</u>	<u>-</u>	<u>2,859</u>
300	Total liabilities	<u>10,646</u>	<u>-</u>	<u>10,646</u>
508.1	Invested in capital assets, net of related debt	79,031	18,729	97,760
511	Restricted net assets	2,600	-	2,600
512.1	Unrestricted net assets	64,797	-	64,797
513	Total equity/net assets	<u>146,428</u>	<u>18,729</u>	<u>165,157</u>
600	Total liabilities and equity/net assets	<u>\$ 157,074</u>	<u>\$ 18,729</u>	<u>\$ 175,803</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2011

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	\$ 44,932	\$ -	\$ 44,932
70500	Total tenant revenue	<u>44,932</u>	<u>-</u>	<u>44,932</u>
70600	HUD PHA operating grants	16,488	-	16,488
70610	Capital grants	-	66,791	66,791
71500	Other revenue	1,229	-	1,229
70000	Total revenue	<u>62,649</u>	<u>66,791</u>	<u>129,440</u>
91100	Administrative salaries	27,686	-	27,686
91200	Accounting fees	10,165	-	10,165
91310	Bookkeeping fees	2,274	-	2,274
91500	Employee benefit contributions - administrative	2,667	-	2,667
91600	Office expenses	3,045	-	3,045
91800	Travel	100	-	100
91900	Other operating - administrative	2,646	-	2,646
91000	Total operating - administrative	<u>48,583</u>	<u>-</u>	<u>48,583</u>
93100	Water	3,236	-	3,236
93200	Electricity	1,826	-	1,826
93300	Gas	878	-	878
93600	Sewer	606	-	606
93000	Total utilities	<u>6,546</u>	<u>-</u>	<u>6,546</u>
94100	Ordinary maintenance and operation - labor	16,091	-	16,091
94200	Ordinary maintenance and operation - materials and other	10,453	-	10,453
94300	Ordinary maintenance and operation contracts	4,730	-	4,730
94500	Employee benefit contributions - ordinary Maintenance	1,496	-	1,496
94000	Total maintenance	<u>32,770</u>	<u>-</u>	<u>32,770</u>
96110	Property insurance	2,609	-	2,609
96120	Liability insurance	3,233	-	3,233
96130	Workmen's compensation	2,642	-	2,642
96140	All other insurance	1,651	-	1,651
96100	Total insurance premiums	<u>10,135</u>	<u>-</u>	<u>10,135</u>
96200	Other general expenses	-	34,940	34,940
96210	Compensated absences	2,856	-	2,856
96300	Payment in lieu of taxes	3,839	-	3,839
96000	Total other general	<u>6,695</u>	<u>34,940</u>	<u>41,635</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2011

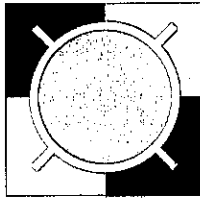
Schedule II
Page 4 of 4

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
96900	Total operating expenses	104,729	34,940	139,669
97000	Excess operating revenue over operating expenses	(42,080)	31,851	(10,229)
97400	Depreciation expense	13,402	515	13,917
90000	Total expenses	<u>\$ 118,131</u>	<u>\$ 35,455</u>	<u>\$ 153,586</u>
10010	Operating transfers in	\$ 34,277	\$ -	\$ 34,277
10020	Operating transfers out	<u>-</u>	<u>(34,277)</u>	<u>(34,277)</u>
10100	Total other financing sources (uses)	<u>34,277</u>	<u>(34,277)</u>	<u>-</u>
10000	Excess (deficiency) of operating revenue over (under) expenses	(21,205)	(2,941)	(24,146)
11030	Beginning equity	<u>167,633</u>	<u>21,670</u>	<u>189,303</u>
	Ending equity (deficit)	<u>\$ 146,428</u>	<u>\$ 18,729</u>	<u>\$ 165,157</u>
11190	Unit months available	<u>240</u>	<u>-</u>	<u>240</u>
11210	umber of unit months lease	<u>238</u>	<u>-</u>	<u>238</u>
11650	Leasehold improvements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report

COMPLIANCE SECTION

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Accounting & Consulting Group, LLP

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
The Office of Management and Budget and
Chairman and Board Members of
City of Eunice Housing Authority
Eunice, New Mexico

We have audited the financial statements of the business-type activities of the City of Eunice Housing Authority (Authority), a component unit of the City of Eunice, New Mexico (City), as of and for the year ended June 30, 2011, which collectively comprise the City of Eunice Housing Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated November 30, 2011. 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 to be material weaknesses and other deficiencies that we consider 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 deficiency described in the accompanying schedule of findings and responses as item FSHA 2010-3 to be a material weakness.

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 items FSHA 2007-1, FSHA 2009-1, FSHA 2009-2 and FSHA 2010-4 to be significant deficiencies.

Certified Public Accountants

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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*.

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 them.

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, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants

Clovis, New Mexico
November 30, 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, 2011

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

1. Type of auditor’s 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	B
FS 2010-3 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A
FS 2010-4 — Stale Dated Checks	B

* 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, 2011

SECTION I – SUMMARY OF AUDIT RESULTS (continued)

Financial Statements (continued):

3. Summary of audit findings (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 2009-1 — Internal Controls/Segregation of Duties	B	RM
FS 2009-2 — Violation of Internal Control Policy	B	RM
FS 2010-1 — Insufficient Documentation on Credit Cards	B	R
FS 2010-2 — Submission of Proposed Budget	B	R
FS 2010-3 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A	RM
FS 2010-4 — Stale Dated Checks	B	RM
FS 2010-5 — Capital Assets Threshold of Capitalization	B	R
FS 2010-6 — Voided Checks	B	R
FS 2010-7 — Late Audit Report	F	R

* 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 – Significant Deficiency

Condition

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

Criteria

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 115, 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 Authority'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.

Auditor's Recommendation

We recommend the Authority'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 Authority develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Views of Responsible Officials and Planned Corrective Actions

The Eunice Housing Authority (EHA) 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 – Significant Deficiency

Condition

The Authority 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 and 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 Authority'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 the receipting process create an opportunity/incentive for misappropriation of funds.

Cause

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

Auditor's 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.

Views of Responsible Officials and Planned Corrective Actions

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 Executive Director or Chairman is 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 – Significant Deficiency

Condition

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

- The Housing Authority accepts cash from certain tenants.

Criteria

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 (continued)

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

Effect

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

Cause

The Authority has not placed the appropriate emphasis on adherence to its own control policies.

Auditor's Recommendation

We recommend that the Authority follow its own internal control policies.

Views of Responsible Officials and Planned Corrective Actions

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

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

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 115, 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 2011 management, the body charged with governance, and staff did not have expertise and/or training to implement an adequate internal control structure.

Auditor's 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 and develop procedures to address fraud risk and document those risks and procedures.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

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

Views of Responsible Officials and Planned Corrective Actions

The housing authority is small. There is only 1 office person 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 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 – Significant Deficiency

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, 2011 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.

Auditor's 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.

Views of Responsible Officials and Planned Corrective Actions

The EHA will review the outstanding check listings for all bank accounts to determine if check has been cleared, lost or voided. Any checks greater than one year old that have not cleared the bank, Authority has been notified as lost or voided, will be removed from listing and escheated to the state. Prior to submission of this report, the Authority researched the two checks listed above and determined that one had cleared and not been removed from listing by fee accountant and the other had been voided and replaced. This information has been provided to fee accountant and these checks have been removed from outstanding check listing.

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, 2011

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. The responsibility for the financial statements remains with the Authority.

B. EXIT CONFERENCE

The contents of this report for the City of Eunice Housing Authority were discussed on November 30, 2011. The following individuals were in attendance.

City of Eunice Housing Authority Officials

David Reed, Executive Director
Allen Pickerel, Chairman

Accounting and Consulting Group, LLP

Cindy Bryan