

**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, 2012**

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
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June 30, 2012

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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, 2012

Board of Directors

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

Administrative Official

David Reed	Executive Director (Retired 6/30/12)
Sonja Gallegos	Executive Director (As of 7/1/12)

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FINANCIAL SECTION

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Accounting & Consulting Group, LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas
New Mexico State Auditor
Chairman and Board Members and
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, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the funds for the year ended June 30, 2012 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 respective financial position of the business-type activities of the City of Eunice Housing Authority as of June 30, 2012, 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 comparisons referred to above present fairly, in all material respects, the respective budgetary comparisons 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012, 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 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.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on it.

Accounting + Consulting Group, LLP

Accounting & Consulting Group, LLP
Certified Public Accountants
Clovis, New Mexico
November 5, 2012

**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, 2012

Exhibit A-1

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 90,096	\$ -	\$ 90,096
Accounts receivable - CFP grants (Note 3)	-	445	445
Accounts receivable - other	2	-	2
Inventory	864	-	864
Prepaid expenses	3,561	-	3,561
<i>Total current assets</i>	94,523	445	94,968
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents	2,800	-	2,800
Capital assets (Note 4)	683,189	-	683,189
Accumulated depreciation (Note 4)	(595,432)	-	(595,432)
<i>Total assets</i>	\$ 185,080	\$ 445	\$ 185,525
LIABILITIES AND NET ASSETS			
<i>Current liabilities:</i>			
Accounts payable (Note 3)	\$ 1,094	\$ -	\$ 1,094
Accrued payroll (Note 3)	760	-	760
Current portion - compensated absences (Note 5)	832	-	832
Other current liabilities	264	-	264
<i>Total current liabilities</i>	2,950	-	2,950
<i>Current liabilities (payable from restricted assets):</i>			
Tenant deposits	2,800	-	2,800
<i>Total current liabilities (payable from restricted assets)</i>	2,800	-	2,800
<i>Noncurrent liabilities:</i>			
Compensated absences, long term portion	1,911	-	1,911
<i>Total non-current liabilities</i>	1,911	-	1,911
<i>Total liabilities</i>	7,661	-	7,661
<i>Net assets:</i>			
Invested in capital assets, net of related debt (Note 1)	87,757	-	87,757
Restricted for:			
Public Housing Capital Fund Program	-	445	445
Unrestricted (Note 1)	89,662	-	89,662
<i>Total net assets</i>	177,419	445	177,864
<i>Total liabilities and net assets</i>	\$ 185,080	\$ 445	\$ 185,525

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 Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

Exhibit A-2

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Operating revenues:</i>			
Rental revenue	\$ 44,649	\$ -	\$ 44,649
Rental revenue	44,649	-	44,649
Operating subsidies and grants	33,071	-	33,071
Tenant charges	113	-	113
<i>Total operating revenues</i>	<u>77,833</u>	<u>-</u>	<u>77,833</u>
<i>Operating expenses:</i>			
Administration	46,348	-	46,348
Ordinary maintenance	44,795	-	44,795
Insurance	10,493	-	10,493
Utilities	6,181	-	6,181
General expenses	5,150	-	5,150
Depreciation	10,003	-	10,003
<i>Total operating expenses</i>	<u>122,970</u>	<u>-</u>	<u>122,970</u>
<i>Operating income (loss)</i>	<u>(45,137)</u>	<u>-</u>	<u>(45,137)</u>
<i>Non-operating revenues (expenses):</i>			
Capital grants	-	51,923	51,923
Interest income	46	-	46
Miscellaneous income	5,875	-	5,875
<i>Total non-operating revenues (expenses)</i>	<u>5,921</u>	<u>51,923</u>	<u>57,844</u>
<i>Income (loss) before transfers</i>	<u>(39,216)</u>	<u>51,923</u>	<u>12,707</u>
Transfers in	70,207	-	70,207
Transfers (out)	-	(70,207)	(70,207)
<i>Total transfers</i>	<u>70,207</u>	<u>(70,207)</u>	<u>-</u>
<i>Change in net assets</i>	<u>30,991</u>	<u>(18,284)</u>	<u>12,707</u>
<i>Total net assets - beginning of year</i>	<u>146,428</u>	<u>18,729</u>	<u>165,157</u>
<i>Total net assets - end of year</i>	<u>\$ 177,419</u>	<u>\$ 445</u>	<u>\$ 177,864</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, 2012

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Cash flows from operating activities:</i>			
Cash received from tenant rents	\$ 44,348	\$ -	\$ 44,348
Cash received from operating subsidies	33,071	-	33,071
Cash payments to employees for services	(47,824)	-	(47,824)
Cash payments to suppliers for goods and services	(66,992)	-	(66,992)
<i>Net cash provided (used) by operating activities</i>	<u>(37,397)</u>	<u>-</u>	<u>(37,397)</u>
<i>Cash flows from noncapital financing activities:</i>			
Miscellaneous income (expense)	5,875	-	5,875
Change in noncurrent accrued compensated absences	(948)	-	(948)
Interfund due to and due from	(18,284)	18,284	-
Transfers	70,207	(70,207)	-
<i>Net cash provided (used) by noncapital financing activities</i>	<u>56,850</u>	<u>(51,923)</u>	<u>4,927</u>
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	51,923	51,923
<i>Net cash provided (used) by capital and related financing activities</i>	<u>-</u>	<u>51,923</u>	<u>51,923</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	46	-	46
<i>Net cash provided (used) by investing activities</i>	<u>46</u>	<u>-</u>	<u>46</u>
<i>Net increase in cash and cash equivalents</i>	19,499	-	19,499
<i>Cash and cash equivalents - beginning of year</i>	<u>73,397</u>	<u>-</u>	<u>73,397</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 92,896</u>	<u>\$ -</u>	<u>\$ 92,896</u>

The accompanying notes are an integral part of these financial statements

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
	<u> </u>	<u> </u>	<u> </u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	\$ (45,137)	\$ -	\$ (45,137)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	10,003	-	10,003
Changes in assets and liabilities			
Accounts receivables	(410)	-	(410)
Inventory	101	-	101
Prepaid expenses	83	-	83
Accounts payable	(757)	-	(757)
Accrued payroll expenses	(308)	-	(308)
Tenant prepaid rent	(4)	-	(4)
Accrued compensated absences	(1,168)	-	(1,168)
Tenant deposits	200	-	200
	<u> </u>	<u> </u>	<u> </u>
<i>Net cash provided (used) by operating activities</i>	<u>\$ (37,397)</u>	<u>\$ -</u>	<u>\$ (37,397)</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, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eunice Housing Authority (Authority) was organized February 28, 1967 pursuant to an agreement with the U.S. Department of Housing and Urban Development (HUD). The Cooperative Agreement between the City of Eunice and the Housing Authority was entered into February 28, 1967. The twenty unit complex is located in Eunice, New Mexico. The contract provided for clean, safe, sanitary housing which would be financed by the U.S. Government. The terms of the agreement provide that HUD shall provide annual contributions to cover the debt services on bonds for the subsidies for operations of the program. The City of Eunice agreed to operate and maintain the Housing Authority in accordance with the requirements of HUD.

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 and 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 (GAAP) as applied to governmental units. 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 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.
- **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, 2012

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*

All activities of the Authority are accounted for within proprietary (enterprise) funds. Proprietary funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All of the Authority's funds meet the requirements for being reported as major funds under GASB Statement No. 34.

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. Fund 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, 2012

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.

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 grants 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.

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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Receivables and Payables

Inter-fund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers.

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.

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, 2012

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

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

Accrued compensated absences of the Proprietary funds are recorded on the Statement of Net Assets. In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability has been recognized for all employees who have unused annual leave and sick leave for only those employees who will be paid for unused sick leave upon termination.

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

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.

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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 equity transfers. All other inter-fund transfers are reported as operating transfers.

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, 2012.

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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

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. 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, 2012 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, 2012, 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 does not have a deposit 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, 2012, \$-0- of the Authority's bank balance of \$94,302 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.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits (continued)

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, 2012	
Total amount of deposits	\$ 94,302
FDIC Coverage	(94,302)
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	\$ -

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	\$ 90,096
Restricted cash and cash equivalents per Exhibit A-1	2,800
Total Cash and cash equivalents per Exhibit A-1	92,896
Add: outstanding checks and other reconciling items	1,456
Less: petty cash	(50)
Bank balance of deposits	\$ 94,302

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 3. RECEIVABLES AND PAYABLES

Receivables as of June 30, 2012, are as follows:

	Low Rent Public Housing	Public Housing Capital Fund	Total
Grants	\$ -	\$ 445	\$ 445
Other	2	-	2
Total Receivables	<u>\$ 2</u>	<u>\$ 445</u>	<u>\$ 447</u>

Accounts payable and accrued expenses as of June 30, 2012, are as follows:

	Low Rent Public Housing	Public Housing Capital Fund	Total
Payable to suppliers	\$ 1,094	\$ -	\$ 1,094
Payable to vendors	264	-	264
Payable to and on behalf of employees	1,592	-	1,592
Total accounts payable and accrued expenses	<u>\$ 2,950</u>	<u>\$ -</u>	<u>\$ 2,950</u>

NOTE 4. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2012 follows. Land is not subject to depreciation.

	Balance June 30, 2011	Additions and Transfers in	Deletions and Transfers out	Balance June 30, 2012
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	588,717	-	-	588,717
Machinery and equipment	74,080	-	-	74,080
Total capital assets being depreciated	<u>662,797</u>	<u>-</u>	<u>-</u>	<u>662,797</u>
Total capital assets	<u>683,189</u>	<u>-</u>	<u>-</u>	<u>683,189</u>
Less accumulated depreciation:				
Buildings and improvements	518,491	9,288	-	527,779
Machinery and equipment	66,938	715	-	67,653
Total accumulated depreciation	<u>585,429</u>	<u>10,003</u>	<u>-</u>	<u>595,432</u>
Total capital assets, net of depreciation	<u>\$ 97,760</u>	<u>\$ (10,003)</u>	<u>\$ -</u>	<u>\$ 87,757</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, 2012, totaled \$10,003.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES

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

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Compensated absences	\$ 4,859	\$ 1,248	\$ 3,364	\$ 2,743	\$ 832

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. PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

The Authority has elected not to participate in the Public Employees Retirement Act plan and there are no required contributions for fiscal year ending June 30, 2012.

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, 2012.

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 PROJECTS

During the year under audit, Capital Funds Projects NM02P027501-09 and NM02P027501-10 were completely expended and closed out.

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Notes to the Financial Statements
June 30, 2012

NOTE 12. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2012, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 5, 2012 which is the date on which the financial statements were available to be issued.

NOTE 13. SUBSEQUENT PRONOUNCEMENTS

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 March 2012, GASB Statement No. 66 *Technical Corrections -2012-an amendment of the GASB Statements No. 10 and No. 62*, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application 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, 2014.

SUPPLEMENTARY INFORMATION

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 (Non-GAAP Budgetary Basis) and Actual
Low Rent Public Housing Program
For the Year Ended June 30, 2012

Statement A-1

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable) Final to Actual
<i>Operating revenues:</i>				
Rental revenue	\$ 44,700	\$ 44,700	\$ 44,762	\$ 62
<i>Total operating revenues</i>	44,700	44,700	44,762	62
<i>Operating expenses:</i>				
Administration	40,346	46,754	41,364	5,390
Sundry administration	5,800	6,550	4,984	1,566
Utilities	6,310	6,310	6,181	129
Ordinary maintenance	33,564	33,646	36,730	(3,084)
Contracts costs	6,500	8,900	8,065	835
Insurance	11,890	11,890	10,493	1,397
Other operating expenses	5,593	5,785	5,150	635
<i>Total operating expenses</i>	110,003	119,835	112,967	6,868
<i>Operating income (loss)</i>	(65,303)	(75,135)	(68,205)	6,930
<i>Nonoperating revenues (expenses):</i>				
Noncapital grants and subsidies	15,170	33,071	33,071	-
Capital grants	-	-	-	-
Investment earnings	50	50	46	(4)
Miscellaneous	600	6,039	5,875	(164)
<i>Total nonoperating revenues (expenses)</i>	15,820	39,160	38,992	(168)
Designated cash (budgeted increase in cash)	49,483	35,975	-	(35,975)
Transfers in	-	-	70,207	70,207
Transfers out	-	-	-	-
<i>Change in net assets</i>	\$ -	\$ -	40,994	\$ 40,994
<i>Revenues (expenses) not budgeted:</i>				
Depreciation			(10,003)	
<i>Change in net assets per Exhibit A-2</i>			30,991	
<i>Total net assets, beginning of year</i>			146,428	
<i>Total net assets, end of year</i>			\$ 177,419	

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 Revenues, Expenses and Changes in
Net Assets - Budget (Non-GAAP Budgetary Basis) and Actual
Public Housing Capital Fund Program
For the Year Ended June 30, 2012

Statement A-2

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable) Final to Actual</u>
<i>Operating revenues:</i>				
Rental revenue	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	-	-	-	-
<i>Operating expenses:</i>				
Administration	-	-	-	-
Sundry administration	-	-	-	-
Utilities	-	-	-	-
Ordinary maintenance	-	-	-	-
Contracts costs	-	-	-	-
Insurance	-	-	-	-
Other operating expenses	-	-	-	-
<i>Total operating expenses</i>	-	-	-	-
<i>Operating income (loss)</i>	-	-	-	-
<i>Nonoperating revenues (expenses):</i>				
Noncapital grants and subsidies	-	-	-	-
Capital grants	50,579	50,579	51,923	1,344
Investment earnings	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total nonoperating revenues (expenses)</i>	50,579	50,579	51,923	1,344
Designated cash (budgeted increase in cash)	(50,579)	(50,579)	-	50,579
Transfers in	-	-	-	-
Transfers out	-	-	(70,207)	(70,207)
<i>Change in net assets</i>	\$ -	\$ -	(18,284)	\$ (18,284)
<i>Revenues (expenses) not budgeted:</i>				
Depreciation			-	
<i>Change in net assets per Exhibit A-2</i>			(18,284)	
<i>Total net assets, beginning of year</i>			18,729	
<i>Total net assets, end of year</i>			\$ 445	

The accompanying notes are an integral part of these financial statements

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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, 2012

Schedule I

Bank Name	Account Number	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Wells Fargo Bank					
General fund	1103416607	\$ 66,395	\$ -	\$ 1,456	\$ 64,939
Tenant deposits	6173531283	2,800	-	-	2,800
Certificate of deposit	3266083439	10,043	-	-	10,043
Certificate of deposit	3266083421	15,064	-	-	15,064
Total cash in bank		<u>\$ 94,302</u>	<u>\$ -</u>	<u>\$ 1,456</u>	<u>\$ 92,846</u>

Statement of Net Assets (Exhibit A-1):

Cash and cash equivalents	\$ 90,096
Restricted cash and cash equivalents	2,800
less: petty cash	<u>(50)</u>
Total cash and cash equivalents	<u><u>\$ 92,846</u></u>

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STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2012

Assets	<u>Low Rent Public Housing Program</u>	<u>Public Housing Capital Fund Program</u>	<u>Total</u>
111 Cash - unrestricted	\$ 90,096	\$ -	\$ 90,096
114 Cash - tenant security deposits	<u>2,800</u>	<u>-</u>	<u>2,800</u>
100 Total cash	<u>92,896</u>	<u>-</u>	<u>92,896</u>
122 Accounts receivable - HUD other projects	-	445	445
129 Accrued interest receivable	<u>2</u>	<u>-</u>	<u>2</u>
120 Total receivables, net of allowance for doubtful accounts	<u>2</u>	<u>445</u>	<u>447</u>
142 Prepaid expenses and other assets	3,561	-	3,561
143 Inventories	<u>864</u>	<u>-</u>	<u>864</u>
150 Total current assets	<u>97,323</u>	<u>445</u>	<u>97,768</u>
161 Land	20,392	-	20,392
162 Buildings	588,717	-	588,717
163 Furniture, equipment and machinery - dwellings	74,080	-	74,080
166 Accumulated depreciation	<u>(595,432)</u>	<u>-</u>	<u>(595,432)</u>
160 Total capital assets, net of accumulated depreciation	<u>87,757</u>	<u>-</u>	<u>87,757</u>
180 Total non-current assets	<u>87,757</u>	<u>-</u>	<u>87,757</u>
190 Total assets	<u>\$ 185,080</u>	<u>\$ 445</u>	<u>\$ 185,525</u>

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
June 30, 2012

		<u>Low Rent Public Housing Program</u>	<u>Public Housing Capital Fund Program</u>	<u>Total</u>
Liabilities and Equity				
<i>Liabilities</i>				
312	Accounts payable ≤ 90 days	\$ 1,094	\$ -	\$ 1,094
321	Accrued wage/payroll taxes payable	760	-	760
322	Accrued compensated absences - current portion	832	-	832
341	Tenant security deposits	2,800	-	2,800
345	Other current liabilities	264	-	264
		<hr/>	<hr/>	<hr/>
310	Total current liabilities	5,750	-	5,750
		<hr/>	<hr/>	<hr/>
354	Accrued compensated absences - non-current	1,911	-	1,911
		<hr/>	<hr/>	<hr/>
350	Total non-current liabilities	1,911	-	1,911
		<hr/>	<hr/>	<hr/>
300	Total liabilities	7,661	-	7,661
		<hr/>	<hr/>	<hr/>
<i>Equity</i>				
508.1	Invested in capital assets, net of related debt	87,757	-	87,757
511.1	Restricted net assets	-	445	445
512.1	Unrestricted net assets	89,662	-	89,662
		<hr/>	<hr/>	<hr/>
513	Total equity/net assets	177,419	445	177,864
		<hr/>	<hr/>	<hr/>
600	Total liabilities and equity/net assets	\$ 185,080	\$ 445	\$ 185,525
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
For the Year Ended June 30, 2012

	<u>Low Rent Public Housing Program</u>	<u>Public Housing Capital Fund Program</u>	<u>Total</u>
Revenues			
70300 Net tenant rental revenue	\$ 44,649	\$ -	\$ 44,649
70400 Tenant revenue - other	113	-	113
70500 Total tenant revenue	<u>44,762</u>	<u>-</u>	<u>44,762</u>
70600 HUD PHA operating grants	33,071	-	33,071
70610 Capital grants	-	51,923	51,923
71100 Investment income - unrestricted	46	-	46
71500 Other revenue	<u>5,875</u>	<u>-</u>	<u>5,875</u>
70000 Total revenue	<u>83,754</u>	<u>51,923</u>	<u>135,677</u>
Expenses			
91100 Administrative salaries	27,907	-	27,907
91200 Auditing fees	8,025	-	8,025
91310 Bookkeeping fees	2,783	-	2,783
91500 Employee benefit contributions - administrative	2,649	-	2,649
91600 Office expenses	3,127	-	3,127
91900 Other	<u>1,857</u>	<u>-</u>	<u>1,857</u>
91000 Total operating - administrative	<u>46,348</u>	<u>-</u>	<u>46,348</u>
93100 Water	2,994	-	2,994
93200 Electricity	1,925	-	1,925
93300 Gas	662	-	662
93600 Sewer	<u>600</u>	<u>-</u>	<u>600</u>
93000 Total utilities	<u>6,181</u>	<u>-</u>	<u>6,181</u>
94100 Ordinary maintenance and operations - labor	16,095	-	16,095
94200 Ordinary maintenance and operations - materials and other	19,271	-	19,271
94300 Ordinary maintenance and operations contracts	8,065	-	8,065
94500 Employee benefit contributions - ordinary maintenance	<u>1,364</u>	<u>-</u>	<u>1,364</u>
94000 Total maintenance	<u>44,795</u>	<u>-</u>	<u>44,795</u>

STATE OF NEW MEXICO
City of Eunice Housing Authority
A Component Unit of the City of Eunice
Financial Data Schedule
For the Year Ended June 30, 2012

Schedule II
Page 4 of 4

	<u>Low Rent Public Housing Program</u>	<u>Public Housing Capital Fund Program</u>	<u>Total</u>
96110 Property insurance	3,960	-	3,960
96120 Liability insurance	3,169	-	3,169
96130 Workmen's compensation	1,813	-	1,813
96140 All other insurance	1,551	-	1,551
96100 Total insurance premiums	<u>10,493</u>	<u>-</u>	<u>10,493</u>
96200 Other general expenses	44	-	44
96210 Compensated absences	1,248	-	1,248
96300 Payment in lieu of taxes	3,858	-	3,858
96000 Total other general expenses	<u>5,150</u>	<u>-</u>	<u>5,150</u>
96900 Total operating expenses	<u>112,967</u>	<u>-</u>	<u>112,967</u>
97000 Excess of operating revenue over operating expenses	<u>(29,213)</u>	<u>51,923</u>	<u>22,710</u>
97400 Depreciation expense	<u>10,003</u>	<u>-</u>	<u>10,003</u>
90000 Total expenses	<u>\$ 122,970</u>	<u>\$ -</u>	<u>\$ 122,970</u>
10010 Operating transfers in	\$ 70,207	\$ -	\$ 70,207
10020 Operating transfers out	<u>-</u>	<u>(70,207)</u>	<u>(70,207)</u>
10100 Total other financing sources (uses)	<u>70,207</u>	<u>(70,207)</u>	<u>-</u>
10000 Excess (deficiency) of operating revenue over (under) expenses	30,991	(18,284)	12,707
11030 Beginning equity	<u>146,428</u>	<u>18,729</u>	<u>165,157</u>
Ending equity (deficit)	<u>\$ 177,419</u>	<u>\$ 445</u>	<u>\$ 177,864</u>
11190 Unit months available	<u>240</u>	<u>-</u>	<u>240</u>
11210 Number of unit months leased	<u>239</u>	<u>-</u>	<u>239</u>

See accompanying independent auditor's report

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COMPLIANCE SECTION

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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
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, 2012, which collectively comprise the City of Eunice Housing Authority's basic financial statements and have issued our report thereon dated November 5, 2012. We have also audited the budgetary comparisons for the funds for the year ended June 30, 2012 listed as supplementary information 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

Management of the City of Eunice Housing Authority, is responsible for establishing and maintaining effective 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 to be a material weakness, listed as item FSHA 2010-3.

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 to be significant deficiencies, listed as items FSHA 2007-1 and FSHA 2009-1.

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 management, the Board of Directors, others within the organization, the Office of the State Auditor, the New Mexico State Legislature and its committees, the New Mexico Department of Finance and Administration, 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
Certified Public Accountants
Clovis, New Mexico
November 5, 2012

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, 2012

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 2010-3 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A

* 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

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 Auditing Standards Board 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

Copies of all checks and invoices are provided to the board. The board approves the bills at each board meeting and the chairman initials each invoice. The secretary signs a check only when the Executive Director or Chairman is not available. The board relies on the outside fee accountant to help mitigate the risk. The outside fee accountant reviews all disbursements, bank statements/reconciliations, and rent rolls. Copies of all rent receipts issued and deposits made to the bank documentation are provided to the board. The board reviews this information at each board meeting and the chairman initials all documentation.

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.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

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

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 2012 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.

Views of Responsible Officials and Planned Corrective Actions

The housing authority is small. There is only one 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.

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, 2012

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 16, 2012. The following individuals were in attendance.

City of Eunice Housing Authority Officials

Sonja Gallegos, Executive Director
Allen Pickerel, Chairman

Accounting and Consulting Group, LLP

Cindy Bryan, Partner