

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP**

**FINANCIAL STATEMENTS AND SCHEDULES  
WITH INDEPENDENT AUDITORS'  
REPORT THEREON FOR THE  
FISCAL YEAR ENDED JUNE 30, 2015**

**STATE OF NEW MEXICO  
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**JUNE 30, 2015**

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**OFFICIAL ROSTER**

**JUNE 30, 2015**

**Board of Commissioners**

Alfred Abeyta, Sr.	Chairperson
Joe Zecca	Vice – Chairperson
Vacant	Commissioner
James Saucedo	Commissioner
Vacant	Commissioner, Resident

**Administrative Official**

Richard Kontz	Executive Director
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## Independent Auditors' Report

Tim Keller  
New Mexico State Auditor  
Santa Fe, New Mexico  
and  
The Office of Management and Budget  
To the Executive Director and the Board of Directors  
Gallup Housing Authority  
Gallup, New Mexico

### Report on Financial Statements

We were engaged to audit the accompanying financial statements of the business-type activities of the Gallup Housing Authority (the "Authority"), a component unit of the City of Gallup, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the County's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Qualified Opinion**

As a result of the numerous material weaknesses in the internal control structure of the Authority and the suspected fraud perpetrated at the Authority in prior years, the Authority's opening accounting records are inadequate to substantiate the account balances for revenues, expenses, and capital assets presented in the previous financial statements. There is insufficient evidence available to determine that the beginning account balances and the Previous Cash balances as well as the 2014 SEFA were properly reconciled. As a result we can't properly verify that the beginning balances for the year ending June 30, 2015 were correct.

### **Qualified Opinion**

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the District for the year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Management has prepared 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. Although not a part of the basic financial statements, this 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. We offer no opinion on these.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the Authority's financial statements, the combining and individual fund financial statements. The Schedule of Expenditures of Federal Awards as required by Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, the introductory section, Supporting Schedules, and Required Supplementary Information required by Section 2.2.2 NMAC and the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards required by Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and Supporting

Schedules I and II required by section 2.2.2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015, 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* in considering the Authority's internal control over financial reporting and compliance.

*Kubiak Melton & Associates, LLC*

Kubiak Melton & Associates, LLC  
Auditors – Business Consultants - CPAs  
Albuquerque, New Mexico,  
November 10, 2015

**STATE OF NEW MEXICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**Introduction**

This Management's Discussion and Analysis (MD&A) of the Gallup Housing Authority (Authority) provides an introduction and overview to the financial statements of the Gallup Housing Authority for the fiscal year ended June 30, 2015. The Gallup Housing Authority presents this discussion and analysis of its financial performance during the fiscal year ended June 30, 2015, to assist the reader in focusing on significant financial issues.

The primary focus of the Authority's financial statements is on the statements of its single enterprise fund encompassing all programs administered by the Gallup Housing Authority. This information contained herein this MD&A should be considered in conjunction with the Authority's financial statements and related notes to the financial statements.

The Authority has four significant programs. They include the Low Rent Housing Program, the Capital Fund Program (Blended with Low Rent), the Housing Choice Voucher Program, and the SRO Program Mod rehab.

- The Low Rent Housing Program consists of 263 dwelling units. Funding is provided based on dwelling rents paid by the tenants and operating fund payments received from the Department of Housing & Urban Development based on a formula.
- The Capital Fund Program is also a formula based program from HUD. The purpose of this program is to provide funding for the modernization and improvement of the Low Rent Public Housing Program. These resources allow the Authority to provide capital improvements for the current dwelling structures and assist the Authority in operations.
- The Housing Choice Voucher Program provides rental assistance to aid low income families in affording decent, safe and sanitary rental housing. The Authority provides rental assistance in the form of a housing assistance payment to a landlord on behalf of the tenant. The Authority currently has 40 units available. Funds are provided by HUD to provide rental assistance payments. The Authority is provided an administrative fee for the purpose of covering the administrative costs of the program. The administrative fee is computed by HUD on an annual basis.
- The Section 8 Mod Rehab Single Room Occupancy (SRO) Program is a rental assistance program whereby rental assistance payments are restricted to particular units to provide housing for homeless individuals. Tenants typically pay rent which is 30 percent of their adjusted gross income. The remaining portion of the rent is paid to the landlord by the Housing Authority. The Gallup Housing Authority has 8 units in this program.

For financial statement presentation, the Authority has merged the Low Rent Public Housing Program and the Capital Fund Program into a single fund reported as the general fund. The Housing Choice Voucher Program and SRO Program are presented as a separate fund.



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**Overview of the Financial Statements**

This overview of the financial statement is intended to inform and introduce the reader to the Authority's financial statements. The financial statements are comprised of three individual statements. These statements include:

- The Statement of Net Position
- The Statement of Revenues, Expense, and Changes in Net Position
- The Statement of Cash Flows

**The Statement of Net Position** presents information on the assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the differences between the two being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial situation of the Authority is improving or deteriorating. Net position is comprised of three individual components:

- *Net Investment in Capital Assets* consists of capital asset balances net of accumulated depreciation less any outstanding balances of related debt associated with these assets.
- *Restricted* component of net position consists of resources that are restricted by limitations placed on these resources by an external source or imposed by law through constitutional provisions.
- *Unrestricted* component of net position represents the remaining resources available that does not meet the definition of the above categories. The unrestricted component of net position is basically the amount of resources available for future year appropriations.

**The Statement of Revenues, Expenses, and Changes in Net Position** reports the operating revenues, operating expenses, non-operating revenues, and non-operating expenses of the Authority for the fiscal year ended June 30, 2015, to determine the change in net position for the fiscal year.

**The Statement of Cash Flows** reports cash activities for the fiscal year resulting from operating activities, investing activities, non-capital financing activities, and capital and related to financing activities. The net result of these activities represents the increase or decrease of the cash equivalent account balance for the year ended June 30, 2015.

**Financial Highlights**

- The Gallup Housing Authority's net position decreased from \$8,754,111 to \$8,055,660, a decrease of \$698,451 or 8%. The total assets also decreased by \$174,561.
- Total revenues decreased from \$2,134,701 to \$1,788,811, a decrease of \$345,890 or 16%.
- Total expenses increased by \$229,171, from \$1,913,240 to \$2,142,411 for the current year. This represents an increase of 12%.

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**Housing Authority Activities & Highlights**

The Housing Authority's overall financial position for the past two years is summarized below based on the information in the current and prior financial statements. The table below provides the asset, liability, and net position (equity) comparisons for the year ended June 30, 2015, and June 30, 2014.

***Summary Statement of Net Position  
Years Ended June 30, 2015 and 2014***

<u>Category</u>	<u>FYE 2015</u>	<u>FYE 2014</u>	<u>Change \$</u>	<u>Change %</u>
Current Assets	\$ 618,291	\$ 594,032	\$ 24,259	4%
Non-Current Assets	\$ 8,134,708	\$ 8,314,765	\$ (180,057)	-2%
Deferred Outflows	\$ 41,035	\$ -	\$ 41,035	100%
Total Assets & Deferred Outflows	\$ 8,794,034	\$ 8,908,797	\$ (114,763)	-1%
Current Liabilities	\$ 127,361	\$ 144,868	\$ (17,507)	-12%
Non-Current Liabilities	\$ 398,352	\$ 9,818	\$ 388,534	3957%
Total Liabilities	\$ 525,713	\$ 154,686	\$ 371,027	240%
Deferred Inflows	\$ 152,863	\$ -	\$ 152,863	100%
Unrestricted	\$ (83,189)	\$ 370,616	\$ (453,805)	-122%
Restricted	\$ 12,267	\$ 68,730	\$ (56,463)	-82%
Net Investment in Capital Assets	\$ 8,126,582	\$ 8,314,765	\$ (188,183)	-2%
Total Net Position	\$ 8,055,660	\$ 8,754,111	\$ (698,451)	-8%

*Current Assets*

Current assets decreased by \$35,539. Unrestricted cash and investments increased from \$218,760 to \$288,591, an increase of \$69,831 from June 30, 2014 to June 30, 2015. Restricted cash related to excess HAP funds decreased by \$56,463 as a result of HAP payments exceeding HAP revenue. In addition, A/R HUD related to subsidy and Capital Funds decreased by \$99,345 during the current year. Account Fraud receivable (net) at June 30, 2015, was reported as \$58,753, primarily due to an amount owed by the previous Executive Director.

*Noncurrent Assets*

Noncurrent assets decreased by \$180,057, due primarily to the reclassification of fixed assets. More details are provided in the Capital Assets section in a subsequent paragraph.

*Current Liabilities*

Current liabilities decreased by \$17,507 or 12% from the previous fiscal year. This is primarily due to a decrease in bank overdrafts by \$24,765 and a decrease in accounts payable of \$22,708. In contrast,

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the current portion of accrued leave increased by \$7,813 and unearned revenues increased by \$5,318 during the year. Wages and payroll taxes payable also increased by \$6,548.

*Non-Current Liabilities*

Non-current liabilities increased by \$388,534 due primarily to the recording of pension liabilities in the current year.

*Net Position*

The overall net position of the Authority decreased by \$688,002 from the previous year.

The restricted component of the financial position held for HAP payments decreased by \$56,463 due to costs exceeding funding levels provided by HUD for the current fiscal year.

The Authority's unrestricted component of net position changed from \$370,616 to \$(83,189), a decrease of \$453,805, or 122% for the current year. The primary reason for the decrease was due to the recording of pension liabilities as a result of the implementation of GASB #68. The unrestricted component of net position is the amount available for future appropriations. This balance is subject to program specific guidelines. Individual program balances that comprise the unrestricted component of net position are as follows:

	<u>UNRESTRICTED NET POSITION</u>
Low Rent Housing Program	\$ (149,636)
Section 8 Housing Choice Voucher Program:	
Administrative Funding	55,266
Section 8 Mod Rehab SRO	<u>11,181</u>
 Total Unrestricted Net Financial Position	 \$ <u>(83,189)</u>

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The table below summarizes the overall operations for the past two years for the years ending June 30, 2015, and June 30, 2014.

***Summary Statement of Revenues & Expenses and Changes in Net Position  
Years Ended June 30, 2015 and 2014***

	<b>2015</b>	<b>2014</b>	<b>Difference</b>	
General Expense	\$ 342,423	\$ 134,490	\$ 207,933	155%
Casualty Losses	\$ -	\$ 30,000	\$ (30,000)	-100%
HAP	\$ 142,210	\$ 116,185	\$ 26,025	22%
Depreciation	\$ 305,175	\$ 317,423	\$ (12,248)	-4%
Total Expenses	\$ 2,142,411	\$ 1,913,240	\$ 229,171	12%
Excess of Revenue over Expenses	\$ (353,600)	\$ 221,461	\$ (575,061)	-260%
Net Position, Beginning of Year	\$ 8,743,662	\$ 8,578,497	\$ 165,165	2%
Prior Period Adjustments	\$ (334,402)	\$ (45,847)		
Net Position, End of Year	\$ 8,055,660	\$ 8,743,662	\$ (688,002)	-8%

<u>Category</u>	<u>FYE 2015</u>	<u>FYE 2014</u>	<u>Change \$</u>	<u>Change %</u>
Land	\$ 1,593,833	\$ 1,686,162	\$ (92,329)	-5%
Buildings	\$ 13,386,175	\$ 12,936,583	\$ 449,592	3%
Equipment	\$ 538,193	\$ 711,686	\$ (173,493)	-24%
Construction in Progress	\$ 2,456	\$ 456,693	\$ (454,237)	-99%
Accumulated Depreciation	\$ (7,385,949)	\$ (7,476,359)	\$ 90,410	-1%
Total Net Fixed Assets	\$ 8,134,708	\$ 8,314,765	\$ (180,057)	-2%

*Results of Operations*

Revenues of the Authority are generated principally from dwelling rents and HUD grants. The Authority's revenue decreased by \$345,890 during the current fiscal year as compared to the previous year amounts.

- Tenant revenue increased by \$51,269 from the prior year, primarily due to an increase in the average rent from \$228 in the prior year to \$236 in the current year. In addition, units leased increased from 2,750 to 2,773.

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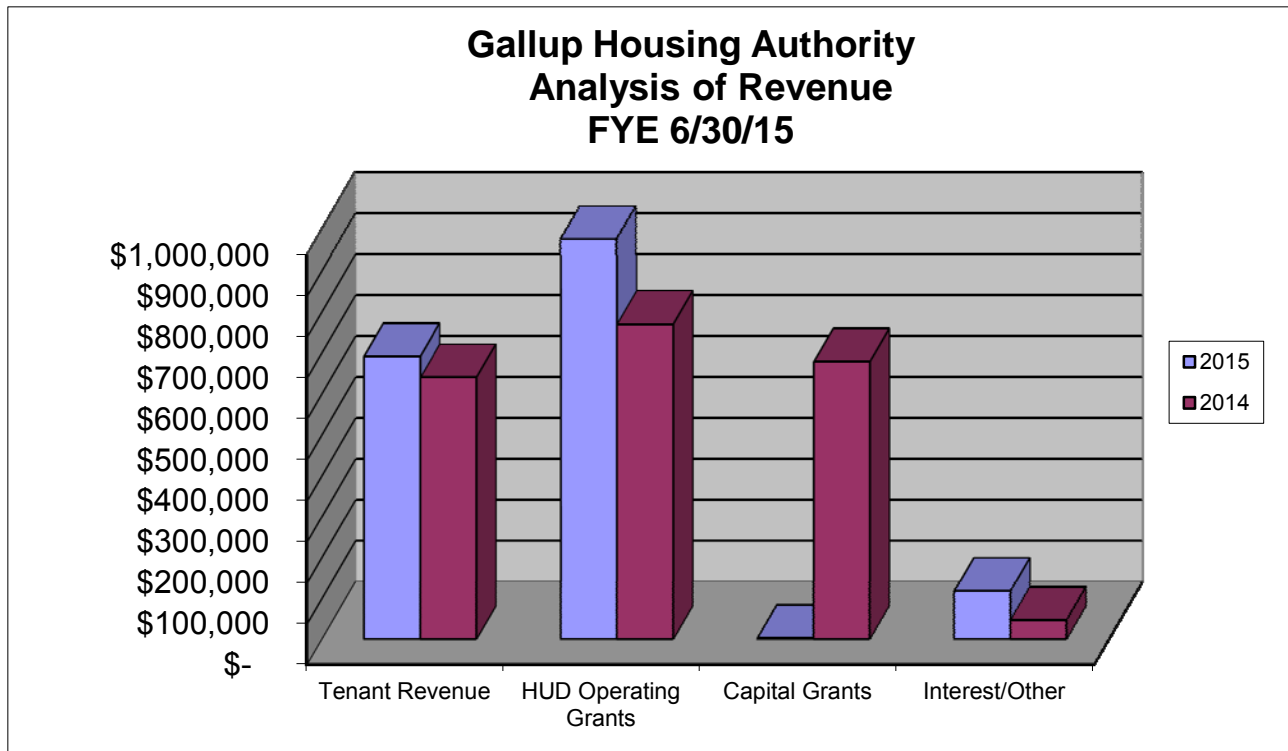
- HUD operating grants increased by \$207,773 or 27%. Grants related to the operations of the Low Rent program increased by \$244,412 during the year.
- Capital grants decreased by \$675,682 due to reduced capital improvement activity in the current year.
- Other revenue increased by \$70,761. This is due primarily to the recording of fraud revenue in the amount of \$105,000 during the current year..

Total expenses increased by \$229,171. Significant differences between the current and previous fiscal years include:

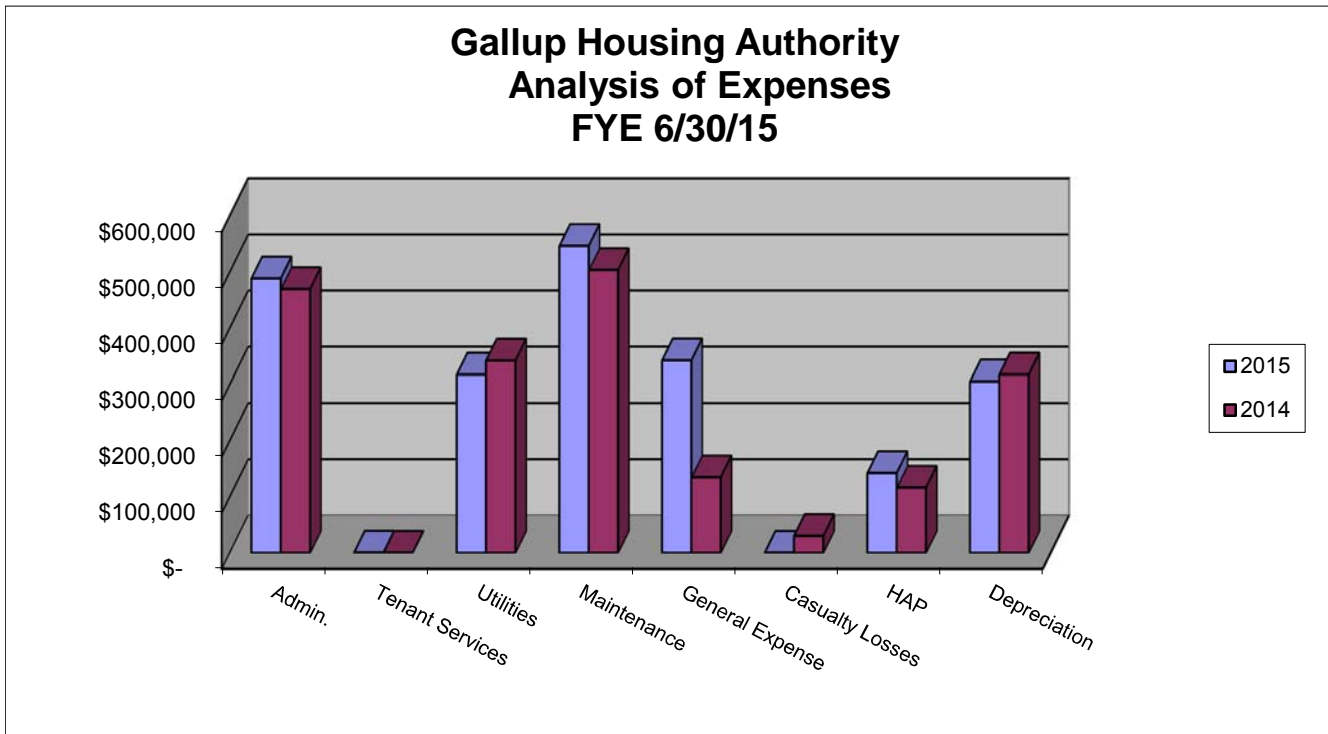
- Utilities decreased by \$24,850 or 7%. This was primarily due to a decrease in gas costs of \$22,939 during the current year.
- Maintenance costs increased by \$43,044 from the previous year. Maintenance labor and benefits increased by \$61,769 while contract costs increased by \$61,655. In contrast, maintenance materials decreased by \$80,380 during the current year.
- Other general expense increased by \$207,933 during the current year, primarily due to an increase in collection losses in the amount of \$189,417. In addition, compensated absences increased by \$19,229.
- HAP expenses increased by \$26,025 or 22%. Units leased increased from 377 in 2014 to 400 in 2015. HAP per unit costs also increased from \$260 to \$306 during the current year.

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We have provided the following presentations to demonstrate the revenues and expenses by summarized account category:



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**Capital Assets**

As of June 30, 2015, the Gallup Housing Authority's net investment in capital assets was \$8,126,582. This investment includes land, building, equipment, and construction in progress less accumulated depreciation. The amount also includes any debt related to the acquisition of these fixed assets.

Category	FYE 2015	FYE 2014	Change \$	Change %
Land	\$ 1,593,833	\$ 1,686,162	\$ (92,329)	-5%
Buildings	\$ 13,386,175	\$ 12,936,583	\$ 449,592	3%
Equipment	\$ 538,193	\$ 711,686	\$ (173,493)	-24%
Construction in Progress	\$ 2,456	\$ 456,693	\$ (454,237)	-99%
Accumulated Depreciation	\$ (7,385,949)	\$ (7,476,359)	\$ 90,410	-1%
<b>Total Net Fixed Assets</b>	<b>\$ 8,134,708</b>	<b>\$ 8,314,765</b>	<b>\$ (180,057)</b>	<b>-2%</b>

The primary reason for the changes in the fixed asset accounts is due to adjustments made to bring actual fixed assets in line.

Additions to the equipment account include the purchase of a computer server, a 2014 pickup truck and a 2015 GMC Acadia. The Authority has also entered into a lease to purchase option for a copier.

**Long Term Debt Liability**

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The Authority classifies a portion of the employee's leave as long term debt. This is because the Authority does not anticipate paying out the total amount accrued in the upcoming fiscal year. The amount estimated as long term was \$6,476.

The Authority has entered into a lease with an option to buy on a Xerox copier. The total amount owed at June 30, 2015, is \$7,962. Of this amount, the portion determined to be non-current is \$1,694.

*Prior Period Adjustments*

The Authority reported \$(334,402) in prior period adjustments. This consists of \$(143,729) to adjust tenant accounts receivable, \$(48,512) to adjust fixed assets, and \$526,643 to record an adjustment for the GASB #68 net pension liability.

**Subsequent Event**

Due to the 2015 Congressional Appropriations, the Authority's operating subsidy provided by HUD for the Low Rent Housing Program was prorated to 89% for the calendar year 2015.

The amount of funding for the 2015 calendar year for the Housing Choice Voucher Program will include an estimated proration of administrative fees at 79% and HAP funding at 101%.

**Request for Information**

This financial report is designed to provide a general overview of the Authority's financial position as of June 30, 2015 for all those interested.

If you should have additional questions regarding the financial information, you can contact our office in writing at the following address:

Gallup Housing Authority  
Richard Kontz, Executive Director  
P.O. Box 1334  
Gallup, NM 87305



**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

	<b>Business Activities</b>
<b>ASSETS</b>	
Current Assets	
Unrestricted Cash	\$ 288,591
Restricted Cash, Current	61,869
Accounts Receivable, Net	109,549
Interprogram	59,798
Prepays	33,978
Inventory, Net	64,506
<b>Total Current Assets</b>	<b>618,291</b>
Capital Assets:	
Capital Assets Not Being Depreciated	1,596,289
Capital Assets Being Depreciated (Net)	6,538,419
Capital Assets, Net	8,134,708
<b>TOTAL ASSETS</b>	<b>8,752,999</b>
<b>DEFERRED OUTFLOW (GASB 68)</b>	
Employer contributions made after measurement date	41,035
<b>TOTAL ASSETS AND DEFERRED OUTFLOW</b>	<b>\$ 8,794,034</b>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities	
Accounts Payable	\$ 35,201
Accrued Salaries and Benefits	19,320
Unearned Revenue	8,522
Due to other Funds	59,798
Compensated Absences	8,413
Tenant Security Deposits	49,602
Current Portion of Long Term Debt	1,823
<b>Total Current Liabilities</b>	<b>182,679</b>
Noncurrent Liabilities	
Compensated Absences Payable	6,476
Long term Debt (Noncurrent)	6,303
Pension Liability, Net	390,053
<b>Total Noncurrent Liabilities</b>	<b>402,832</b>
<b>TOTAL LIABILITIES</b>	<b>585,511</b>
<b>DEFERRED INFLOW</b>	
Net Difference in expected and actual Earnings	152,598
Change in assumptions	265
<b>TOTAL DEFERRED INFLOWS</b>	<b>152,863</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	8,126,582
Unrestricted	(83,189)
Restricted For Housing Assistance	12,267
<b>Total Net Position</b>	<b>8,055,660</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>8,641,171</b>
<b>TOTAL LIABILITIES AND NET POSITION AND DEFERRED INFLOW</b>	<b>\$ 8,794,034</b>

**STATE OF NEW MEXICO  
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>Business Activities</b>
<b>OPERATING REVENUES</b>	
Tenant Revenue	\$ 691,042
Operating Grants	977,698
Misc. Revenue, Repayments	117,744
<b>Total Operating Revenue</b>	<b>1,786,484</b>
 <b>OPERATING EXPENSE</b>	
Administrative	490,058
Tenant Services	308
Utilities	317,296
Maintenance	546,495
Insurance/General	336,798
Housing Assitance	146,423
Depreciation	305,175
<b>Total Operating Expenses</b>	<b>2,142,553</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(356,069)</b>
 <b>NONOPERATING REVENUES (EXPENSE)</b>	
Interest Income	27
Interest Expense	(14)
<b>Total</b>	<b>13</b>
<b>Capital Contributions (Grants)</b>	<b>2,456</b>
<b>Change in Net Position</b>	<b>(353,600)</b>
<b>Net Position</b>	
Beginning Net Position	8,743,662
Restatements	(334,402)
Restated Net Position	8,409,260
<b>Net Position, End of year</b>	<b>\$ 8,055,660</b>

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STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015**

Cash Flows From Operating Activities:	
Cash Received from Tenant Rents	\$ 684,930
Cash Payments to Employees for Services	(519,693)
Cash Received from Grants and fees	8,488
Cash Payments for Assistance	(146,424)
Cash Payments to Suppliers for Goods and Services	(1,020,364)
Cash Received from Grantor	1,079,499
Net Cash Provided by (Used in) Operating Activities	<u>86,436</u>
Cash Flows From Capital Financing Activities:	
Interest Payments on Long Term Debt	(721)
Principal Payment on Capital Lease	(1,454)
Capital Asset Purchases	(67,025)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(69,200)</u>
Cash Flows From Investing:	
Interest	26
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>26</u>
Cash Flows From Investing and Financing Activities:	
Net	<u>(69,174)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,262
Cash and Cash Equivalents, Beginning of Year	333,198
Cash and Cash Equivalents, End of Year	<u>\$ 350,460</u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (354,159)
Adjustments to reconcile operating income (loss)	
to net cash provided by operating activities:	
Depreciation	305,175
Changes in Assets and Liabilities	
Accounts Receivable	9,023
Accrued Payroll-Total	7,352
Inventory	(3,918)
Prepaid Expenses	(10,726)
Accounts Payable	(47,473)
Tenant security Deposits	3,894
Deferred Outflow	(41,035)
Compensated Absences	4,471
Net Pension liability	390,053
Deferred Inflows	152,863
Unearned Revenues	5,318
Restatement	(334,402)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 86,436</u>

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**NOTE 1. ACCOUNTING POLICIES**

The Gallup Housing Authority (the Authority) was organized under New Mexico statutes to provide a conduit for housing funds for disadvantaged citizens of the City of Gallup, New Mexico (the "City"). The Authority is a political subdivision of the State of New Mexico and a component unit of the City of Gallup, New Mexico.

The financial statements present only the financial position, results of operations and cash flows of the Authority and are not intended to present fairly the City's financial position, results of operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

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 are 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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Following Funds are maintained by the Authority:

- **Low Rent Public Housing Program** – Funded through direct grants from the Department of Housing and Urban Development, the program is designed to provide adequate living accommodations to qualified families through reduced rate rentals built and owned by the Authority.
- **Section 8 Housing Choice Voucher Program** – This program, funded through direct grants from the Department of Housing and Urban Development, provides rental assistance to qualified recipients through rent subsidies paid directly to third-party property owners.
- **Homelessness Prevention & Rapid Rehousing Programs (HPRP)** – This program, funded by the Department of Housing and Urban Development passed through the Mortgage Finance Authority, is dedicated to administer the HPRP program in McKinley and Cibola Counties.
- **Public Housing Capital Fund Program** – This program, funded through direct grants from the Department of Housing and Urban Development, accounts for acquisition or modernization of capital assets or construction of capital projects. Activity in low Rent for YE 15.

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***A. Financial Reporting Entity***

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential programs and operations of the Authority. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39 and GASB Statement No. 61.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its residents and participants, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its residents and participants.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Authority has no component units; however, the Authority is a component unit of the City of Gallup. The City of Gallup does issue separately audited financial statements. Additional information regarding the City of Gallup may be obtained directly from their administrative office as follows:

City of Gallup Finance Department,  
West Aztec Avenue, Gallup, New Mexico 87301.

***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

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assets and all liabilities associated with the operations are included on the Statement of Net Position. Net position (i.e., total assets net of total liabilities) is segregated into net investment in capital assets; restricted; and unrestricted components. All of the Authority's programs are accounted for as one business-type activity for financial reporting purposes. The Authority's 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. There are no fiduciary funds included in the Authority's financial statements.

### **Revenue Recognition**

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned. Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The Authority has entered into contracts with the U.S. Department of Housing and Urban Development (HUD) to develop, manage and own public housing projects and to administer the federal Section 8 Housing Choice Vouchers Program, whereby monthly housing assistance payments are made to landlords on behalf of eligible lower income individuals and families. HUD makes monthly operating subsidy contributions within the public housing program and monthly contributions for housing assistance payments and administration fees for the Section 8 Housing Choice Vouchers Program. Such contributions are reflected as operating grant revenue. Contributions received from HUD for capital additions and improvements are reported as capital grant revenue.

### ***C. Assets, Deferred Outflows and Inflows of Resources, Liabilities, and Net Position***

#### **Cash and Cash Equivalents**

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

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

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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.

For the purpose of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

#### **Accounts Receivable and Accounts Payable**

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.

#### **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.

#### **Restricted Cash and Cash Equivalents**

Certain resources set aside in escrow for security deposits of \$61,689, held as insurance against the non-payment for services rendered, are classified on the Statement of Net Position as restricted because their use is limited. In addition, pursuant to guidance from HUD cash equal to ending Housing Assistance Payments (HAP) equity of \$12,267 is reported as restricted, as the use of those funds is limited.

#### **Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Authority's financial statements. These mostly involve various insurance policies and amounted to \$33,978 for June 30, 2015.

#### **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

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estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Contributed capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	40 yrs.
Equipment - dwelling	5 yrs. – 7 yrs.
Equipment - administration	5 yrs. – 7 yrs.

**Accrued Expenses**

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

**Compensated Absences**

The Authority’s policy allows employees to accumulate no more than sixty (60) hours of annual leave. All excess annual leave shall be forfeited, if not used, unless extenuating circumstances warrant approval by the Authority management to buy back that portion of an employee’s annual leave that exceeds the allowable carry forward balance. Qualified employees are entitled to earn annual leave at a rate based on length of employment that varies from 6.7 to 13.3 hours per month.

Vested or accumulated annual leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability of the program that will pay it. Amounts of vested or accumulated annual leave that are not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Position.

**Net Position**

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components:

- **Net Investment in Capital Assets** – This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding debt balances attributable to the acquisition, construction, and improvement of those assets.



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**Restricted Net Position** – Net position is reported as restricted when constraints placed on an asset use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position** – Net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Unrestricted and Restricted Resources**

Certain resources set aside for housing assistance payments, as well as security deposits held as insurance against the non-payment for services rendered, are classified on the balance sheet as restricted because their use is limited.

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.

### **Inter-program Transactions**

Quasi-external transactions are accounted for as revenues or expenses. Transactions that constitute reimbursements to a fund for expenses initially made from it that are properly applicable to another fund are recorded as expenses in the reimbursing fund and as a reduction of expenses in the fund that is reimbursed.

All other inter-program transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-program transfers are reported as operating transfers.

Offsetting inter-program transactions are eliminated for financial statement presentation.

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**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures such as the lives of capital assets. Accordingly, actual results could differ from those estimates. Significant estimates in the Authority's financial statements include depreciation on capital assets, the current portion of accrued compensated absences, allowance for obsolete inventory and the allowance for uncollectible accounts.

**Budgets**

The Authority's Board of Commissioners is required to obtain approval from HUD for any revisions to the budgets that alter the total expenditures at the legal level of budgetary control, which is at the grant program level. HUD program budgets are prepared on a regulatory basis which is comparable to the GAAP basis except for the omission of depreciation. Budgetary data for the Authority's programs are prepared on a calendar year basis. HUD does not require the presentation of the budgets in the audit report. The inclusion of the budget in the audit report would be misleading as the audit report is as of June 30, 2015 and the HUD budget period is not complete as of that date.

**New Accounting Standards Adopted**

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB 65 is not expected to have a significant impact on the Housing Authority's financial statements. See Note 10 for GASB 68 implementation.

**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, the 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, 2015. 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 funds may be temporarily invested in securities which are issued by the State or by the United States

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**NOTE 2. DEPOSITS AND INVESTMENTS-Continued**

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. By operation of federal law, beginning January 1, 2013, funds deposited in noninterest bearing accounts and transaction accounts will no longer receive unlimited coverage under by the Federal Deposit Insurance Corporation (FDIC).

Beginning January 1, 2013, all of the Authority's accounts at an insured depository institution, including non-interest bearing accounts are insured by the FDIC up to the Standard Maximum Deposit Insurance Amount of \$250,000.

*Custodial Credit Risk* – Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2015, none of the Authority's bank balance of \$350,461 was subject 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. None of the Authority's deposits were uninsured and uncollateralized at June 30, 2015. Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation states the types of collateral allowed is 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. All depositories had collateral equal to or exceeding the amount required by law:

	<u>US Bank</u>	<u>Pinnacle Bank</u>	<u>Wells Fargo</u>	<u>Total</u>
Amount of Deposits	\$ 65,664	\$ 242,635	\$ 43,061	\$ 351,360
FDIC Coverage	<u>(65,664)</u>	<u>(242,635)</u>	<u>(43,061)</u>	<u>(351,360)</u>
Total Uninsured Public Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name *	<u>\$ -</u>	<u>\$ 65,563</u>	<u>\$ -</u>	<u>\$ 65,563</u>
Uninsured and Uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral Requirement (50% of uninsured public funds) *	\$ -	\$ -	\$ -	\$ -
Pledged Collateral	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Over (Under) Collateralization	<u>\$ -</u>	<u>\$ 65,563</u>	<u>\$ -</u>	<u>\$ 65,563</u>

\* No Uninsured Funds

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**NOTE 2. DEPOSITS AND INVESTMENTS-Continued**

The collateral pledged is listed on Schedule I of this report. The types of collateral 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.

**Reconciliation to Statement of Net Position**

The carrying amount of deposits shown above are included in the Authority's Statement of Net Position as follows:

Cash and Cash Equivalents	\$ 288,591
Restricted Cash and Cash Equivalents	<u>61,869</u>
Total Cash, Cash Equivalents and Investments	350,460
Add: Unreconciled Difference in Cash	-
Add: Outstanding Checks	1,125
Less: Deposits in Transit	-
Less: Petty Cash	<u>(225)</u>
Bank Balance of Deposits	<u><u>\$ 351,360</u></u>

**NOTE 3. RECEIVABLES**

Receivables as of June 30, 2015, are as follows:

Federal Grants Receivable	\$ 39,415
Repayment Agreements	113,753
Tenant Receivables	37,817
Allowance for Doubtful Accounts - Tenants and Repayments	<u>(81,436)</u>
Total	<u><u>\$ 109,549</u></u>

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**NOTE 4. INTER-PROGRAM RECEIVABLES AND PAYABLES**

During the course of operations, numerous transactions occur between individual funds for loans:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
HCV	Mod Rehab	\$ 4,307
HCV	Low Income	55,491
Total		<u>\$ 59,798</u>

**NOTE 4. INTER-PROGRAM RECEIVABLES AND PAYABLES-Continued**

All offsetting inter-program receivables payables are eliminated from presentation in the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position.

During the course of operations, transfers occur between individual funds for equity transfers related to the CFP program and the low rent program in project 2:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Low Income	Capital	\$ 59,257
Total		<u>\$ 59,257</u>

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**NOTE 5. CAPITAL ASSETS**

The following is a summary of capital assets and changes occurring during the year ended June 30, 2015. Land and Construction in Progress are not subject to depreciation:

	Balance June 30,				Balance June 30,
	2014	Adjustments	Additions	Deletions	2015
<b>Capital Assets Not Being Depreciated:</b>					
Land	\$ 1,686,162	\$ (92,330)	\$ -	\$ -	\$ 1,593,832
Construction in Progress	456,693	-	2,456	456,692	2,457
<b>Total</b>	<u>2,142,855</u>	<u>(92,330)</u>	<u>2,456</u>	<u>456,692</u>	<u>1,596,289</u>
<b>Capital Assets Being Depreciated</b>					
Buildings and Improvements	12,936,582	(7,099)	456,693	-	13,386,176
Equipment - Dwellings	312,129	(255,472)	-	-	56,657
Equipment - Administration	399,559	-	81,976	-	481,535
<b>Total</b>	<u>13,648,270</u>	<u>(262,571)</u>	<u>538,669</u>	<u>-</u>	<u>13,924,368</u>
<b>Less: Accumulated Depreciation for:</b>					
Buildings and Improvements	6,780,998	(116,250)	280,263	-	6,945,011
Equipment - Dwellings	307,295	(255,470)	12,456	-	64,281
Equipment - Administration	388,066	(23,865)	12,456	-	376,657
<b>Total</b>	<u>7,476,359</u>	<u>(395,585)</u>	<u>305,175</u>	<u>-</u>	<u>7,385,949</u>
<b>Capital Assets, Net</b>	<u>\$ 8,314,766</u>			<u>\$ 456,692</u>	<u>\$ 8,134,708</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, 2015 totaled \$305,175. Difference between Fixed assets and Net investment relates to Capital Lease (Equipment-Administration).

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**NOTE 6. PAYABLES**

At June 30, 2015 accounts payable consisted of the following:

	<b>Balance, June 30, 2015</b>
Vendors/Others	\$ 35,201
Accrued Payroll	19,320
<b>Total</b>	<b>\$ 54,521</b>

**NOTE 7. LONG-TERM LIABILITIES**

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2015:

	<b>Balance, June 30, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2015</b>	<b>Amount Due Within One Year</b>
Compensated Absences	\$ 10,418	\$ 28,438	\$ 23,967	\$ 14,889	\$ 8,413
<b>Total</b>	<b>\$ 10,418</b>	<b>\$ 28,438</b>	<b>\$ 23,967</b>	<b>\$ 14,889</b>	<b>\$ 8,413</b>

The liability is typically liquidated by the Public and Indian Housing Program projects.

The Authority also holds the following capital lease requirement for a Xerox copier recorded as Long Term Debt due to policy:

<b>Fiscal year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 1,823	\$ 648	\$ 2,471
2017	1885	489	2374
2018	2061	316	2377
2019	2447	128	2575
<b>Total</b>	<b>\$ 8,216</b>	<b>\$ 1,581</b>	<b>\$ 9,797</b>

**NOTE 8. CONTINGENT LIABILITIES**

*Legal Proceedings* — The Authority is subject to various legal proceedings that arise in the ordinary course of the Authority's operations. In the opinion of the Authority's management, the ultimate resolution of the matters will not have a material adverse impact on the financial position or results of operations of the Authority.

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*Federal Grants* — The Authority receives federal grants for various specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Management believes that such disallowance, if any, will not be material to the financial statements.

**NOTE 9. RISK MANAGEMENT**

Gallup Housing Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has joined together with other housing authorities throughout the country and obtained insurance through the Housing Authority Insurance Group, a housing authority risk pool currently operating as a common risk management and insurance program for member units. The Authority pays an annual premium to the Housing Authority Insurance Group for its general insurance coverage and all risk of loss is transferred to the risk pool.

**NOTE 10. GASB 68 – Pension Liability**

**General Information about the Pension Plan**

Plan description:

The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has Municipal General, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C- 1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at <http://saonm.org/>.

**Benefits provided**

For a description of the benefits provided and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2014 available at [http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf).



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GALLUP HOUSING AUTHORITY  
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**NOTE 10. GASB 68 – Pension Liability-Continued  
Contributions**

The contribution requirements of defined benefit plan members and Gallup Housing Authority are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY14 for the various PERA coverage options, for both Tier I and

Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY14 annual audit report at:

[http://osanm.org/media/audits/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2014.pdf).

The PERA coverage options that apply to the Authority are: Municipal General. The Municipal Fire and Police Division does not apply to the Authority. Statutorily required contributions to the pension plan from the Authority were \$40,482 and employer paid member benefits that were “picked up” by the employer were \$0 for the year ended June 30, 2015.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014.

The assets of the PERA fund are held in one trust, but there are six distinct membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred Inflows and Outflows were performed separately for each of the membership groups: municipal general members; The Authority’s proportion of the net pension liability for each membership group that the employer participates in is based on the employer contributing entity’s percentage of that membership group’s total employer contributions for the fiscal year ended June 30, 2014. Only employer contributions for the pay period end dates that fell within the period of July 1, 2013 to June 30, 2014 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2014 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project the unremitted employer contributions. This allowed for fair and consistent measurement of the contributions with the total population. This

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**NOTE 10. GASB 68 – Pension Liability-Continued**

methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For PERA Fund Division Municipal General, at June 30, 2015, the Authority reported a liability of \$390,054 for its proportionate share of the net pension liability. At June 30, 2014, the

Authority's proportion was .05 percent, which was unchanged from its proportion measured as of June 30, 2013, due to the insignificance of the difference.

For the year ended June 30, 2015, the Authority recognized PERA Fund Division Municipal General Pension expense of \$16,273. At June 30, 2015, the Authority reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 152,599
Changes of assumptions	-	264
Net difference between projected and actual earnings on pension plan investments (total of above)	-	152,863
Changes in proportion and differences between Gallup Housing Authority contributions and proportionate share of contributions	-	-
Gallup Housing Authority contributions subsequent to the measurement date	<u>41,035</u>	<u>-</u>
Total	<u>\$ 41,035</u>	<u>\$ 152,863</u>

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**NOTE 10. GASB 68 – Pension Liability-Continued**

\$41,035 reported as deferred outflows of resources related to pensions resulting from the Authority contributions subsequent to the measurement date June 30, 2014 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
2016	\$ 38,216
2017	38,216
2018	38,216
2019	38,215
2020	-
Thereafter	-
Total	<u>\$ 152,863</u>

**Actuarial assumptions**

As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2013 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation.

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Asset valuation method	Solved for based on statutory rates
Actuarial assumptions:	Fair value
Investment rate of return	7.75% annual rate, net of investment expense
Payroll growth	3.50% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	3.00% annual rate

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**NOTE 10. GASB 68 – Pension Liability-Continued**

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>ALL FUNDS - Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.1%	5.00%
International Equity	24.8%	5.20%
Private Equity	7.0%	8.20%
Core and Global Fixed Inc	26.1%	1.85%
Fixed Income Plus Sector	5.0%	4.80%
Real Estate	5.0%	5.30%
Real Assets	7.0%	5.70%
Absolute Return	<u>4.0%</u>	4.15%
Total	100.0%	

**Discount rate**

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore,

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the 7.75% assumed long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate**

The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Authority's net pension liability in each PERA Fund

Division that the Authority participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

<u>PERA Fund Division Municipal Government</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Gallup Housing Authority's proportionate share of the net pension liability	\$ 735,339	\$ 390,053	\$ 123,304

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FY14 Restated PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

Payables due to the fund at June 30, 2015 amounted to \$1805, which was in line with totals at June 30, 2014.

**NOTE 11. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

*Plan Description.* Gallup Housing Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents.

The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the:

Retiree Health Care Authority, 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978

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and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act. Gallup Housing Authority's contributions to the RHCA for the years ended June 30, 2015, 2014, and 2013 were \$8,795, \$6,045, and \$7,778, respectively which equal the required contributions for each year.

**NOTE 12. 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 13. SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2015, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is November 10, 2015, which is the date on which the financial statements were issued. No events requiring disclosure in, or adjustment to the financial statements of the Housing Authority, took place subsequent to year end.

**NOTE 14. RESTRICTED NET POSITION**

Certain resources are classified on the Statement of Net Position as restricted because their use is limited. Resources are set aside for Housing Assistance Payments (HAP) of \$12,627, as the use of those funds is restricted by enabling legislation.

**NOTE 15. SUBSEQUENT PRONOUNCEMENTS**

In June 2012, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The standard will be implemented during fiscal year June 30, 2015 and is expected to significantly impact the Housing Authority's financial statements. In January 2013, GASB

Statement No. 69 *Government Combinations and Disposals of Government Operations*, Effective Date: The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Earlier application is encouraged. The provisions of this Statement generally are required to be applied prospectively.

In November 2013, GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. The provisions of this Statement are required to be applied simultaneously with the

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provisions of GASB Statement 68. The standard was implemented during fiscal year June 30, 2015. No related party activity for 2015.

**NOTE 16. RESTATEMENTS**

The Authority reported \$(334,402) in prior period adjustments and changes in accounting principles. This consists of \$(143,729) to adjust tenant accounts receivable, \$(48,512) to adjust fixed assets, and \$526,643 to record an adjustment for the GASB #68 net pension liability, which in net effect equaled the total at June 30, 2015.

**NOTE 17. COMMITMENTS**

Grant Commitments

The Authority had the following grant commitments at year end June 30, 2015:

<b>Fund</b>	<b>Grant Award</b>	<b>Expended, June 30, 2015</b>
Capital Fund 501-13	\$ 328,600	\$ 328,600
Capital Fund 501-14	343,548	231,186
Capital Fund 501-15	339,706	29,947
<b>Total</b>	<b>\$ 668,306</b>	<b>\$ 358,547</b>



**REQUIRED SUPPLEMENTARY INFORMATION**

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**SCHEDULES OF GALLUP HOUSING AUTHORITY'S PROPORTIONATE SHARE OF**  
**THE NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL GENERAL**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN**  
**LAST 10 FISCAL YEARS\* 2015**

		<u>2015</u>
Authority's proportion of the net pension liability (asset)		0.05
Authority's proportionate share of the net pension liability (asset)	\$	390,053
Authority's covered-employee payroll	\$	423,893
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		92.02%
Plan fiduciary net position as a percentage of the total pension liability		81.29%

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 1- year trend is compiled, the Authority will present information for those years for which information is available.

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**SCHEDULES OF GALLUP HOUSING AUTHORITY'S PROPORTIONATE SHARE OF**  
**THE NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL GENERAL**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN**  
**LAST 10 FISCAL YEARS\* 2015**

		<u>2015</u>
Contractually required contribution	\$	40,482
Contributions in relation to the contractually required contribution		<u>41,035</u>
Contribution deficiency (excess)	\$	<u>(553)</u>
Authority's covered-employee payroll	\$	423,892
Contributions as a percentage of covered-employee payroll		9.68%

\*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 1- year trend is compiled, the Authority will present information for those years for which information is available.

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SCHEDULES OF GALLUP HOUSING AUTHORITY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY OF PERA FUND DIVISION MUNICIPAL GENERAL  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN  
LAST 10 FISCAL YEARS\* 2015**

**Notes to Required Supplementary Information**

**Changes of benefit terms.**

The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY14 audit available at:

[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2014.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2014.pdf).

**Changes of assumptions.**

The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at [http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report\\_FINAL.pdf](http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf). The summary of Key Findings for the PERA Fund (on page 2 of the report) states "based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio. For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

## **SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO  
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STATEMENT NET POSITION - DETAIL  
FOR THE YEAR ENDED JUNE 30, 2015**

	Low Rent Housing	HCV Program	MOD. Rehab	Total
<b>ASSETS</b>				
Cash and Cash Equivalents				
Unrestricted	\$ 170,840	\$ 112,513	\$ 5,238	\$ 288,591
Restricted Cash Current	49,602	12,267.0	-	61,869
Accounts Receivable, net	100,081	7,832.0	1,636	109,549
Inter program	55,491	-	4,307	59,798
Prepays	33,623	355.0	-	33,978
Inventory (Net)	64,506	-	-	64,506
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 474,143</b>	<b>\$ 132,967</b>	<b>\$ 11,181</b>	<b>\$ 618,291</b>
<b>CAPITAL ASSETS</b>				
Land and CIP	1,596,289	\$ -	-	1,596,289
Depreciable Capital Assets, Net	6,538,263	\$ 156	-	6,538,419
<b>TOTAL CAPITAL ASSETS</b>	<b>8,134,552</b>	<b>\$ 156</b>	<b>-</b>	<b>8,134,708</b>
<b>DEFERRED OUTFLOWS</b>	<b>40,625</b>	<b>\$ 410</b>	<b>-</b>	<b>41,035</b>
<b>ASSETS and DEFERRED OUTFLOWS</b>	<b>\$ 8,649,320</b>	<b>\$ 133,533</b>	<b>\$ 11,181</b>	<b>\$ 8,794,034</b>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	\$ 34,780	\$ 421	\$ -	\$ 35,201
Wages Payable	19,196	124	-	19,320
Unearned Revenue	8,522	-	-	8,522
Long Term Debt (Current)	6,268	35	-	6,303
Comp Absences (Current)	8,343	70	-	8,413
Tennant Deposits	49,602	-	-	49,602
	126,711	650	-	127,361
Noncurrent Liabilities				
Comp Absences (NC)	6,474	2	-	6,476
Inter program	-	59,798	-	59,798
LTD (Net of Current)	1,694	129	-	1,823
Pension Liability (GASB 68)	386,153	3,900	-	390,053
Total Noncurrent Liabilities	394,321	63,829	-	458,150
<b>TOTAL LIABILITIES</b>	<b>521,032</b>	<b>64,479</b>	<b>-</b>	<b>585,511</b>
<b>DEFERRED INFLOWS (Net)</b>	<b>151,334</b>	<b>1,529</b>	<b>-</b>	<b>152,863</b>
<b>NET POSITION</b>				
Unrestricted	(149,636)	55,266	11,181	(83,189)
Housing Assistance (Restricted)	-	12,267	-	12,267
Capital Assets (Net)	8,126,590	(8)	-	8,126,582
<b>TOTAL NET POSITION</b>	<b>7,976,954</b>	<b>67,525</b>	<b>11,181</b>	<b>8,055,660</b>
<b>TOTAL LIABILITIES INFLOWS AND NET POSITION</b>	<b>\$ 8,649,320</b>	<b>\$ 133,533</b>	<b>\$ 11,181</b>	<b>\$ 8,794,034</b>

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STATEMENT REVENUES, EXPENSES, AND CHANGE IN NET POSITION - DETAIL  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Low Rent Housing</u>	<u>HCV Program</u>	<u>MOD. Rehab</u>	<u>Total</u>
<b>REVENUES</b>				
Tenant Revenue	\$ 691,042.00	\$ -	\$ -	\$ 691,042.00
Operating Revenue	862,023	89,096	26,579	977,698
Misc. Revenue	111,461	6,278	5	117,744
<b>TOTAL REVENUES</b>	<u>1,664,526</u>	<u>95,374</u>	<u>26,584</u>	<u>1,786,484</u>
<b>EXPENDITURES</b>				
Current				
Administrative	473,138	14,040	2,880	490,058
Tenant Service	308	-	-	308
Maintenance	546,383	112	-	546,495
Utilities	317,296	-	-	317,296
Insurance/General	335,117	1,681	-	336,798
Housing Assistance	-	126,713	19,710	146,423
Depreciation	305,140	35	-	305,175
<b>TOTAL EXPENDITURES</b>	<u>1,977,382</u>	<u>142,581</u>	<u>22,590</u>	<u>2,142,553</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(312,856)</u>	<u>(47,207)</u>	<u>3,994</u>	<u>(356,069)</u>
<b>NON OPERATING REVENUES (Expense)</b>				
Interest Income	12	15	-	27
Interest Expense	-	(14)	-	(14)
<b>TOTAL (USES)</b>	12	1	-	13
<b>Capital Contributions</b>	<u>2,456</u>	<u>-</u>	<u>-</u>	<u>2,456</u>
<b>CHANGE IN FUND BALANCE</b>	(310,388)	(47,206)	3,994	(353,600)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>8,616,478</u>	<u>119,997</u>	<u>7,187</u>	<u>8,743,662</u>
<b>RESTATEMENTS AND CHANGES IN ACCOUNTING PRICIPLE</b>	(329,136)	(5,266)	-	(334,402)
<b>FUND BALANCE, AS RESTATED</b>	8,287,342	114,731	7,187	8,409,260
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 7,976,954</u>	<u>\$ 67,525</u>	<u>\$ 11,181</u>	<u>\$ 8,055,660</u>

**STATE OF NEW MEXICO  
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STATEMENT OF CASH FLOWS - DETAIL  
JUNE 30, 2015**

	<b>Public Housing Program</b>	<b>HCV</b>	<b>MOD Rehab</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>				
Cash Received From Tenant Rents	\$ 684,930	\$ -	\$ -	\$ 684,930
Cash Payments for Employees	(519,693)	-	-	(519,693)
Cash received from Grants and Fees	8,488	-	-	8,488
Cash Payments for Assitance	(143,124)	(3,300)	-	(146,424)
Cash Payments To Suppliers	(900,203)	(97,571)	(22,590)	(1,020,364)
Other Revenues	957,541	95,374	26,584	1,079,499
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>87,939</b>	<b>(5,497)</b>	<b>3,994</b>	<b>86,436</b>
<b>Cash Flows From Non operating Activities:</b>				
Interest on Long Term Debt	(721)	-	-	(721)
Principal on Capital Lease	(1,454)	-	-	(1,454)
Capital Asset Purchases	(67,025)	-	-	(67,025)
interest Income	12	14	-	26
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>(69,188)</b>	<b>14</b>	<b>-</b>	<b>(69,174)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>18,751</b>	<b>(5,483)</b>	<b>3,994</b>	<b>17,262</b>
Cash and Cash Equivalents, Beginning of Year	204,943	127,012	1,244	333,199
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 223,694</b>	<b>\$ 121,529</b>	<b>\$ 5,238</b>	<b>\$ 350,461</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating Income (Loss)	\$ (310,949)	\$ (47,204)	\$ 3,994	\$ (354,159)
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>				
Depreciation	305,140	35	-	305,175
<b>Changes in Assets and Liabilities</b>				
Accounts Receivable	5,001	4,022	-	9,023
Accrued payroll	7,352	-	-	7,352
Inventory	(2,700)	(1,218)	-	(3,918)
Prepaid Expenses	(9,011)	(1,715)	-	(10,726)
Accounts Payable	(47,473)	-	-	(47,473)
Tenent Security Deposits	3,894	-	-	3,894
Deferred Outflow	(40,624)	(411)	-	(41,035)
Comp Absence	4,471	-	-	4,471
Defrred Inflows	151,334	1,529	-	152,863
Defreed Revenues	5,318	-	-	5,318
Pension Liability	386,154	3,899	-	390,053
Prior Period Adjustments	(319,068)	(15,334)	-	(334,402)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 138,839</b>	<b>\$ (56,397)</b>	<b>\$ 3,994</b>	<b>\$ 86,436</b>



**STATE OF NEW MEXICO  
 GALLUP HOUSING AUTHORITY  
 A COMPONENT UNIT OF THE CITY OF GALLUP  
 SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS  
 JUNE 30, 2015**

<u>Name of Depository/Location of Safekeeper</u>	<u>Description of Pledged Collateral</u>	<u>Maturity Date</u>	<u>CUSIP #</u>	<u>Market or Par Value at June 30, 2015</u>
Pledged by Bank of Colorado - Pinnacle Bank	GNMA	1/15/2019	36200nb26	\$ 65,563
Total Bank of Colorado - Pinnacle Bank Pledged Securities				<u>65,563</u>
Total Pledged Securities				<u>\$ 65,563</u>

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
SCHEDULE OF DEPOSIT ACCOUNTS  
JUNE 30, 2015**

<b>Bank Account/Account Name</b>	<b>Account Type</b>	<b>Bank Balance</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Book Balance</b>
US Bank - Business	Checking	\$ 65,664	\$ -	\$ -	\$ 65,664
Total US Bank		<u>65,664</u>	<u>-</u>	<u>-</u>	<u>65,664</u>
Bank of Colorado - Pinnacle Bank					
Section 8	Checking	131,143	-	1,125	130,018
Security Deposit	Checking	55,319	-	-	55,319
Operational	Checking	56,174	-	-	56,174
Total Bank of Colorado - Pinnacle Bank		<u>242,636</u>	<u>-</u>	<u>1,125</u>	<u>241,511</u>
Wells Fargo Bank					
Business - Capital Fund	Checking	43,061	-	-	43,060
Total Wells Fargo Bank		<u>43,061</u>	<u>-</u>	<u>-</u>	<u>43,060</u>
Unreconciled Difference in Cash					-
Petty Cash		225	-	-	225
Total		<u>\$ 351,586</u>	<u>\$ -</u>	<u>\$ 1,125</u>	<u>350,460</u>
Cash and Cash Equivalents per Financial Statements:					
Cash and Cash Equivalents per Statement of Net Position					288,591
Restricted Cash and Cash Equivalents per Statement of Net Position					<u>61,869</u>
Total Cash and Cash Equivalents					<u>\$ 350,460</u>

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
VENDOR LISTING ABOVE \$60,000 (EXCLUDING GRT)  
JUNE 30, 2015**

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition )</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
Q-2015-05-15	Small Purchase for Professional Services	Urlaub and Company	\$60,000		Hawkins and Ash, CPAs, 500 South 2nd St, Suite 200, LaCrosse, Wi 54601-4029 (608) 784-7737; and Casterline and Associates, CPA's, 11 Davis Road, Suite 225, Valley Forge, PA 19482-0962 (800) 337-5088; and Urlaub & Company, PO Box 2663, Ada, OK 74821 (580) 332-4802	Out of State Vendor	N	To Provide: [a] TA to GHA in year-end closing; [b] TA to GHA with submission of FDS to HUD; [c] To review GHA chart of accounts for errors and omissions and propose revisions; [d] To review GHA Accounting policies and procedures and make recommendations to address 2014 audit findings; and [e] To provide training t existing staff on proper recording of transactions; month-end closing and year-end closing

Prepared by Richard Kontz, CFO, October 28, 2015

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
FINANCIAL DATA SCHEDULE  
JUNE 30, 2015**

Line Item #	Description	Low Rent Public Housing Program	HCV Program	MOD Rehab	Total
111	Cash - Unrestricted	\$ 170,840	\$ 112,513	\$ 5,238	\$ 288,591
113	Cash - Other Restricted	-	12,267	-	12,267
114	Cash - Tenant Security Deposits	49,602	-	-	49,602
	<b>Total Cash</b>	<u>220,442</u>	<u>\$ 124,780</u>	<u>5,238</u>	<u>350,460</u>
	<b>Accounts Receivable - HUD Other</b>				
122	Projects	29,947	7,832	1,636	39,415
125	Accounts Receivable - Miscellaneous and (Fraud)	113,753	-	-	113,753
125.1	Allowance for Doubtful Accounts - Fraud	(55,000)	-	-	(55,000)
126	Accounts Receivable - Tenants - Dwelling Rents	37,817	-	-	37,817
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(26,436)	-	-	(26,436)
	Total Receivables	<u>100,081</u>	<u>7,832</u>	<u>1,636</u>	<u>109,549</u>
142	Prepaid Expenses and Other Assets	33,623	355	-	33,978
142.5	Interprogram	55,491	-	4,307	59,798
143	Inventories	80,757	-	-	80,757
143.1	Allowance for Obsolete Inventories	(16,251)	-	-	(16,251)
	Total Other Current Assets	<u>153,620</u>	<u>355</u>	<u>4,307</u>	<u>158,282</u>
	Total Current Assets	<u>474,143</u>	<u>132,967</u>	<u>11,181</u>	<u>618,291</u>
142.1	Deferred Outflows	<u>40,625</u>	<u>410</u>	<u>-</u>	<u>41,035</u>
161	Land	1,593,833	-	-	1,593,833
162	Buildings	13,386,175	-	-	13,386,175
163	Furniture Equipment and Machinery - Dwellings	56,659	-	-	56,659
164	Furniture Equipment and Machinery - Administrative	466,541	14,993	-	481,534
166	Accumulated Depreciation	(7,371,112)	(14,837)	-	(7,385,949)
167	Construction in Progress	2,456	-	-	2,456
	Total Capital Assets Net of Accumulated Depreciation	<u>8,134,552</u>	<u>156</u>	<u>-</u>	<u>8,134,708</u>
	Total Assets and outflows	<u>\$ 8,649,320</u>	<u>\$ 133,533</u>	<u>\$ 11,181</u>	<u>\$ 8,794,034</u>

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
FINANCIAL DATA SCHEDULE  
JUNE 30, 2015**

Line Item #	Description	Low Rent Program	HCV Program	MOD Rehab	Total
311	Bank Overdraft	\$ 12,072	\$ 421	\$ -	\$ 12,493
312	Accounts Payable <=90 Days	-	-	-	-
321	Accrued Payroll	19,196	124	-	19,320
322	Compensated Absences - Current Portion	8,343	70	-	8,413
331	Accounts Payable HUD PHA Programs	-	-	-	-
341	Tenant Security Deposits	49,602	-	-	49,602
342	Unearned Revenues	8,522	-	-	8,522
345	Current Long Term Debt	6,268	35	-	6,303
346	Accrued Liabilities (other)	22,708	-	-	22,708
310	<b>Total Current Liabilities</b>	<u>126,711</u>	<u>650</u>	<u>-</u>	<u>127,361</u>
349	Interprogram	-	59,798	-	59,798
350	Pension (GASB 68)	386,153	3,900	-	390,053
353	Long Term Debt	1,694	129	-	1,823
354	Compensated Absences - Noncurrent Portion	6,474	2	-	6,476
	<b>Total Noncurrent Liabilities</b>	<u>394,321</u>	<u>63,829</u>	<u>-</u>	<u>458,150</u>
	<b>Total Liabilities</b>	<u>521,032</u>	<u>64,479</u>	<u>-</u>	<u>585,511</u>
400	Deffered Inflows	<u>151,334</u>	<u>1,529</u>	<u>-</u>	<u>152,863</u>
508.1	Net Investment in Capital Assets	8,126,590	(8)	-	8,126,582
511	Restricted Net Position	-	12,267	-	12,267
512.1	Unrestricted Net Position	<u>(149,636)</u>	<u>55,266</u>	<u>11,181</u>	<u>(83,189)</u>
513	<b>Total Equity/Net Position</b>	<u>7,976,954</u>	<u>67,525</u>	<u>11,181</u>	<u>8,055,660</u>
	<b>Total Liabilities and Equity/Net Position</b>	<u>\$ 8,649,320</u>	<u>\$ 133,533</u>	<u>\$ 11,181</u>	<u>\$ 8,794,034</u>

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
FINANCIAL DATA SCHEDULE  
JUNE 30, 2015**

Line Item #	Description	Low Rent Public Housing Program	HCV Program	MOD Rehab	Total
70300	Net Tenant Rental Revenue	\$ 653,929	\$ -	\$ -	\$ 653,929
70400	Tenant Revenue - Other	37,113	-	-	37,113
70500	<b>Total Tenant Revenue</b>	<u>691,042</u>	<u>-</u>	<u>-</u>	<u>691,042</u>
70600	HUD PHA Operating Grants	862,023	89,096	26,579	977,698
70610	Capital Grants	2,456	-	-	2,456
70800	Other Governmental Grants	-	-	-	-
71100	Investment Income - Unrestricted	12	15	-	27
71400	Fraud Recovery	105,000	-	-	105,000
71500	Other Revenue	6,461	6,122	5	12,588
70000	<b>Total Revenue</b>	<u>1,666,994</u>	<u>95,233</u>	<u>26,584</u>	<u>1,788,811</u>
91100	Administrative Salaries	273,591	5,157	2,307	281,055
91200	Auditing Fees	-	-	-	-
91500	Employee Benefits - Administrative	48,448	1,111	573	50,132
91600	Office Expense	68,842	4,801	-	73,643
91700	Legal Expense	1,528	-	-	1,528
91800	Travel	13,957	-	-	13,957
91810	Allocated Overhead	-	-	-	-
91900	Other Operating - Administrative	67,080	1,420	-	68,500
	<b>Total Operating - Administrative</b>	<u>473,446</u>	<u>12,489</u>	<u>2,880</u>	<u>488,815</u>
93100	Water	82,925	-	-	82,925
93200	Electric	99,695	-	-	99,695
93300	Gas	76,769	-	-	76,769
93600	Sewer	43,777	-	-	43,777
93800	Other	14,130	-	-	14,130
93000	<b>Total Utilities</b>	<u>\$ 317,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,296</u>

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
FINANCIAL DATA SCHEDULE  
JUNE 30, 2015**

Line Item #	Description	Low Rent Public Housing Program	HCV Program	MOD Rehab	Total
94100	Ordinary Maintenance and Operation - Labor	\$ 251,977	\$ -	\$ -	\$ 251,977
94200	Ordinary Maintenance and Operation - Materials	116,738	109	-	116,847
94300	Ordinary Maintenance and Operation - Contracts	133,051	-	-	133,051
94500	Employee Benefits - Administrative	44,617	-	-	44,617
94000	<b>Total Maintenance</b>	<u>546,383</u>	<u>109</u>	<u>-</u>	<u>546,492</u>
96110	Property Insurance	46,320	-	-	46,320
96120	Liability Insurance	17,761	121	-	17,882
96130	Workman's Compensation	12,598	8	-	12,606
96140	All Other Insurance	8,149	151	-	8,300
96100	<b>Total Insurance Premiums</b>	<u>84,828</u>	<u>280</u>	<u>-</u>	<u>85,108</u>
96210	Compensated Absences	23,771	2,798	-	26,569
96300	Other	714	14	-	728
96400	Bad Debt Tenant Rents	225,804	-	-	225,804
96000	<b>Total Other General</b>	<u>250,289</u>	<u>2,812</u>	<u>-</u>	<u>253,101</u>
	<b>Total Operating Expenses</b>	<u>1,672,242</u>	<u>15,690</u>	<u>2,880</u>	<u>1,690,812</u>
	<b>Excess of Operating Revenues over Operating Expenses</b>	<u>\$ (5,248)</u>	<u>\$ 79,543</u>	<u>\$ 23,704</u>	<u>\$ 97,999</u>
97200	Casualty Losses - Non-Capitalized	-	-	-	-
97300	Housing Assistance Payments	-	122,500	19,710	142,210
97350	HAP Portability In	-	4,214	-	4,214
97400	Depreciation Expense	305,140	35	-	305,175
97500	Fraud Losses	-	-	-	-
	<b>Total Other Expenses</b>	<u>305,140</u>	<u>126,749</u>	<u>19,710</u>	<u>451,599</u>
10010	Operating Transfers In	59,257	-	-	59,257
10020	Operating Transfers Out	(59,257)	-	-	(59,257)
10091	Inter Project Excess Cash Transfer In	-	-	-	-
10092	Inter Project Excess Cash Transfer Out	-	-	-	-
10100	<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>Excess of Revenue over Expenses</b>	<u>\$ (310,388)</u>	<u>\$ (47,206)</u>	<u>\$ 3,994</u>	<u>\$ (353,600)</u>

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
FINANCIAL DATA SCHEDULE  
JUNE 30, 2015**

<b>Line Item #</b>	<b>Description</b>	<b>Low Rent Public Housing Program</b>	<b>HCV Program</b>	<b>MOD Rehab</b>	<b>Total</b>
11030	Beginning Equity	\$ 8,616,478	\$ 119,997	\$ 7,187	\$ 8,743,662
	Adjustments	(329,136)	(5,266)	-	(334,402)
	Ending Equity	<u>\$ 7,976,954</u>	<u>\$ 67,525</u>	<u>\$ 11,181</u>	<u>\$ 8,055,660</u>
11190	Unit Months Available	\$ 3,156	\$ 480	\$ 96	\$ 3,732
11210	Number of Unit Months Leased	2,773	400	96	3,269
11620	Building Purchases	<u>2,456</u>	<u>-</u>	<u>-</u>	<u>2,456</u>
11621	Furniture	<u>\$ 73,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,958</u>





**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**

**Independent Auditors' Report**

Tim Keller  
New Mexico State Auditor  
Santa Fe, New Mexico  
and  
The Office of Management and Budget  
To the Executive Director and the Board of Directors  
Gallup Housing Authority  
Gallup, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Gallup Housing Authority (the "Authority"), a component unit of the City of Gallup, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 30, 2015.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FSHA 2012-002, and FSHA 2014-001 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider there to be no significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items FSHA 2012-009.

### **The Authority's Response to Findings**

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

*Kubiak Melton & Associates, LLC*

Kubiak Melton & Associates, LLC  
Auditors – Business Consultants - CPAs  
Albuquerque, New Mexico  
November 10, 2015



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL  
CONTROL OVER  
COMPLIANCE REQUIRED BY OMB A-133**

**INDEPENDENT AUDITORS' REPORT**

Tim Keller  
New Mexico State Auditor  
The Office of Management and Budget  
Executive Director and the Board of Directors  
Gallup Housing Authority  
Gallup, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited the Gallup Housing Authority's (the "Authority"), a component unit of the City of Gallup, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Other Matters**

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The result of our procedures disclosed instances of non-compliance, FAHA 2013-001, which are required to be reported in accordance with OMB Circular A-133.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We identified the following significant deficiency in internal control FAHA 2013-001.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response

was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Kubiak Melton & Associates, LLC*

Kubiak Melton & Associates, LLC  
Albuquerque, New Mexico  
November 10, 2015

**STATE OF NEW MEXICO  
GALLUP HOUSING AUTHORITY  
A COMPONENT UNIT OF THE CITY OF GALLUP  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

<i>Program</i>	<i>CFDA #</i>	<i>Federal Expenditures</i>	<i>PASS- Through Entity</i>	<i>DIRECT</i>
<b>Department of Housing and Urban Development</b>				
Housing Choice Voucher Program	14.871	\$ 89,096	N/A	YES
Low Rent Public Housing program *	14.850	\$ 731,439	N/A	YES
Public Housing Capital Fund Program	14.872	\$ 133,040	N/A	YES
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	\$ 26,579	N/A	YES
<b><i>Total Department of Housing and Urban Development</i></b>		<b>\$ 980,154</b>		
<b>Total Expenditures of Federal Awards</b>		<b>\$ 980,154</b>		

\* Major Program

**Notes to Schedule of Expenditures of Federal Awards Basis of Presentation:**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Gallup Housing Authority, New Mexico (Authority) and is presented on the full accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

Subrecipients: The Authority did not provide any federal awards to subrecipients during the year.

Non-Cash Federal Assistance: The Authority received no non-cash assistance during the year.

**Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements:**

Total federal Awards Expended:	\$980,154
Total expenditures by other sources:	<u>\$1,162,399</u>
Total expenditures:	\$2,142,553

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 JUNE 30, 2015

**SUMMARY OF AUDIT RESULTS**

***Financials Statements:***

- |  |                    |
|--|--------------------|
| 1. Type of auditors' report issued                     | Modified-Qualified |
| 2. Internal control over financial reporting:          |                    |
| a. Material weakness identified?                       | Yes                |
| b. Significant deficiencies identified?                | No                 |
| c. Noncompliance material to the financial statements? | Yes                |

***Federal Awards:***

- |   |                                    |
|---|------------------------------------|
| 3. Type of auditors' report issued  | Unmodified                         |
| 4. Internal control over financial reporting:                                     |                                    |
| d. Material weakness identified?  | Yes                                |
| e. Significant deficiencies identified?   | No                                 |
| 5. Any audit findings disclosed in accordance with Section 510(a) Circular A-133? | Yes                                |
| 6. Major programs?  | CFDA 14.850, Public Indian Housing |
| 7. Dollar threshold for Major Programs?   | \$300,000                          |
| 8. Auditee qualified as low risk?   | No                                 |

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**SECTION II – PRIOR YEAR AUDIT FINDINGS**

- FSHA 2008-007 (FSHA 08-07) Internal Control over Financial Reporting – Material Weakness – Resolved
- FSHA 2012-001 (FSHA 12-01) Deficiencies in Internal Control Structure Design, Operation, and Oversight – Material Weakness/ Noncompliance – Resolved
- FSHA 2012-002 (FSHA 12-02) Internal Controls/Segregation of Duties – Material Weakness – Repeated
- FSHA 2012-003 (FSHA 12-03) Internal Control Deviations – Disbursements – Material Weakness – Resolved
- FSHA 2012-004 (FSHA 12-04) Capital Assets Listing – Material Weakness/Material Noncompliance – Resolved
- FSHA 2012-005 (FSHA 12-05) RHC Reports and the General Ledger – Other Matter – Resolved
- FSHA 2012-007 (FSHA 12-07) Internal Control Deficiencies – Payroll – Material Weakness – Resolved
- FSHA 2012-008 (FSHA 12-08) Noncompliance with Procurement Code – Noncompliance – Resolved
- FSHA 2012-009 (FSHA 12-09) Cash Deposits not made timely – Other Matter – Repeated and Modified
- FSHA 2012-010 (FSHA 12-10) Stale Dated Transactions Not Cancelled – Noncompliance – Resolved
- FSHA 2012-011 (FSHA 12-11) Inventories – Material Weakness – Resolved
- FSHA 2012-012 (FSHA 12-12) Inadequate Review of Manual Journal Entries – Material Weakness – Resolved
- FSHA 2012-015 (FSHA 12-15) Procurement Code (Related Parties) – Significant Deficiency – Resolved
- FSHA 2013-001 (FSHA 13-01) Tenant Rent Receivables and Prepaid Rents – Material Weakness – Resolved
- FAHA 2012-002 (FAHA 12-02) Deficiencies in Internal Control Structure Design, Operation and Oversight – Mechanisms to Identify Risks of Inaccurate Financial Reporting – Material Weakness – Resolved
- FAHA 2012-003 (FAHA 12-03) Deficiencies in Internal Control Structure Design, Operation and Oversight – Tracking Property and Equipment Purchased with Federal Award Funds – Material Weakness/ Noncompliance – Resolved
- FAHA 2012-004 (FAHA 12-04) Reporting – Noncompliance – Resolved
- FAHA 2012-005 (FAHA 12-05) Circular A-87 Cost Principles and Allowable Activities – Material Weakness/Noncompliance – Resolved
- FAHA 2013-001 (FAHA 13-01) Lack of Proper Documentation in Tenant Files – Material Weakness/ Noncompliance – Repeated/Modified
- FSHA 2014-004 – Bank Reconciliation – Significant Deficiency-Resolved
- FSHA 2014-003 – Personal Use of Housing Authority Vehicle – Other Matter-Resolved
- FSHA 2014-002 – PERA Reports and the General Ledger – Other Matter-Resolved
- FSHA 2014-001 Travel and Per Diem – Noncompliance-Repeated /Modified



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**Financial Statement Findings**

**FSHA 2012-002 (FSHA 12-02) Internal Controls/Segregation of Duties – Material Weakness  
– Repeated/Modified**

*Condition:*

The Authority lacks adequate internal controls over its accounting processes. During review of internal control procedures, we noted that the prior Executive Director had the ability to perform management override over all major functions of the Authority related to the accounting processes.

*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 the authority 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 had in previous years contained misstatements related to alleged fraud, which were not detected within a timely manner. We believe the fraud has been corrected, but the previous issue has led to errors with the beginning account balances of the Authority.

*Cause:*

The Authority and Oversight Committee did not assess risks or implement internal controls to segregate duties.

*Auditors' Recommendation:*

We recommend that the Authority continue to monitor the risks involved with segregation of duties to the utmost.

*Agency's Progress: The Authority has made progress in regards to said issue, however minor issues with Per Diem and Grants remain. Richard Kontz will follow through with correction.*

*Agency's Response: Agency has corrected issue, finding should not remain in upcoming audits. Richard Kontz believes issue was corrected 8/30/2015.*

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**FSHA 2012-009 (FSHA 12-09) Cash Deposits not made timely – Compliance – Repeated /Modified**

*Condition:* During testwork performed over cash receipts 5 out of 5 receipts tested totaling \$5,973.29 were not deposited in a timely manner.

*Criteria:*

Good accounting practices require cash deposits to be made in a timely manner. Required by Section 6-6-3, NMSA 1978.

*Effect:* The Authority is not maintaining adequate controls over cash, which increases the risk of misappropriation of assets.

*Cause:* The Authority does not have procedures in place requiring staff to make deposits in a timely manner. In addition, supervisors are not overseeing the process.

*Auditors' Recommendation:* We recommend that the Authority establish policies and procedures for making timely cash deposits from department receipting locations.

*Agency's Progress:* The Authority has yet to correct this issue.

*Agency's Response:* Agency will follow policies and procedures in regards to matter. Richard Kontz hopes to have this corrected by 6/30/2016.

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**FSHA 2014-001 Travel and Per Diem – Material Noncompliance-Repeated/Modified**

*Condition:* During test-work over travel and per diem, we noted that 2 out of 5 transactions tested, the Authority over paid for actual mileage as well as paying for the gas itself.

*Criteria:* NMAC 2.2.10 G (2) requires the Authority to comply with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-8, for all per diem and reimbursement rates.

*Effect:* The risk that the Authority may be overpaying monies for reimbursements using public funds.

*Cause:* The noncompliance was due to an oversight by management during the travel internal control process.

*Auditors' Recommendation:* We recommend the Authority review the Per Diem and Mileage Act to ensure policies and procedures are in line with the requirements when paying per diem and travel reimbursements.

*Agency's Progress:* Issue has been improved, but issues still remain.

*Agency's Response:* Agency will follow policies and procedures in regards to matter. Richard Kontz hopes to have this corrected by 6/30/2016.

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**FEDERAL AWARD FINDINGS**

**FAHA 2013-001 (FAHA 13-01) Lack of Proper Documentation in Tenant Files – Noncompliance-Significant Deficiency – Repeated/Modified**

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development

Title: Public and Indian Housing

CFDA Number: 14.850

*Condition:* During test-work over 40 tenant files we noted the following:

- In one instances, the application for voluntary update is not signed, although the recertification paperwork is signed.
- In one instance, one of the adults living in the household did not sign the recertification application.
- In one instances, there is no supporting documentation for income used in the HUD-50058, and no follow-up on indication of additional income disclosed by the tenant.
- In one instance, tenant disclosed that they own a savings/Checking account. The value of this asset was not documented.

*Criteria:* In accordance with 24 CFR sections 5.230, 5.609, and 982.516, as a condition of admission or continued occupancy, the Housing Authority must require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility. The Housing Authority is also required to re-examine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification. The Housing Authority must establish and comply with policies in regards to its treatment of the Public Housing Waiting List. In addition, good accounting, program income, and cash management requires that rental income be properly collected, secured, recorded, and that tenant rent receivables be reconcilable to the general ledger control account.

*Questioned Costs:* None

*Effect:* The Housing Authority could be providing services to tenants who are not eligible for the program. As a result, it could affect funding for the program. The Housing Authority is at risk for fraud or misappropriation of its assets due to a lack of controls over the receipt and recording of rental income.

*Cause:* Files from Gallup Housing Authority lacked proper documentation and management of the Housing Authority did not provide sufficient monitoring to ensure that tenant files and eligibility determinations were being performed timely, that Forms HUD-50058 were accurate, that rent calculations were accurate, that waiting list policies were adhered to, that rent was being properly collected and recorded, or that tenant files were complete.

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*Auditors' Recommendation:* Management should implement an internal control structure to ensure that all files have the necessary supporting documentation to comply with eligibility, waiting list, and special reporting requirements as identified by the Department of Housing and Urban Development.

*Agency's progress:* Authority is near compliance with previous issue. The finding has been changed to non-compliance, and materiality has been removed.

*Agency's Response:* Clearly previous Executive Management and Program Management staff did not following existing policies and procedures. The corporate culture was one of incompetence and neglect. Clearly ethical behavior was not a high priority. The new Executive Management, Accounting and Program management staff are actively cleaning up the problems in this area. All staff are being held accountable for compliance issues and non-compliance will not be tolerated as in the past. In addition, a policy and procedure will be put in place for "peer file" review and/or requesting that the HUD Alb. Office sent a staff person annual to conduct a review of a significant sample of tenant files as well as Section 8 files. Richard Kontz hopes to have this corrected by 6/30/2016.

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EXIT CONFERENCE  
JUNE 30, 2015**

The contents of this report were discussed at an exit conference held November 10, 2015. The firm of Kubiak Melton & Associates, LLC was represented by Geoff Mamerow, Audit Manager.

The Gallup Housing Authority, was represented and Richard Kontz, Executive Director, Telisia Montano, Accounting Specialist, and Alfred Abeyta Sr., Chairperson.

The audited financial statements of the Gallup Housing Authority, a component unit of the City of Gallup, were prepared from the original books and records provided by and with the assistance of the management of the Authority and Kubiak Melton & Associates, LLC.