



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

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

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

For the Year Ended June 30, 2017

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

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Board of Directors

Board Member	Title
Alfred Abeita	Board Chairman
Joe Zecca	Board Vice-Chair
Jimmy Saucedo	Commissioner
Roger Morris	Commissioner
Vacant	Resident Member

Administrative Officers

Name	Title
Richard Kontz	Executive Director



INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management of
Gallup Housing Authority,
Gallup, New Mexico
and
Mr. Tim Keller, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Gallup Housing Authority (the Housing Authority), a component unit of the City of Gallup, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the Housing 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 misstatements, 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Housing Authority, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, the 2017 beginning balance of net position has been restated due to implementation of GASB 82.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, and the Schedules related to PERA and Net Pension Liabilities, listed as "Required Supplementary Information" in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements and budgetary comparison that collectively comprise the Housing Authority's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the financial data schedule required by the U.S. Department of Housing and Urban Development, and the other schedules listed as "other supplementary information" in the table of contents, required by 2.2.2 NMAC 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, the financial data schedule, and other schedules listed as other supplementary information in the table of contents, required by 2.2.2 NMAC, 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 auditing standards generally accepted in the United States of America. In our opinion, the additional schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017, on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Housing Authority's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.
Albuquerque, NM
November 21, 2017

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
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Management Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The primary focus of this MD&A is to discuss the financial statement for the Fiscal Year 2017 ending on June 30, 2017. Management will offer its opinion on the state of GHA finances and operations and goals and plans for improvement and addressing any audit findings which were noted.

Programs under GHA Management and Operation:

The GHA has four significant programs. They are described as follows:

- The *Low Rent Public Housing Program* consists of 267 dwelling units of which 256 (95.9%) were under lease at Fiscal Year-end; 4 units are planned for demolition and 6 units have structural foundation issues, which may render them unavailable for leasing, leaving one (1) unit available for leasing to a low-income family. After demolition of 4 units by FY2018 year-end, GHA will have 263 units under Housing management. Funding is provided annually by U.S. Department of Housing & Urban Development and through a formula Based Operating Subsidy calculated on the number of dwelling rents leased by the tenants. These operating fund payments can be drawn down from the Federal government on the first of each month. Fund 01 contains the accounting transaction records for the Public Housing Program.
- The *Capital Fund Program* is also a formula based program from HUD based on occupied building units in the GHA inventory. The purpose of this program is to provide funding for the modernization and improvement of Low Rent Housing under GHA management including surrounding eligible site improvements and for eligible community facilities (i.e. community parks). For FY2015 GHA was awarded \$339,706 in CFP funds and the remaining \$1,016 was expended as of Fiscal Year-end, closing out this grant. For FY2016 GHA was awarded \$347,586 in CFP funds and \$288,118 was expended as of Fiscal Year-end, leaving a balance of \$59,468 in grant funds remaining. By Fiscal Year-end, a 2017 CFP grant award of \$361,504 was received by GHA, but the actual grant award documents were not processed and sent to HUD until July 19, 2017. These resources primarily provide funds for capital improvements for the current dwelling structures and site improvements. A limited amount can be used to support operations, management improvements and major equipment purchases (i.e. vehicles) so long as those items are programmed in the required 5-year plans that must be submitted to HUD and approved by HUD prior to use of the CFP grant funds. Fund 02 contains the accounting transaction records for the Capital Fund Program grants.
- The *Housing Choice Voucher Program* provides housing rental assistance to aid low income families in paying rent to private land lords for affordable, decent, safe, and sanitary rental housing. The GHA provides rental assistance in the form of a monthly housing assistance payment to a landlord on behalf of the tenant. The difference between what the GHA provides and the total rental amount must be paid by the Tenant. For example: Total rent may be \$550 per month and GHA has determined the tenant is eligible for \$350 a month in housing rental assistance and therefore the tenant will pay \$200 per month out of pocket. Under the HCV program operates two sub-programs: The regular Section 8 HCV program and the VASH HCV program. GHA is currently authorized to issue 38 regular section 8 vouchers and 25 VASH vouchers. GHA at year-end had 16 tenants were housed under regular section 8 vouchers and 17 tenants were housed under VASH vouchers for a total of 33 tenants receiving housing rental assistance under the HCV programs. Funds for vouchers are provided by HUD to make rental assistance payments on behalf

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of eligible tenants. HUD also provides an administrative fee to GHA for the purpose of covering the administrative costs of the program. The administrative fee is computed by HUD on an annual basis and does not adequately cover the total cost of administering the programs. Fund 03 contains the accounting transaction records for the Housing Choice Voucher Program (both the regular Section 8 HCV program and the VASH HCV program).

- 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 had 8 tenants under this program. Due to non-compliance issues with the agency providing the 8 units at the Lexington Hotel the number dropped at one point to one authorized tenant and by year-end GHA was only paying rent for 4 tenants. If the “non-compliance” issues are not resolved in a timely manner, GHA may have to relocate the remaining tenants to another provider. Fund 06 contains the accounting transaction records for the Section 8 Mod Rehab Single Room Occupancy (SRO) Program.

Overview of the Financial Statements

The financial statements are comprised of three individual statements. These statements include:

The Statement of Net Assets 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, 2017, 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, 2017.

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Management Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

Financial Highlights

- The Gallup Housing Authority's net position decreased from \$8,053,918 to \$7,865,477, a decrease of \$242,113 or 3%.
- Total Assets and Deferred Outflows increased by \$97,212 or a 1% increase over last year going from \$8,821,721 to \$8,918,933.
- Total revenues increased from \$2,125,365 to \$2,180,190, an increase of \$54,825 or 3% as compared to last fiscal year-end.
- Total expenses increased by \$254,430, from \$2,123,401 to \$2,377,831 compared to last fiscal year-end. This represents an increase of 12%.

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, 2017, and June 30, 2016.

**Summary of Statement of Net Position
As of June 30,**

	<u>2017</u>	<u>2016</u>	<u>Percent Change</u>
Assets:			
Current assets	\$ 714,209	653,417	9%
Capital assets, net	7,871,964	8,078,246	-3%
Total assets	<u>8,586,173</u>	<u>8,731,663</u>	
Deferred outflows of resources	<u>332,760</u>	90,058	269%
Total assets and deferred outflows of resources	<u>\$ 8,918,933</u>	<u>8,821,721</u>	1%
Liabilities:			
Current liabilities	\$ 220,813	231,703	-5%
Non-current liabilities	<u>877,720</u>	<u>522,945</u>	68%
Total liabilities	1,098,533	754,648	46%
Deferred inflows of resources	<u>8,595</u>	<u>13,155</u>	-35%
Net position:			
Investment in capital assets	7,871,964	8,078,246	-3%
Unrestricted	<u>(60,159)</u>	<u>(24,328)</u>	147%
Total net position	<u>7,811,805</u>	<u>8,053,918</u>	-3%
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,918,933</u>	<u>8,821,721</u>	

Current Assets

Current assets increased from \$653,417 to \$714,209, an increase of \$60,792 or 9%. Unrestricted cash and investments increased from \$331,550 to \$396,081, an increase of \$64,530 from June 30, 2016 to

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June 30, 2017. Restricted cash amounted to \$52,654 as of June 30, 2017, which are the Tenant Security Deposits held in escrow by the Authority.

Account Fraud receivable at June 30, 2017, was reported as \$55,000, primarily due to an amount owed by the previous Executive Director and is completely allowed for a \$0.00 net effect on the financial statements.

Noncurrent Assets

Noncurrent assets decreased from \$8,078,246 on June 30, 2016 to \$7,871,964 on June 30, 2017, a decrease of \$206,282, or 2.6%.

Current Liabilities

Current liabilities decreased from \$231,703 to \$220,813, a decrease of \$10,890 or 4.7% from the previous year. This is primarily due to accounts payable to vendors, compensated absences and accrued payroll.

Non-Current Liabilities

Non-current liabilities increased by \$354,775 or 67.8%, again due primarily to the recording of pension liabilities in the current year.

Net Position

The overall net position of the Authority decreased by \$188,441 from June 30, 2016 to June 30, 2017, which amounts to a 2.3% decrease.

The Authority's unrestricted component of net position changed from \$(24,328) to \$(60,159) for a 73% increase in the current year. The primary reason for the change relates to adjustments made for GASB 68 and the restatement due to GASB 82 implementation.

The table below summarizes the overall operations for the past two years for the years ending June 30, 2017, and June 30, 2016.

**Summary of Statement of Revenues,
Expenditures, and Changes in Fund Net Position
As of June 30,**

Revenues:	<u>2017</u>	<u>2016</u>	<u>Percent Change</u>
Operating revenues	\$ 1,859,948	2,101,153	-11%
Non-operating revenues (expenses)	<u>320,242</u>	<u>24,212</u>	1223%
Total revenues	2,180,190	2,125,365	3%
 Expenses:			
Personnel services	808,966	726,349	11%
Other operating expenses	1,164,967	1,092,099	7%
Depreciation	<u>403,898</u>	<u>304,953</u>	32%
Total expenses	<u>2,377,831</u>	<u>2,123,401</u>	12%
 Change in net position	 \$ <u>(197,641)</u>	 <u>1,964</u>	

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For the Year Ended June 30, 2017**

Results of Operations

Revenues

- Revenues of the Authority are generated principally from Operating Subsidy and Capital Grants from the U.S. HUD, dwelling rents and various other tenant late fees, charges for damages and other charges/fees.
- The total HUD Operating Subsidy grants revenues available during this Fiscal Year amounted to \$870,726 of which \$770,061 was drawn down and \$100,665 still to be drawn down.
- Tenant rents amounted to \$766,013, which amounts to \$63,834 monthly. This was primarily due to the Authority staff being more aggressive in rent collections and have units “made ready for rent” in a timelier manner. Unit months leased increased to 2,918 to 2,993, which directly relates to increased operating subsidy funds.
- Non-operating revenues increased significantly from \$24,212 to \$303,739. This is mostly due to capital grants being presented under the non-operating revenues section of the financial statements in FY17, which were presented under operating revenues in previous years. Additionally, this area includes: excess utility charges, late fees, insurance proceeds, maintenance charges for tenant damages to units, and fraud recovery.
- The Authority received \$148,097 in HAP funds this year with an additional \$23,497 for HAP Admin fees; \$14,014 for port-ins from other Housing Authorities; and \$1,481 for Port-in Admin fees.
- The Authority received \$14,963 in SRO funds to make tenant landlord payments. As indicated under the Program description this program may be in jeopardy since the current the “site-based” landlord is in non-compliance with HUD on tenant eligibility issues.
- Capital grants when awarded allow the Authority to obligate and expend them over a 3-year period. This Fiscal Year the Authority received the remaining \$1,017 to cover 2015 CFP grant expenditures; and \$287,523 to cover 2016 CFP grant expenditures. By the end of FY2018 remaining 2016 CFP funds will be expended, and it is anticipated that 75% of the 2017 CFP funds will be obligated with 45 to 55% expended.
- Overall, total revenues increased by \$54,825 or 3% mainly due to adopting a “business mentality” in operations.

Expenses

- Overall total expenses increased from \$2,123,599 for June 30, 2016 to \$2,377,831 for June 30, 2017, an increase of \$254,430 or 12%. Significant changes are noted below:
 - Administrative costs dropped from \$65,851 last Fiscal Year to \$38,953 this Fiscal Year, a 41% drop. This was mainly due to the end of a consultant services contract with Bernalillo Housing and other cost cutting measures.

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- Personal Services [wages, salaries and benefits] increased by \$73,417 or 10%. This was due mainly to increased PERA costs and other employee benefits.
- Professional fees and expenses increased from \$43,732 last Fiscal Year to \$98,502 this Fiscal Year due to higher normal Legal and Information Technology fees and expenses. In the legal area, GHA had several situations which required legal advice and services. Due to aging equipment and the growing need to protect the GHA systems from various internet threats.
- Software vendor costs remain substantial at \$23,934 per annum.
- Utilities, which include telephone, water, sewer, electricity, natural gas, garbage collection and other related utilities continues to be substantial cost of \$406,830. The City of Gallup Joint Utilities provides water, sewer, electricity and garbage collection while Gas company of NM provided natural gas.
- General maintenance to repair and maintain all housing units is a major part of the operating budget at \$264,989 but this was a 4% decrease of \$11,274 from last Fiscal Year's expenditures of \$276,263. This includes general repair and dealing with site issues as well as refurbishing to make unit ready for leasing (termed unit turns). This does not include modernization paid for with Capital fund program grants.
- HAP and SRO expenses decreased substantially from \$200,446 to 169,485 for a 15.4% decrease for landlord payments. This is due to the Authority being unable to issue more Housing Choice vouchers for more tenants to be housing in private units and also the problems related to the agency that provides SRO units being in non-compliance resulting in a reduction of tenants housed with that agency.
- Collection losses increased from \$18,944 in 2016 to \$30,872 in 2017. This is mainly due to the Housing Manager enforcing all major lease violations regarding non-payment of rent and to eliminate threats to the community.
- Depreciation expense increased from \$304,953 in 2016 to \$403,898 in 2017. The amount increased due to significant prior year asset additions and immaterial adjustments to correct prior year accumulated depreciation.

Capital Assets:

As of June 30, 2017, the Gallup Housing Authority's net investment in capital assets was \$7,871,964 as compared to \$8,078,246 for June 30, 2016, which is a 2.6% drop in net investment in capital assets. This investment includes land, building, equipment, and construction in progress less accumulated depreciation. The amount doesn't include any debt related to the acquisition of these fixed assets.

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Management Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017**

Capital Assets As of June 30,			
	<u>2017</u>	<u>2016</u>	<u>Percent Change</u>
Land	\$ 1,593,833	1,593,833	0%
Construction in Progress	-	596	-100%
Buildings and improvements	13,804,172	13,644,350	1%
Equipment - Dwellings	56,659	56,659	0%
Equipment - Administration	<u>485,997</u>	<u>447,607</u>	9%
Total capital assets	15,940,661	15,743,045	
Less: Accumulated depreciation	<u>(8,068,697)</u>	<u>(7,664,799)</u>	5%
Capital assets, net	<u>\$ 7,871,964</u>	<u>8,078,246</u>	

Additions to the building and improvements category are made up on Capital Fund Project funds, which include renovations to the housing units.

Long Term Debt Liability

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 \$19,402. Based upon GASB 68 the Authority is required to show Pension Liability in the amount of \$865,934.

Prior Period Adjustments

The Authority reported prior year adjustments related to GASB 82 implementation.

Request for Information

This financial report is designed to provide a general overview of the Housing Authority's financial position as of June 30, 2017, 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 - PROPRIETARY FUNDS
AS OF JUNE 30, 2017**

	Low-Rent Public Housing (01 & 02)	Section 8 Housing Choice Vouchers Program (03)	Moderate Rehabilitation Single-Room Occupancy (06)	State & Local (07)	Total
ASSETS					
Current assets					
Cash and cash equivalents - unrestricted	\$ 282,599	96,859	16,623	-	396,081
Cash and cash equivalents - restricted	52,654	-	-	-	52,654
Grant receivables	116,002	1,141	-	-	117,143
Tenant receivables, net	6,695	-	-	-	6,695
Prepaid expenses and other current assets	11,964	237	-	-	12,201
Inventory, net	63,051	-	-	-	63,051
Due from other funds	49,651	-	16,733	-	66,384
Total current assets	<u>582,616</u>	<u>98,237</u>	<u>33,356</u>	-	<u>714,209</u>
Non-current assets					
Land and construction in progress	1,593,833	-	-	-	1,593,833
Other capital assets, net of accumulated depreciation	6,278,000	131	-	-	6,278,131
Total non-current assets	<u>7,871,833</u>	<u>131</u>	<u>-</u>	<u>-</u>	<u>7,871,964</u>
Total assets	8,454,449	98,368	33,356	-	8,586,173
Deferred outflows of resources					
Pension deferral	326,566	6,194	-	-	332,760
Total deferred outflows of resources	<u>326,566</u>	<u>6,194</u>	<u>-</u>	<u>-</u>	<u>332,760</u>
Total assets and deferred outflows of resources	<u>\$ 8,781,015</u>	<u>104,562</u>	<u>33,356</u>	<u>-</u>	<u>8,918,933</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 38,993	84	12,616	-	51,693
Accrued payroll liabilities	18,855	547	-	-	19,402
Due to other funds	608	19,113	-	46,663	66,384
Tenant security deposits	52,654	-	-	-	52,654
Unearned revenue	13,620	2,654	-	-	16,274
Compensated absences	14,260	145	-	-	14,406
Total current liabilities	<u>138,990</u>	<u>22,543</u>	<u>12,616</u>	<u>46,663</u>	<u>220,813</u>
Non-current liabilities					
Compensated absences	11,668	119	-	-	11,786
Net pension liability	853,847	12,087	-	-	865,934
Total non-current liabilities	<u>865,515</u>	<u>12,206</u>	<u>-</u>	<u>-</u>	<u>877,720</u>
Total liabilities	1,004,505	34,749	12,616	46,663	1,098,533
Deferred inflows of resources					
Pension deferral	8,423	172	-	-	8,595
Total deferred outflows of resources	<u>8,423</u>	<u>172</u>	<u>-</u>	<u>-</u>	<u>8,595</u>
NET POSITION					
Investment in capital assets	7,871,833	131	-	-	7,871,964
Unrestricted	(103,746)	69,510	20,740	(46,663)	(60,159)
Total net position	<u>7,768,087</u>	<u>69,641</u>	<u>20,740</u>	<u>(46,663)</u>	<u>7,811,805</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,781,015</u>	<u>104,562</u>	<u>33,356</u>	<u>-</u>	<u>8,918,933</u>

The accompanying notes are integral to these financial statements

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STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
AS OF JUNE 30, 2017**

	Low-Rent Public Housing (01 & 02)	Section 8 Housing Choice Vouchers Program (03)	Moderate Rehabilitation Single-Room Occupancy (06)	State & Local (07)	Total
OPERATING REVENUES					
Rental revenue	\$ 766,013	-	-	-	766,013
Other tenant revenue	36,652	-	-	-	36,652
Subsidy grants	870,726	171,594	14,963	-	1,057,283
Total revenues	1,673,391	171,594	14,963	-	1,859,948
OPERATING EXPENSES					
Personnel services - salaries and wages	504,579	7,952	1,570	-	514,101
Personnel services - employee benefits	290,433	4,283	149	-	294,865
Administrative	38,079	696	178	-	38,953
Professional fees	96,208	2,917	394	-	99,519
Advertising	4,538	201	41	-	4,780
Supplies	31,418	262	53	-	31,733
Memberships and dues	3,453	40	8	-	3,501
Tenant services	23,934	-	-	-	23,934
Utilities	406,794	30	6	-	406,830
Maintenance and repairs	264,989	-	-	-	264,989
Insurance	78,768	1,104	-	-	79,872
Housing assistance	-	162,111	7,374	-	169,485
Bad debt	29,334	1,538	-	-	30,872
Staff training	6,595	1,723	353	-	8,671
Travel	1,822	6	-	-	1,828
Depreciation	403,889	9	-	-	403,898
Total operating expenses	2,184,833	182,872	10,126	-	2,377,831
Operating income (loss)	(511,442)	(11,278)	4,837	-	(517,883)
NON-OPERATING REVENUES (EXPENSES)					
Capital grants	288,539	-	-	-	288,539
Interest income	18	17	-	-	35
Miscellaneous income	16,173	15,495	-	-	31,668
Total non-operating revenues (expenses)	304,730	15,512	-	-	320,242
Income (loss) before contributions and transfers	(206,712)	4,234	4,837	-	(197,641)
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Change in net position	(206,712)	4,234	4,837	-	(197,641)
Beginning net position	8,018,826	65,852	15,903	(46,663)	8,053,918
Restatement	(44,027)	(445)	-	-	(44,472)
Beginning net position as restated	7,974,799	65,407	15,903	(46,663)	8,009,446
Ending net position	\$ 7,768,087	69,641	20,740	(46,663)	7,811,805

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Low-Rent Public Housing (01 & 02)	Section 8 Housing Choice Vouchers Program (03)	Moderate Rehabilitation Single-Room Occupancy (06)	State & Local (07)	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from tenants	\$ 713,496	8,163	-	-	721,659
Payments to employees	(731,418)	(13,276)	(1,719)	-	(746,413)
Payments to suppliers	(857,992)	(220,507)	(13,244)	-	(1,091,743)
Receipts from subsidy grants	870,726	171,594	14,963	-	1,057,283
<i>Net cash provided (used) by operating activities</i>	(5,188)	(54,026)	-	-	(59,214)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Miscellaneous income	16,173	15,495	-	-	31,668
<i>Net cash provided (used) by non-capital and related financing activities</i>	16,173	15,495	-	-	31,668
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(197,476)	(140)	-	-	(197,616)
Capital grants	288,539	-	-	-	288,539
<i>Net cash provided (used) by capital and related financing activities</i>	91,063	(140)	-	-	90,923
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	18	17	-	-	35
<i>Net cash provided (used) by investing activities</i>	18	17	-	-	35
Net increase (decrease) in cash and cash equivalents	102,066	(38,654)	-	-	63,412
Balances-beginning of year	233,187	135,513	16,623	-	385,323
Balances-end of year	\$ 335,253	96,859	16,623	-	448,735
Reconciliation of operating income/(loss) to net cash provided by (used for) operating activities:					
Operating income/(loss)	\$ (511,442)	(11,278)	4,837	-	(517,883)
Depreciation expense	403,889	9	-	-	403,898
Pension expense	61,121	1,247	-	-	62,368
Bad debt expense	29,334	1,538	-	-	30,872
Restatement	-	-	-	-	-
Change in assets and liabilities:					
Receivables	(91,317)	6,038	-	-	(85,279)
Prepaid expenses	22,627	110	-	-	22,737
Inventory	1,030	-	-	-	1,030
Accounts payable	26,351	4	10,895	(18,663)	18,587
Accrued liabilities	962	(2,273)	-	-	(1,311)
Due from/to	48,598	(51,531)	(15,732)	18,663	(2)
Tenant security deposits	(1,118)	-	-	-	(1,118)
Unearned revenue	3,266	2,125	-	-	5,391
Compensated absences	1,511	(15)	-	-	1,496
<i>Net cash provided (used) by operating activities</i>	\$ (5,188)	(54,026)	-	-	(59,214)

The accompanying notes are integral to these financial statements

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Gallup Housing Authority (the “Housing 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 Housing 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 Housing 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 Housing Authority is presented to assist in the understanding of the Housing Authority’s financial statements. The financial statements and notes are the representation of the Housing Authority’s management who are responsible for their integrity and objectivity. The financial statements of the Housing Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The following funds are maintained by the Housing Authority:

Low Rent Public Housing Program:

Fund 01 – Low Rent Public Housing – 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 Housing Authority.

Fund 02 - 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.

Section 8 Housing Choice Voucher Program:

Fund 03 - 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.

Section 8 Mod Rehab Single Room Occupancy (SRO):

Fund 06 – Program is a rental assistance program whereby rental assistance payments are restricted to particular units to provide housing for homeless individuals.

State & Local:

Fund 07 – To record and disclose the debt/liability and payments on/to NM MFA for the HPRP Grant award that was misused in prior years, and being paid back.

The Housing Authority has determined that all its funds are major funds.

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Notes to the Financial Statements
For the Year Ended June 30, 2017**

A. Reporting Entity

In evaluating how to define the Housing Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluation potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the Housing Authority and is generally available to its citizens.

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 Housing Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Housing Authority has no component units; however, the Housing Authority is a component unit of the City of Gallup.

The City of Gallup issues 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, 110 West Aztec Avenue, Gallup, New Mexico 87301.*

B. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The Housing Authority's proprietary (enterprise) funds are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All assets and all liabilities associated with the operations are included on the Statement of Net 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 Housing Authority's programs are accounted for as one business-type activity for financial reporting purposes. The Housing 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 Housing Authority's financial statements.

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
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Notes to the Financial Statements
For the Year Ended June 30, 2017**

C. Revenue Recognition

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are not considered earned and are categorized as unearned revenue.

Grants and subsidies will be recognized as revenue when all applicable eligibility requirements have been met. For subsidy programs (i.e. Low Rent and Section 8 Certificate & Voucher Programs), the annual appropriation can be recognized upon approval of the annual budget. Subsidy revenues must be adjusted at year-end for contractual adjustments based on differences between estimated and actual funding requirements (for example when notification is received of the approved funding level for the subsidy program, the PHA may record a receivable and revenue for the award amount).

The Housing 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.

All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is received.

D. Cash and Cash Equivalents

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

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

State regulations require that uninsured demand deposits and deposit-type investments, such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized, with higher requirements up to one hundred percent (100%) for financially troubled institutions. If the securities pledged are United States government securities, they are pledged at market value; if they are New Mexico municipal bonds, they are pledged at par value. For the purpose of the Statement of Cash Flows, the Housing Authority considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
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Notes to the Financial Statements
For the Year Ended June 30, 2017**

E. 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.

F. 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 Housing Authority is valued at cost.

G. Restricted Cash and Cash Equivalents

Certain resources set aside in escrow for security deposits of \$52,654, 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 \$52,654 is reported as restricted, as the use of those funds is limited.

H. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Housing Authority's financial statements. Prepaid expenses mostly consisted of various prepaid insurance policies totaling \$12,202 at June 30, 2017.

I. Capital Assets

Capital assets, which include property and equipment, are defined by the Housing Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense capitalized by the Housing Authority during the current fiscal year was \$0. No interest was included as part of the cost of capital assets under construction.

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

<u>Classification</u>	<u>Estimated Useful Life</u>
Buildings and improvements	40 years
Equipment - dwelling	5 - 7 years
Equipment - administration	5 - 7 years

J. 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.

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
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Notes to the Financial Statements
For the Year Ended June 30, 2017**

K. Compensated Absences

The Housing 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 Housing 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.

L. Net Position

The proprietary fund financial statements utilize a net position presentation. Net position is categorized in the following three categories: investment in capital assets (net of related debt), restricted and unrestricted.

1. *Investment in capital assets (net of related debt)* – Is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Housing Authority did not have any related debt during the year ended June 30, 2017.
2. *Restricted net position* – Consist of net position with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation or federal law.
3. *Unrestricted net position* – Consist of assets, deferred outflows, less liabilities, deferred inflows, after the amount invested in capital assets and any restricted and designated net position have been subtracted.

M. 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 Housing Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

N. 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.

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GALLUP HOUSING AUTHORITY
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Notes to the Financial Statements
For the Year Ended June 30, 2017**

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

O. Use of Estimates

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

P. Budgets

The Housing 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 Housing 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, 2017 and the HUD budget period is not complete as of that date.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then.

The Housing Authority has the following deferred outflows of resources as of June 30, 2017:

<u>Deferred Outflows of Resources</u>		<u>2017</u>
Pension deferrals	\$	<u>332,760</u>
Total deferred outflows of resources	\$	<u>332,760</u>

In addition to liabilities, the statement of net position and/or the balance sheet for the governmental funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position/fund balance that applied to a future period and so will not be recognized until then. The Housing Authority has the following deferred outflows of resources as of June 30, 2017:

<u>Deferred Inflows of Resources</u>		<u>2017</u>
Pension deferrals	\$	<u>8,595</u>
Total deferred inflows of resources	\$	<u>8,595</u>

R. Evaluation of Subsequent Events

Subsequent events are events or transactions that occur after the statement of net position date but before the financial statements are issued. The Housing Authority recognizes in the financial statements the

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For the Year Ended June 30, 2017**

effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The Housing Authority's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position but arose after the statement of net position date and before financial statements are available to be issued. The organization has evaluated subsequent events through November 21, 2017, which is the date the financial statements were available to be issued.

NOTE 2—CASH AND CASH EQUIVALENTS

The Housing Authority's cash balances consist of demand deposits. The Housing Authority's cash balances totaled the following as of June 30:

Cash and Cash Equivalents	2017
Unrestricted	
Pinnacle Bank	\$ 312,577
US Bank	80,192
Wells Fargo	3,062
Petty cash	250
Total unrestricted	396,081
Restricted Cash	
Pinnacle Bank - Tenant security deposits	52,654
Total restricted	52,654
Total cash and cash equivalents	\$ 448,735

State statutes authorize the investment of the Housing Authority's 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 Housing Authority properly following State investment requirements as of June 30, 2017.

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 Housing 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 government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits, and interest bearing NOW accounts of an institution in the

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For the Year Ended June 30, 2017**

same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Specific details of the collateralization of the Housing Authority's deposits are included on the Schedule of Cash and Investments and Schedule of Collateral as listed in the table of contents.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Housing Authority's deposits may not be returned to it. State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposits be collateralized by the depository thrift or banking institution. At present, state statute requires that a minimum of 50% of uninsured balances on deposit with any one institution must be collateralized, with higher requirements up to 100% for financially troubled institutions.

As of June 30, 2017, the Housing Authority's bank and investment balances of \$448,734 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized (fully covered)	\$	-
Uninsured, collateral held by the pledging banks, but not in the name of the Housing Authority		<u>136,263</u>
	\$	<u><u>136,263</u></u>

As of June 30, 2017, all the Housing Authority's uninsured deposits were collateralized with securities held by pledging financial institution's trust department or agent in the Housing Authority's name.

Specific details of the collateralization of the Housing Authority's deposits are included on the Schedule of Collateral as listed in the table of contents.

NOTE 3—RECEIVABLES

As of June 30, 2017 the Housing Authority had the following outstanding receivables:

Type		2017
Grants receivable	\$	117,143
Tenant receivables		11,084
Other receivables		55,000
Allowance for doubtful accounts		<u>(59,389)</u>
Total	\$	<u><u>123,838</u></u>

NOTE 4—INTER-PROGRAM BALANCES AND TRANSFERS

The Housing Authority records interfund transfers to reflect activity occurring between funds. There were no interfund transfers as of June 30, 2017.

The Housing Authority recorded interfund receivables/payables to reflect temporary loans between funds. The purpose of the loans was to cover cash shortages until grant reimbursements or other funding measures could be obtained

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Notes to the Financial Statements
For the Year Ended June 30, 2017**

All interfund receivables/payables are expected to be repaid within one year. Interfund balances as of June 30, 2017 are as follows:

<u>Due From</u>	<u>Due To</u>	<u>2017</u>
Section 8 Housing Choice Vouchers Program	Low-Rent Public Housing	\$ 2,987
State & Local	Low-Rent Public Housing	46,664
Moderate Rehabilitation Single-Room Occupancy	Low-Rent Public Housing	607
Section 8 Housing Choice Vouchers Program	Moderate Rehabilitation Single-Room Occupancy	16,126
		<u>\$ 66,384</u>

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

NOTE 5—ACCRUED LIABILITIES

Accrued liabilities at June 30, consist of the following:

<u>Type</u>	<u>2017</u>
Accrued payroll liabilities	\$ 19,402
Total	<u>\$ 19,402</u>

NOTE 6—UNEARNED REVENUE

Unearned revenues at June 30, consist of the following:

<u>Type</u>	<u>2017</u>
Tenant prepaid rent	\$ 16,274
Total	<u>\$ 16,274</u>

NOTE 7—PERA PENSION PLAN

A—Plan Description

Substantially all of the Housing Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

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GALLUP HOUSING AUTHORITY
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Notes to the Financial Statements
For the Year Ended June 30, 2017**

B—Funding Policy

The Housing Authority contributes to the Municipal Plan #3. Under Municipal Plan #3, state statute requires that plan members contribute 14.65% of their gross salary. The Housing Authority is required to contribute 9.55% of the gross covered salary. The contribution requirements of plan members and the Housing Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Additionally, the Housing Authority has elected to pick-up a portion of the employee contributions. In 1990, under the municipal employer “option”, the Housing Authority Board of Commissioners passed a resolution making the Housing Authority responsible for making contributions of 75% of its employees’ member contributions.

The following table details the actual contribution rates:

	Housing Authority With Pick-Up	Employee	Total
Regular members <\$20,000	20.54%	2.16%	22.70%
Regular members >\$20,000	20.54%	3.66%	24.20%

The Housing Authority’s contributions to PERA for the following fiscal years is identified below:

	2017	2016	2015
Housing Authority contributions	\$ 46,639	44,395	41,035
Housing Authority contributions picked up on behalf of employee	53,671	44,472	43,375
Employee contributions	17,874	23,632	20,539
Total contributions	<u>\$ 118,184</u>	<u>112,499</u>	<u>104,949</u>

NOTE 8—PENSION PLAN AND POST EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

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 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’s. 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.

General Information about the Pension Plan

Plan description – *Public Employees Retirement Fund* is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, 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 Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the

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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), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits provided – Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II – The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions – See PERA's publicly available financial report and comprehensive annual financial report obtained at <http://saonm.org/> using the Audit Report Search function for agency 366, for the employer and employee contribution rates in effect for fiscal year, 2017.

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

Municipal General Division, at June 30, 2017, the Housing Authority reported a liability of \$865,934 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The Housing Authority's proportion of the net pension liability was based on a projection of the Housing Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the

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Housing Authority's proportion was 0.0542%, which was an increase of 0.004% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Housing Authority recognized PERA Fund Division; Municipal General Division pension expense of \$108,950.

At June 30, 2017, the Housing Authority reported PERA Fund Division; Municipal General Division deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

<u>Municipal General Division</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 43,266	8,451
Changes of assumptions	50,777	144
Net difference between projected and actual earnings on pension plan investments	159,330	-
Change in proportion and differences between Housing Authority contributions and proportionate share of contributions	32,748	-
Housing Authority contributions subsequent to the measurement date	46,639	-
Total	<u>\$ 332,760</u>	<u>8,595</u>

\$46,639 reported as deferred outflows of resources related to pensions resulting from the Housing Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Amount
2018	\$ (64,115)
2019	(64,115)
2020	(108,063)
2021	(41,233)
2022	-
Thereafter	-

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Actuarial assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, Open
Amortization period	Solved for based on statutory rates
Asset valuation method	Fair Value
Actuarial assumptions	
Investment rate of return	7.48% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll growth	2.75% for first 10 years, then 3.25 annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	Includes inflation at 2.25% for the first 10 years and 2.75% thereafter
Mortality assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience study dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2015 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2016. These assumptions were adopted by the Board use in the June 30, 2015 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method 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 allocation and 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>
Global Equity	43.5%	7.39%
Risk Reduction & Mitigation	21.5%	1.79%
Credit Oriented Fixed Income	15.0%	5.77%
Real Assets	20.0%	7.35%
Total	<u>100.0%</u>	

Discount rate – A single discount rate of 7.48% was used to measure the total pension liability as of June 30, 2016. This rate was an increase from the fiscal year 2016 rate of 7.45%. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.48%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected

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future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the Housing Authority’s proportionate share of the net pension liability to changes in the discount rate – The following presents the Housing Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.48 percent, as well as what the employer name’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.48 percent) or 1-percentage-point higher (8.48 percent) than the current rate:

PERA Fund Division - Municipal General Division	1% Decrease (6.48)%	Current Discount Rate (7.48)%	1% Increase (8.48)%
Housing Authority’s proportionate share of the net pension liability	\$ 1,291,030	\$ 865,934	\$ 513,338

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERA financial reports, available at <http://www.nmpera.org/>.

NOTE 9—POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

A—Plan Description

The 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.

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 at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

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B—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.

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. During the fiscal year ended June 30, 2017, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee is required to contribute 1.0% of their salary.

For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4 and 5; municipal fire member coverage plan 3, 4 and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2017, 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. 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 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.

The Housing Authority's contributions to the RHCA for the years ended June 30, 2017, 2016, and 2015 were \$9,572, \$10,398, and \$8,795, respectively, which equal the required contributions for each year.

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Notes to the Financial Statements
For the Year Ended June 30, 2017**

NOTE 10—PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment are summarized as follows:

Business Type Activities	Balance 2016	Additions	Deletions	Adjustments	Balance 2017
Capital assets not being depreciated:					
Land	\$ 1,593,833	-	-	-	1,593,833
Construction in progress	596	-	-	(596)	-
Total capital assets not being depreciated	<u>1,594,429</u>	<u>-</u>	<u>-</u>	<u>(596)</u>	<u>1,593,833</u>
Capital assets being depreciated:					
Buildings and improvements	13,644,350	159,226	-	596	13,804,172
Equipment - Dwellings	56,659	-	-	-	56,659
Equipment - Administration	447,607	38,390	-	-	485,997
Total capital assets being depreciated	<u>14,148,616</u>	<u>197,616</u>	<u>-</u>	<u>596</u>	<u>14,346,828</u>
Less accumulated depreciation for:					
Buildings and improvements	(7,225,050)	(376,540)	-	-	(7,601,590)
Equipment - Dwellings	(56,659)	-	-	-	(56,659)
Equipment - Administration	(383,090)	(27,358)	-	-	(410,448)
Total accumulated depreciation	<u>(7,664,799)</u>	<u>(403,898)</u>	<u>-</u>	<u>-</u>	<u>(8,068,697)</u>
Total capital assets being depreciated	6,483,817	(206,282)	-	596	6,278,131
Capital assets, net	<u>\$ 8,078,246</u>	<u>(206,282)</u>	<u>-</u>	<u>-</u>	<u>7,871,964</u>

For the year ended June 30, 2017, depreciation expense was \$403,898. As of the year ended June 30, 2017, the Housing Authority had no idle equipment.

NOTE 11—CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2017 is as follows:

	Balance 2016	Additions	Deletions	Balance 2017	Due Within One Year
Compensated absences	\$ 24,696	29,920	(28,424)	26,192	14,406
Net pension liability	511,832	354,102	-	865,934	-
Total	<u>\$ 536,528</u>	<u>384,022</u>	<u>(28,424)</u>	<u>892,126</u>	<u>14,406</u>

Prior year compensated absences have been liquidated by the operating fund. No short-term debt was incurred during fiscal years 2017 or 2016.

NOTE 12—RISK MANAGEMENT

The 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 Housing 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 Housing

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For the Year Ended June 30, 2017**

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 13—LEASE COMMITMENTS

The Housing Authority had no lease commitments as of June 30, 2017.

NOTE 14—CONTINGENT LIABILITY

Legal Proceedings – The Housing Authority is subject to various legal proceedings that arise in the ordinary course of the Authority’s operations. In the opinion of the Housing 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 Housing Authority.

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 15 – 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), as the use of those funds is restricted by enabling legislation. As of June 30, 2017, the Housing Authority did not have any restricted net position.

NOTE 16 – CONCENTRATIONS

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

NOTE 17 – DEFICIT FUND BALANCE

The following funds incurred a deficit fund balance at June 30, 2017:

<u>Fund</u>	<u>Amount</u>
State & Local (07)	\$ (46,663)

Management intends to transfer sufficient funds from the Low-Rent Public Housing Fund to cover any deficits.

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Notes to the Financial Statements
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NOTE 18 – RESTATEMENTS

The following restatements were made:

<u>Fund</u>	<u>Description</u>	<u>2017</u>
Low-Rent Public Housing (01 & 02)	GASB Statement No. 82 requires a restatement of employer “pickup” contributions that are now considered employee contributions for purposes of calculations of the employer allocation percentage in GASB Statement No. 68 entries. As a result, Deferred Outflows were restated.	
Section 8 Housing Choice Voucher Program (03)		\$ (44,027)
Total restatements		(445) \$ <u>(44,472)</u>

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Housing Choice Voucher Program	14.871	\$ 171,594
Low Rent Public Housing Program	* 14.850	870,726
Public Housing Capital Fund Program	14.872	288,539
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	14,963
Total Direct from U.S. Housing and Urban Development		<u>1,345,822</u>
Total Expenditures of Federal Awards		<u>\$ 1,345,822</u>

* = Denotes major program

Reconciliation of federal expenditures to federal revenues:

Federal revenue per Statement of Activities	\$ 1,345,822
Federal awards expended per SEFA	<u>1,345,822</u>
Difference	<u>\$ -</u>

SELECTED DISCLOSURES:

1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant expenditure activity for the financial statements of the organization. The schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance.

2 - Non-Cash Federal Assistance

No non-cash federal assistance was received during the year ended June 30, 2017.

3 - Subrecipients

The organization provided no federal awards presented above to sub-recipients during the year.

4 - Federal Insurance

The organization is re-deemed an employee of the Federal Government for the purposes of malpractice liability protection under the Federal Tort Claims Act (FTCA) during the budget period, for the period this audit report covers.

5 - Indirect Cost Rate

The organization did not use the 10 percent de minimis indirect cost rate.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY OF GALLUP HOUSING AUTHORITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY OF PERA FUND DIVISION;
MUNICIPAL GENERAL DIVISION
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	Measurement Date as of		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
The Housing Authority's proportion of the net pension liability (asset) (%)	0.0542%	0.0502%	0.0500%
The Housing Authority's proportionate share of the net pension liability (asset) (\$)	\$ 865,934	511,832	390,054
The Housing Authority's covered payroll	\$ 464,869	429,686	413,066
The Housing Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	186%	119%	94%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	76.99%	81.29%

**Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Housing Authority is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY OF GALLUP HOUSING AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
PERA FUND DIVISION; MUNICIPAL GENERAL DIVISION
LAST 10 FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 46,639	44,395	41,035
Contributions in relation to the contractually required contribution	<u>46,639</u>	<u>44,395</u>	<u>41,035</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
Housing Authority's covered payroll	\$ 488,366	464,869	429,686
Contributions as a percentage of covered payroll	9.55%	9.55%	9.55%

**Governmental Accounting Standards Board Statement 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the Housing Authority is not available prior to fiscal year 2015, the year the statement's requirements became effective.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2017**

Changes of Benefit Terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>

Changes of Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2016 report is available at <http://www.nmpera.org/>

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SCHEDULE OF CASH AND CASH EQUIVALENTS
AS OF JUNE 30, 2017

Financial Institution	Account Type	Reconciled Balance	Balance Per Bank	Treasury Obligations or FDIC Coverage	Total Uninsured	Required Collateral Coverage	Collateral Requirement	Collateral Pledged	Over/ (Under) Collateralized
Petty cash	Petty cash	\$ 250							
Pinnacle Bank	Checking	365,231	386,263	250,000	136,263	50%	68,132	116,258	48,127
US Bank	Checking	80,192	81,553	81,553	-	50%	-	-	-
Wells Fargo	Checking	3,062	3,061	3,061	-	50%	-	-	-
Total cash and cash equivalents		<u>\$ 448,735</u>	<u>470,877</u>	<u>334,614</u>	<u>136,263</u>		<u>68,132</u>	<u>116,258</u>	<u>48,127</u>

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SCHEDULE OF COLLATERAL
AS OF JUNE 30, 2017

<u>Bank</u>	<u>CUSIP</u>	<u>Amount Pledged</u>	<u>Coupon or Rate</u>	<u>Maturity Date</u>
Pinnacle Bank GNMA2 4202	#36202EU31	\$ <u>116,258</u>	4.500%	8/20/2023
		\$ <u><u>116,258</u></u>		

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FINANCIAL DATA SCHEDULE - BALANCE SHEET
AS OF JUNE 30, 2017

Line Item Number	Description	14.249 Section 8				Subtotal	ELIM	Total
		Project Total	14.871 Housing Choice Vouchers	Moderate Rehabilitation Single Room Occupancy	2 State/ Local			
111	Cash - Unrestricted	\$ 282,599	96,859	16,623	-	396,081	-	396,081
112	Cash - Restricted - Modernization and Development	-	-	-	-	-	-	-
113	Cash - Other Restricted	-	-	-	-	-	-	-
114	Cash - Tenant Security Deposits	52,654	-	-	-	52,654	-	52,654
115	Cash - Restricted for Payment of Current Liabilities	-	-	-	-	-	-	-
100	Total Cash	335,253	96,859	16,623	-	448,735	-	448,735
121	Accounts Receivable - PHA Projects	-	-	-	-	-	-	-
122	Accounts Receivable - HUD Other Projects	116,002	1,141	-	-	117,143	-	117,143
124	Accounts Receivable - Other Government	-	-	-	-	-	-	-
125	Accounts Receivable - Miscellaneous	-	-	-	-	-	-	-
126	Accounts Receivable - Tenants	11,084	-	-	-	11,084	-	11,084
126.1	Allowance for Doubtful Accounts - Tenants	(4,389)	-	-	-	(4,389)	-	(4,389)
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-
127	Notes, Loans, & Mortgages Receivable - Current	-	-	-	-	-	-	-
128	Fraud Recovery	55,000	1,538	-	-	56,538	-	56,538
128.1	Allowance for Doubtful Accounts - Fraud	(55,000)	(1,538)	-	-	(56,538)	-	(56,538)
129	Accrued Interest Receivable	-	-	-	-	-	-	-
120	Total Receivables, Net of Allowances for Doubtful Accounts	122,697	1,141	-	-	123,838	-	123,838
131	Investments - Unrestricted	-	-	-	-	-	-	-
132	Investments - Restricted	-	-	-	-	-	-	-
135	Investments - Restricted for Payment of Current Liability	-	-	-	-	-	-	-
142	Prepaid Expenses and Other Assets	11,965	237	-	-	12,202	-	12,202
143	Inventories	70,057	-	-	-	70,057	-	70,057
143.1	Allowance for Obsolete Inventories	(7,006)	-	-	-	(7,006)	-	(7,006)
144	Inter Program Due From	49,650	-	16,733	-	66,383	(66,383)	-
145	Assets Held for Sale	-	-	-	-	-	-	-
150	Total Current Assets	582,616	98,237	33,356	-	714,209	(66,383)	647,826
161	Land	1,593,833	-	-	-	1,593,833	-	1,593,833
162	Buildings	13,804,172	-	-	-	13,804,172	-	13,804,172
163	Furniture, Equipment & Machinery - Dwellings	56,659	-	-	-	56,659	-	56,659
164	Furniture, Equipment & Machinery - Administration	471,055	14,942	-	-	485,997	-	485,997
165	Leasehold Improvements	-	-	-	-	-	-	-
166	Accumulated Depreciation	(8,053,886)	(14,811)	-	-	(8,068,697)	-	(8,068,697)
167	Construction in Progress	-	-	-	-	-	-	-
168	Infrastructure	-	-	-	-	-	-	-
160	Total Capital Assets, Net of Accumulated Depreciation	7,871,833	131	-	-	7,871,964	-	7,871,964
171	Notes, Loans and Mortgages Receivable - Non-Current	-	-	-	-	-	-	-
172	Notes, Loans, & Mortgages Receivable - Non Current - Past Due	-	-	-	-	-	-	-
173	Grants Receivable - Non Current	-	-	-	-	-	-	-
174	Other Assets	-	-	-	-	-	-	-
176	Investments in Joint Ventures	-	-	-	-	-	-	-
180	Total Non-Current Assets	7,871,833	131	-	-	7,871,964	-	7,871,964
200	Deferred Outflow of Resources	326,566	6,194	-	-	332,760	-	332,760
290	Total Assets and Deferred Outflow of Resources	\$ 8,781,015	104,562	33,356	-	8,918,933	(66,383)	8,852,550
311	Bank Overdraft	\$ -	-	-	-	-	-	-
312	Accounts Payable <= 90 Days	14,020	84	-	-	14,104	-	14,104
313	Accounts Payable >90 Days Past Due	-	-	-	-	-	-	-
321	Accrued Wage/Payroll Taxes Payable	18,855	547	-	-	19,402	-	19,402
322	Accrued Compensated Absences - Current Portion	14,260	145	-	-	14,405	-	14,405
324	Accrued Contingency Liability	-	-	-	-	-	-	-
325	Accrued Interest Payable	-	-	-	-	-	-	-
331	Accounts Payable - HUD PHA Programs	-	-	12,616	-	12,616	-	12,616
332	Account Payable - PHA Projects	-	-	-	-	-	-	-
333	Accounts Payable - Other Government	-	-	-	-	-	-	-
341	Tenant Security Deposits	52,654	-	-	-	52,654	-	52,654
342	Unearned Revenue	13,620	2,654	-	-	16,274	-	16,274
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-
344	Current Portion of Long-term Debt - Operating Borrowings	-	-	-	-	-	-	-
345	Other Current Liabilities	-	-	-	-	-	-	-
346	Accrued Liabilities - Other	24,974	-	-	-	24,974	-	24,974
347	Inter Program - Due To	607	19,113	-	46,663	66,383	(66,383)	-
348	Loan Liability - Current	-	-	-	-	-	-	-
310	Total Current Liabilities	138,990	22,543	12,616	46,663	220,812	(66,383)	154,429

STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
FINANCIAL DATA SCHEDULE - BALANCE SHEET
AS OF JUNE 30, 2017

Line Item Number	Description	14.249 Section 8				Subtotal	ELIM	Total
		Project Total	14.871 Housing Choice Vouchers	Rehabilitation Single Room Occupancy	Moderate 2 State/ Local			
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-
352	Long-term Debt, Net of Current - Operating Borrowings	-	-	-	-	-	-	-
353	Non-current Liabilities - Other	-	-	-	-	-	-	-
354	Accrued Compensated Absences - Non Current	11,668	119	-	-	11,787	-	11,787
355	Loan Liability - Non Current	-	-	-	-	-	-	-
356	FASB 5 Liabilities	-	-	-	-	-	-	-
357	Accrued Pension and OPEB Liabilities	853,847	12,087	-	-	865,934	-	865,934
350	Total Non-Current Liabilities	<u>865,515</u>	<u>12,206</u>	<u>-</u>	<u>-</u>	<u>877,721</u>	<u>-</u>	<u>877,721</u>
300	Total Liabilities	1,004,505	34,749	12,616	46,663	1,098,533	(66,383)	1,032,150
400	Deferred Inflow of Resources	8,423	172	-	-	8,595	-	8,595
508.4	Net Investment in Capital Assets	7,871,833	131	-	-	7,871,964	-	7,871,964
511.4	Restricted Net Position	-	-	-	-	-	-	-
512.4	Unrestricted Net Position	(103,746)	69,510	20,740	(46,663)	(60,159)	-	(60,159)
513	Total Equity - Net Assets / Position	<u>7,768,087</u>	<u>69,641</u>	<u>20,740</u>	<u>(46,663)</u>	<u>7,811,805</u>	<u>-</u>	<u>7,811,805</u>
600	Total Liabilities, Deferred Inflows of Resources and Equity - Net	<u>\$ 8,781,015</u>	<u>104,562</u>	<u>33,356</u>	<u>-</u>	<u>8,918,933</u>	<u>(66,383)</u>	<u>8,852,550</u>

STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
FINANCIAL DATA SCHEDULE - STATEMENT OF REVENUES AND EXPENDITURES
AS OF JUNE 30, 2017

Line Item Number	Description	Project Total	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	2 State/Local	Subtotal	ELIM	Total
70300	Net Tenant Rental Revenue	\$ 766,013	-	-	-	766,013	-	766,013
70400	Tenant Revenue - Other	36,652	-	-	-	36,652	-	36,652
70500	Total Tenant Revenue	802,665	-	-	-	802,665	-	802,665
70600	HUD PHA Operating Grants	1,000,039	171,594	14,963	-	1,186,596	-	1,186,596
70610	Capital Grants	159,226	-	-	-	159,226	-	159,226
70710	Management Fee	-	-	-	-	-	-	-
70720	Asset Management Fee	-	-	-	-	-	-	-
70730	Book Keeping Fee	-	-	-	-	-	-	-
70740	Front Line Service Fee	-	-	-	-	-	-	-
70750	Other Fees	-	-	-	-	-	-	-
70700	Total Fee Revenue	-	-	-	-	-	-	-
70800	Other Government Grants	-	-	-	-	-	-	-
71100	Investment Income - Unrestricted	18	17	-	-	35	-	35
71200	Mortgage Interest Income	-	-	-	-	-	-	-
71300	Proceeds from Disposition of Assets Held for Sale	-	-	-	-	-	-	-
71310	Cost of Sale of Assets	-	-	-	-	-	-	-
71400	Fraud Recovery	-	-	-	-	-	-	-
71500	Other Revenue	16,173	15,495	-	-	31,668	-	31,668
71600	Gain or Loss on Sale of Capital Assets	-	-	-	-	-	-	-
72000	Investment Income - Restricted	-	-	-	-	-	-	-
70000	Total Revenue	1,978,121	187,106	14,963	-	2,180,190	-	2,180,190
91100	Administrative Salaries	225,274	7,952	1,570	-	234,796	-	234,796
91200	Auditing Fees	19,467	2,736	394	-	22,597	-	22,597
91300	Management Fee	-	-	-	-	-	-	-
91310	Book-keeping Fee	-	-	-	-	-	-	-
91400	Advertising and Marketing	4,538	201	41	-	4,780	-	4,780
91500	Employee Benefit contributions - Administrative	123,809	3,598	149	-	127,556	-	127,556
91600	Office Expenses	46,373	2,049	420	-	48,842	-	48,842
91700	Legal Expense	22,246	19	-	-	22,265	-	22,265
91800	Travel	1,822	6	-	-	1,828	-	1,828
91810	Allocated Overhead	-	-	-	-	-	-	-
91900	Other	57,505	864	178	-	58,547	-	58,547
91000	Total Operating - Administrative	501,034	17,425	2,752	-	521,211	-	521,211
92000	Asset Management Fee	-	-	-	-	-	-	-
92100	Tenant Services - Salaries	-	-	-	-	-	-	-
92200	Relocation Costs	-	-	-	-	-	-	-
92300	Employee Benefit Contributions - Tenant Services	-	-	-	-	-	-	-
92400	Tenant Services - Other	9,339	-	-	-	9,339	-	9,339
92500	Total Tenant Services	9,339	-	-	-	9,339	-	9,339
93100	Water	101,252	-	-	-	101,252	-	101,252
93200	Electricity	104,793	-	-	-	104,793	-	104,793
93300	Gas	70,094	-	-	-	70,094	-	70,094
93400	Fuel	-	-	-	-	-	-	-
93500	Labor	-	-	-	-	-	-	-
93600	Sewer	53,711	-	-	-	53,711	-	53,711
93700	Employee Benefit Contributions - Utilities	-	-	-	-	-	-	-
93800	Other Utilities Expense	15,518	-	-	-	15,518	-	15,518
93000	Total Utilities	345,368	-	-	-	345,368	-	345,368
94100	Ordinary Maintenance and Operations - Labor	279,304	-	-	-	279,304	-	279,304
94200	Ordinary Maintenance and Operations - Materials and Other	156,535	-	-	-	156,535	-	156,535
94300	Ordinary Maintenance and Operations Contracts	164,940	-	-	-	164,940	-	164,940
94500	Employee Benefit Contributions - Ordinary Maintenance	153,211	-	-	-	153,211	-	153,211
94000	Total Maintenance	753,990	-	-	-	753,990	-	753,990
95100	Protective Services - Labor	-	-	-	-	-	-	-
95200	Protective Services - Other Contract Costs	-	-	-	-	-	-	-
95300	Protective Services - Other	-	-	-	-	-	-	-
95500	Employee Benefit Contributions - Protective Services	-	-	-	-	-	-	-
95000	Total Protective Services	-	-	-	-	-	-	-
96110	Property Insurance	46,750	1,049	-	-	47,799	-	47,799
96120	Liability Insurance	22,563	40	-	-	22,603	-	22,603
96130	Workmen's Compensation	13,413	58	-	-	13,471	-	13,471
96140	All Other Insurance	9,455	15	-	-	9,470	-	9,470
96100	Total Insurance Premiums	92,181	1,162	-	-	93,343	-	93,343
96200	Other General Expenses	20,406	-	-	-	20,406	-	20,406
96210	Compensated Absences	29,293	627	-	-	29,920	-	29,920
96300	Payments in Lieu of Taxes	-	-	-	-	-	-	-
96400	Bad debt - Tenant Rents	29,334	1,538	-	-	30,872	-	30,872
96500	Bad debt - Mortgages	-	-	-	-	-	-	-
96600	Bad debt - Other	-	-	-	-	-	-	-

STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
FINANCIAL DATA SCHEDULE - STATEMENT OF REVENUES AND EXPENDITURES
AS OF JUNE 30, 2017

Line Item Number	Description	Project Total	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	2 State/Local	Subtotal	ELIM	Total
96800	Severance Expense	-	-	-	-	-	-	-
96000	Total Other General Expenses	79,033	2,165	-	-	81,198	-	81,198
96710	Interest of Mortgage (or Bonds) Payable	-	-	-	-	-	-	-
96720	Interest on Notes Payable (Short and Long Term)	-	-	-	-	-	-	-
96730	Amortization of Bond Issue Costs	-	-	-	-	-	-	-
96700	Total Interest Expense and Amortization Cost	-	-	-	-	-	-	-
96900	Total Operating Expenses	1,780,945	20,752	2,752	-	1,804,449	-	1,804,449
97000	Excess of Operating Revenue over Operating Expenses	197,176	166,354	12,211	-	375,741	-	375,741
97100	Extraordinary Maintenance	-	-	-	-	-	-	-
97200	Casualty Losses - Non-capitalized	-	-	-	-	-	-	-
97300	Housing Assistance Payments	-	148,097	7,374	-	155,471	-	155,471
97350	HAP Portability-In	-	14,014	-	-	14,014	-	14,014
97400	Depreciation Expense	403,888	9	-	-	403,897	-	403,897
97500	Fraud Losses	-	-	-	-	-	-	-
97600	Capital Outlays - Governmental Funds	-	-	-	-	-	-	-
97700	Debt Principal Payment - Governmental Funds	-	-	-	-	-	-	-
97800	Dwelling Units Rent Expense	-	-	-	-	-	-	-
90000	Total Expenses	2,184,833	182,872	10,126	-	2,377,831	-	2,377,831
10010	Operating Transfer In	122,813	-	-	-	122,813	(122,813)	-
10020	Operating Transfer Out	(122,813)	-	-	-	(122,813)	122,813	-
10030	Operating Transfers from/to Primary Government	-	-	-	-	-	-	-
10040	Operating Transfers from/to Component Unit	-	-	-	-	-	-	-
10050	Proceeds from Notes, Loans and Bonds	-	-	-	-	-	-	-
10060	Proceeds from Property Sales	-	-	-	-	-	-	-
10070	Extraordinary Items, Net Gain/Loss	-	-	-	-	-	-	-
10080	Special Items (Net Gain/Loss)	-	-	-	-	-	-	-
10091	Inter Project Excess Cash Transfer In	-	-	-	-	-	-	-
10092	Inter Project Excess Cash Transfer Out	-	-	-	-	-	-	-
10093	Transfers between Program and Project - In	-	-	-	-	-	-	-
10094	Transfers between Project and Program - Out	-	-	-	-	-	-	-
10100	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(206,712)	4,234	4,837	-	(197,641)	-	(197,641)
11020	Required Annual Debt Principal Payments	\$ -	-	-	-	-	-	-
11030	Beginning Equity	8,018,826	65,852	15,903	(46,663)	8,053,918	-	8,053,918
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	(44,027)	(445)	-	-	(44,472)	-	(44,472)
11050	Changes in Compensated Absence Balance	-	-	-	-	-	-	-
11060	Changes in Contingent Liability Balance	-	-	-	-	-	-	-
11070	Changes in Unrecognized Pension Transition Liability	-	-	-	-	-	-	-
11080	Changes in Special Term/Severance Benefits Liability	-	-	-	-	-	-	-
11090	Changes in Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-	-
11100	Changes in Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-
11170	Administrative Fee Equity	-	69,641	-	-	69,641	-	69,641
11180	Housing Assistance Payments Equity	-	-	-	-	-	-	-
11190	Unit Months Available	3,204	396	96	-	3,696	-	3,696
11210	Number of Unit Months Leased	3,003	396	43	-	3,442	-	3,442
11270	Excess Cash	\$ 220,740	-	-	-	220,740	-	220,740
11610	Land Purchases	-	-	-	-	-	-	-
11620	Building Purchases	\$ 159,226	-	-	-	159,226	-	159,226
11630	Furniture & Equipment - Dwelling Purchases	-	-	-	-	-	-	-
11640	Furniture & Equipment - Administrative Purchases	\$ 31,395	-	-	-	31,395	-	31,395
11650	Leasehold Improvements Purchases	-	-	-	-	-	-	-
11660	Infrastructure Purchases	-	-	-	-	-	-	-
13510	CFFP Debt Service Payments	-	-	-	-	-	-	-
13901	Replacement Housing Factor Funds	-	-	-	-	-	-	-



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

Board of Directors and Management of
Gallup Housing Authority,
Gallup, New Mexico
and
Mr. Tim Keller, New Mexico State Auditor

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 and each major fund of the Gallup Housing Authority (the Housing Authority), a component unit of the City of Gallup, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and the related budget comparison of the Housing Authority, presented as supplementary information, and have issued our report thereon dated November 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Housing 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 Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of This Report

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



Hinkle + Landers, P.C.
Albuquerque, NM
November 21, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors and Management of
Gallup Housing Authority,
Gallup, New Mexico
and
Mr. Tim Keller, New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the Gallup Housing Authority (the Housing Authority), a component unit of the City of Gallup, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Housing Authority's major federal programs for the year ended June 30, 2017. The Housing Authority's major federal programs are identified in the summary of auditor's 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 Housing 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 the audit requirements of Title 2 U.S. Code of *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the *Uniform Guidance* 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 Housing 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. However, our audit does not provide a legal determination of the Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing 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, 2017.

Report on Internal Control Over Compliance

Management of the Housing 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 Housing 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 Uniform Guidance, 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 Housing Authority's internal control over compliance.

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.

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

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.
Albuquerque, NM
November 21, 2017

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Schedule in Findings and Question Costs
For the Year Ended June 30, 2017**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued Unmodified

Internal Control over financial reporting:

Material weaknesses identified? None

Significant deficiencies identified that are
Not considered to be material weaknesses? None

Non-compliance material to financial statements noted? None

Federal Awards

Internal Control

Material weaknesses identified? None

Significant deficiencies identified that are
Not considered to be material weaknesses? None

Type of auditor’s report issued on major programs Unmodified

Any audit findings disclosed that are required to be
reported in accordance with section 2 CFR section 200.516(a)? None

<u>CFDA Numbers</u> <u>Funding Source</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
14.850	Low Rent Public Housing Program	U.S. Dept. of Housing and Urban Development

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk Auditee? No

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Schedule in Findings and Question Costs
For the Year Ended June 30, 2017**

Reference #	Finding	Status of Current and Prior Year Findings	Type of Finding
Prior Year Findings			
2016-001	Vacated Tenant's Files Lacking Required Documentation	Resolved	F
2016-002	Incorrect PERA Contribution Reimbursements to Employees, Net Pension Liability Calculations, and PERA expense account coding	Resolved	B

Current Year Findings

None

* Legend for Type of Findings

- A.** Material Weakness in Internal Control Over Financial Reporting
- B.** Significant Deficiency in Internal Control Over Financial Reporting
- C.** Other Matters Involving Internal Control Over Financial Reporting
- D.** Material Weakness in Internal Control Over Compliance of Federal Awards
- E.** Significant Deficiency in Internal Control Over Compliance of Federal Awards
- F.** Instance of Noncompliance related to Federal Awards
- G.** Non-compliance with State Audit Rule, NM State Statutes, NMAC or other entity compliance

**STATE OF NEW MEXICO
GALLUP HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF GALLUP
Exit Conference
For the Year Ended June 30, 2017**

An exit conference was held in a closed session on November 21, 2017, at the Housing Authority's offices in Gallup, New Mexico. In attendance were the following:

Representing the Housing Authority:

Richard F. Kontz	Executive Director
James Roger Morris	Commissioner
Jim Saucedo	Commissioner
Selina Paradise	Housing Manager
Telisia Montano	Accountant

Representing Hinkle + Landers, PC:

Farley Vener, CPA, CFE, CGMA	President & Managing Shareholder
Katelyn Constantin	Audit Manager

FINANCIAL STATEMENTS

The financial statements of the Housing Authority as of June 30, 2017, were substantially prepared by Hinkle + Landers, PC; however, the financial statements are the responsibility of management.