

**STATE OF NEW MEXICO
LOVINGTON HOUSING AUTHORITY**

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

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
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 For the Year Ended June 30, 2009

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STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Official Roster
For the Year Ended June 30, 2009

Board of Directors

Chairman	Maria Rios
Vice Chairman	Manual Quiroz
Member	Javier Morales
Member	Ruth Garcia
Resident Member	Mary Ann Harmon

Administrative Officials

Executive Director	Billie Jo Rodriguez
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FINANCIAL SECTION



Accounting & Consulting Group, LLP

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Lovington Housing Authority (the "Authority"), a component unit of the City of Lovington, New Mexico (the "City"), as of and for the year ended June 30, 2009, which collectively comprise the Lovington Housing Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the year ended June 30, 2009 listed as supplementary information in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities that are attributable to the transactions of the Authority. They do not purport to and do not present fairly the financial position of the City of Lovington as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Lovington Housing Authority as of June 30, 2009, and the respective change in financial position, and cash flows there of for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons for the year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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866.307.2727 – 505.883.2727 – Fax 505.884.6719 – albuquerque.office@acgnm.com – www.acgnm.com

Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 1, 2009

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**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Statement of Net Assets
 Proprietary Funds
 June 30, 2009

Exhibit A-1

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 193,242	\$ -	\$ 193,242
Accounts receivable - tenants, net of allowance for doubtful accounts of \$5,036	923	-	923
Inventory	2,630	-	2,630
Prepaid expenses	469	-	469
<i>Total current assets</i>	<u>197,264</u>	<u>-</u>	<u>197,264</u>
<i>Noncurrent Assets</i>			
Restricted cash and cash equivalents	8,300	-	8,300
Capital assets	2,139,306	131,716	2,271,022
Accumulated depreciation	(1,134,403)	(8,781)	(1,143,184)
<i>Total assets</i>	<u>\$ 1,210,467</u>	<u>\$ 122,935</u>	<u>\$ 1,333,402</u>
LIABILITIES AND NET ASSETS			
<i>Current liabilities</i>			
Accounts payable	2,222	-	2,222
Accrued payroll	11,464	-	11,464
Prepaid rent	291	-	291
Compensated absences, current portion	1,134	-	1,134
<i>Total current liabilities</i>	<u>15,111</u>	<u>-</u>	<u>15,111</u>
<i>Current liabilities (payable from restricted assets)</i>			
Tenant deposits	8,300	-	8,300
<i>Total current liabilities (payable from restricted assets)</i>	<u>8,300</u>	<u>-</u>	<u>8,300</u>
<i>Non-current liabilities :</i>			
Compensated absences, long term portion	3,212	-	3,212
<i>Total non-current liabilities</i>	<u>3,212</u>	<u>-</u>	<u>3,212</u>
<i>Total liabilities</i>	<u>26,623</u>	<u>-</u>	<u>26,623</u>
<i>Net assets:</i>			
Invested in capital assets, net of related debt	1,004,903	122,935	1,127,838
Unrestricted	178,941	-	178,941
<i>Total net assets</i>	<u>1,183,844</u>	<u>122,935</u>	<u>1,306,779</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,210,467</u>	<u>\$ 122,935</u>	<u>\$ 1,333,402</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2009

Exhibit A-2

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Operating revenues:</i>			
Rental revenue	\$ 87,467	\$ -	\$ 87,467
<i>Total operating revenues</i>	<u>87,467</u>	<u>-</u>	<u>87,467</u>
<i>Operating expenses:</i>			
Personnel services	90,311	-	90,311
Contractual services	35,202	-	35,202
Maintenance and materials	35,152	22,353	57,505
Utilities	17,050	-	17,050
Depreciation	113,249	8,781	122,030
Miscellaneous	11,742	-	11,742
<i>Total operating expenses</i>	<u>302,706</u>	<u>31,134</u>	<u>333,840</u>
<i>Operating income (loss)</i>	<u>(215,239)</u>	<u>(31,134)</u>	<u>(246,373)</u>
<i>Non-operating revenues (expenses):</i>			
Operating grants	115,623		115,623
Interest income	982	-	982
Miscellaneous income	13,353	-	13,353
<i>Total non-operating revenues (expenses)</i>	<u>129,958</u>	<u>-</u>	<u>129,958</u>
Capital grants	-	154,069	154,069
Loss on disposal of assets	(1,091)		(1,091)
Transfers in	-	-	-
Transfers out	-	-	-
<i>Capital grants and net transfers</i>	<u>(1,091)</u>	<u>154,069</u>	<u>152,978</u>
<i>Change in net assets</i>	<u>(86,372)</u>	<u>122,935</u>	<u>36,563</u>
<i>Total net assets - beginning of year</i>	<u>1,270,216</u>	<u>-</u>	<u>1,270,216</u>
<i>Total net assets - end of year</i>	<u>\$ 1,183,844</u>	<u>\$ 122,935</u>	<u>\$ 1,306,779</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2009

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Cash flows from operating activities:</i>			
Cash received from tenant rents	\$ 91,374	\$ -	\$ 91,374
Cash payments to employees for services	(87,568)	-	(87,568)
Cash payments to suppliers for goods and services	(91,331)	(22,353)	(113,684)
<i>Net cash provided by (used) for operating activities</i>	(87,525)	(22,353)	(109,878)
<i>Cash flows from noncapital financing activities:</i>			
Operating grants	115,623	-	115,623
Miscellaneous income (expense)	14,111	-	14,111
<i>Net cash provided by (used) from noncapital financing activities</i>	129,734	-	129,734
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	154,069	154,069
Acquisition of capital assets	(646)	(131,716)	(132,362)
<i>Net cash provided by (used) from capital and related financing activities</i>	(646)	22,353	21,707
<i>Cash flows from investing activities:</i>			
Interest on investments	982	-	982
<i>Net cash provided by (used) from investing activities</i>	982	-	982
<i>Net increase (decrease) in cash and cash equivalents</i>	42,545	-	42,545
<i>Cash and cash equivalents - beginning of year</i>	158,997	-	158,997
<i>Cash and cash equivalents - end of year</i>	\$ 201,542	\$ -	\$ 201,542

The accompanying notes are an integral part of these financial statements

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	\$ (215,239)	\$ (31,134)	\$ (246,373)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	113,249	8,781	122,030
Changes in assets and liabilities			
Accounts receivables	577	-	577
Inventory	(2,447)	-	(2,447)
Prepaid expenses	13,426	-	13,426
Accounts payable	(3,164)	-	(3,164)
Accrued payroll expenses	2,466	-	2,466
Prepaid expenses	(70)	-	(70)
Accrued compensated absences	277	-	277
Tenant deposits	3,400	-	3,400
<i>Net cash provided (used) by operating activities</i>	<u>\$ (87,525)</u>	<u>\$ (22,353)</u>	<u>\$ (109,878)</u>

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lovington Housing Authority, Lovington, New Mexico, was organized pursuant to an agreement with the U.S. Department of Housing and Urban Development (HUD). The contract provided for clean, safe, sanitary housing which would be financed by U.S. Government. The terms of the agreement provide that HUD shall provide annual contributions to cover the debt services on bonds for the subsidies for operations of the program. The Lovington Housing Authority agreed to operate and maintain the programs in accordance with the requirements of HUD.

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

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management, who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* for the year ended June 30, 2009. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Accounting Principles Board Opinions and Accounting Research Bulletins of the committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

The Authority reports the following quantitatively major enterprise funds:

- **Low Rent Public Housing Program** – Funded through direct grants from HUD, the program is designed to provide adequate living accommodations to qualified families through reduced rate rentals built and owned by the Authority.
- **Public Housing Capital Funds Program** – This program is funded by HUD and is for the purpose of upgrading existing rental properties.

A. Financial Reporting Entity

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial Reporting Entity (continued)

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

The City of Lovington does issue separately audited financial statements. Additional information regarding the City of Lovington may be obtained directly from their administrative office as follows: City of Lovington Business Office, Lovington City Hall, 214 South Love, Lovington, New Mexico 88260.

B. Basis of Accounting and Measurement Focus

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

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

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

Revenue Recognition

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. *Assets, Liabilities, and Net Assets*

Deposits and Investments

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

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.

Accounts Receivable

All trade receivables are shown net of an allowance for doubtful accounts. The allowance is comprised of all accounts receivable which management estimates to be uncollectible.

Inventories

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

Prepaid Expenses

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

Capital Assets

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

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

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

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

<u>Assets</u>	<u>Years</u>
Building and improvements	40 yrs – 50 yrs
Machinery and equipment	5 yrs – 10 yrs
Vehicles	5 yrs – 10 yrs

Compensated Absences

Authority employees are entitled to certain compensated absences based on their employment classification and length of employment. With minor exceptions, the Authority allows 40 hour week employees to accumulate unused sick leave to a maximum of 72 days. Near the end of each calendar year, any employee who accumulates over 60 days of sick leave is paid out for the excess over 60 days. Accumulated unused sick leave is paid upon retirement or upon separation with at least 5 years of service. A large majority of employees either reach or have reached the 5 year service level; therefore the accumulated sick leave is accrued as a liability.

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Authority. Accumulated unused vacation up to a maximum of 40 hours is payable upon termination from employment. All vacation pay and applicable accumulated sick leave is accrued when incurred in the proprietary fund financial statements.

Net Assets

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Unrestricted and Restricted Revenues

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates

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

D. Budgets

The Authority adheres to the following regarding the budget:

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

State Statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Authority properly followed State investment requirements as of June 30, 2009.

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

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

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Notes to the Financial Statements
 For the Year Ended June 30, 2009

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

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

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee Program, that provides depositors' with unlimited coverage for noninterest-bearing transaction accounts. With regards to this Transaction Guarantee Program, noninterest-bearing checking accounts include Demand Deposit Accounts (DDA's) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this program are low-interest NOW accounts that cannot earn more than 0.5% interest. This program is scheduled to end December 31, 2009.

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

Custodial Credit Risk – Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63 NMSA 1978). At June 30, 2009, \$0 of the Authority's deposits of \$202,942 was exposed to custodial credit risk. \$0 was uninsured and uncollateralized. As of June 30, 2009, the carrying amount of these deposits was \$202,942.

	Western Commerce Bank	State Farm Bank	Total
Total amount of deposits	\$ 179,556	\$ 23,386	\$ 202,942
FDIC Coverage	<u>(179,556)</u>	<u>(23,386)</u>	<u>(202,942)</u>
Total uninsured public funds	<u>-</u>	<u>-</u>	<u>-</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name	<u>-</u>	<u>-</u>	<u>-</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Collateral requirement (50% of uninsured funds)	\$ -	\$ -	\$ -
Pledged Collateral	<u>174,411</u>	<u>-</u>	<u>174,411</u>
Over (Under) collateralized	<u><u>\$ 174,411</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 174,411</u></u>

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

STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Notes to the Financial Statements
For the Year Ended June 30, 2009

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to Statement of Net Assets

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

Cash and cash equivalents per Exhibit A-1	\$ 193,242
Restricted cash and cash equivalents per Exhibit A-1	8,300
Add: Outstanding checks and other reconciling items	1,400
	<u>202,942</u>
Less: petty cash	<u>-</u>
Bank balance of deposits	<u><u>\$ 202,942</u></u>

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Notes to the Financial Statements
 For the Year Ended June 30, 2009

NOTE 3. CAPITAL ASSETS

	Balance, July 1, 2008	Adjustments	Additions	Deletions	Balance, June 30, 2009
Low Rent Public Housing Program					
Assets that are not being depreciated:					
Land	\$ 215,936	\$ -	\$ -	\$ -	\$ 215,936
Total	215,936	-	-	-	215,936
Assets that are being depreciated:					
Buildings and improvements	1,850,352	(757)	644	-	1,850,239
Machinery and equipment - dwellings	33,391	-	-	14,590	18,801
Machinery and equipment - administrative	18,510	-	-	-	18,510
Vehicles	35,820	-	-	-	35,820
Total	1,938,073	(757)	644	14,590	1,923,370
Less Accumulated Depreciation:					
Buildings and improvements	965,252	-	106,699	-	1,071,951
Machinery and equipment - dwellings	29,606	-	1,023	13,500	17,129
Machinery and equipment - administrative	15,748	-	1,603	-	17,351
Vehicles	24,048	-	3,924	-	27,972
Total	1,034,654	-	113,249	13,500	1,134,403
Total Low Rent Public Housing Program property and equipment, net	1,119,355	(757)	(112,605)	1,090	1,004,903
Public Housing Capital Fund Program					
Assets that are being depreciated:					
Buildings and improvements	-	757	130,959	-	131,716
Total	-	757	130,959	-	131,716
Less Accumulated Depreciation:					
Buildings and improvements	-	-	8,781	-	8,781
Total	-	-	8,781	-	8,781
Total Public Housing Capital Fund Program property and equipment, net	-	757	122,178	-	122,935
Total property and equipment, net	\$ 1,119,355	\$ -	\$ 9,573	\$ 1,090	\$ 1,127,838

The Authority has continued to maintain the cost of its property and equipment and update its depreciation schedule as information becomes available. Depreciation expense for the year ended June 30, 2009, totaled \$122,030.

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Notes to the Financial Statements
 For the Year Ended June 30, 2009

NOTE 4. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2009.

	Balance, July 1, 2008	Additions	Retirements	Balance, June 30, 2009	Due Within One Year
Accrued compensated absences	\$ 4,069	\$ 2,368	\$ 2,091	\$ 4,346	\$ 1,134
Totals	<u>\$ 4,069</u>	<u>\$ 2,368</u>	<u>\$ 2,091</u>	<u>\$ 4,346</u>	<u>\$ 1,134</u>

NOTE 5. CONTINGENT LIABILITIES

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

NOTE 6. RISK MANAGEMENT

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

NOTE 7. DEFERRED COMPENSATION PLAN

The City of Lovington offers its full-time employees, including those of the Lovington Housing Authority, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The name of the company of this plan is UNIFI Retirement Plan, and the plan is administered by a third part administrator, Hartgraves Insurance. The provisions of this plan have instituted that the City of Lovington's City Manager and City Clerk be the trustees. Further, the Commission of the City of Lovington has control of any major changes in the plan. Contribution requirements for the plan are one full year of service with the City of Lovington or the Lovington Housing Authority. An employee can contribute 3% to 6% and there yearly compensation, and the City of Lovington will match up to 7%. The total amount of City of Lovington and Lovington Housing Authority employee and employer contributions to the plan at June 30, 2009 was \$72,903 and \$96,714 respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 8. POST EMPLOYMENT BENEFITS

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

NOTE 9. CONCENTRATIONS

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

NOTE 10. SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS

In July 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009. For governments that were classified as phase 1 or phase 2 governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Authority is analyzing the effect that this standard will have on the financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Statement of Revenues, Expenses and Changes in
 Net Assets - Budget (GAAP Basis) and Actual
 Low Rent Public Housing Program
 For the Year Ended June 30, 2009

Statement A-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 93,500	\$ 93,500	\$ 87,467	\$ (6,033)
<i>Total operating revenues</i>	<u>93,500</u>	<u>93,500</u>	<u>87,467</u>	<u>(6,033)</u>
<i>Operating expenses:</i>				
Personnel services	122,680	122,680	90,311	32,369
Contractual services	46,730	46,730	35,202	11,528
Maintenance and materials	45,800	45,800	35,152	10,648
Utilities	14,300	14,300	17,050	(2,750)
Miscellaneous	11,700	11,700	11,742	(42)
<i>Total operating expenses</i>	<u>241,210</u>	<u>241,210</u>	<u>189,457</u>	<u>51,753</u>
<i>Operating income (loss)</i>	<u>(147,710)</u>	<u>(147,710)</u>	<u>(101,990)</u>	<u>45,720</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	115,623	115,623	115,623	-
Interest income	2,000	2,000	982	(1,018)
Miscellaneous income	1,200	1,200	13,353	12,153
<i>Total non-operating revenues (expenses)</i>	<u>118,823</u>	<u>118,823</u>	<u>129,958</u>	<u>11,135</u>
Capital grants	-	-	-	-
Loss on disposal of assets	-	-	(1,091)	(1,091)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>(1,091)</u>	<u>(1,091)</u>
<i>Change in net assets before GAAP Adjustment</i>	<u>(28,887)</u>	<u>(28,887)</u>	<u>26,877</u>	<u>55,764</u>
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	113,249	(113,249)
Designated cash	28,887	28,887	-	57,774
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,270,216</u>	<u>1,270,216</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183,844</u>	<u>\$ 1,212,731</u>
Change in net assets, above			\$ 26,877	
Adjustments for depreciation			<u>(113,249)</u>	
Change in net assets (Exhibit A-2))			<u>\$ (86,372)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Statement of Revenues, Expenses and Changes in
 Net Assets - Budget (GAAP Basis) and Actual
 Public Housing Capital Fund Program
 For the Year Ended June 30, 2009

Statement A-2

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenses:</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Maintenance and materials	22,353	22,353	22,353	-
Utilities	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total operating expenses</i>	<u>22,353</u>	<u>22,353</u>	<u>22,353</u>	<u>-</u>
<i>Operating income (loss)</i>	<u>(22,353)</u>	<u>(22,353)</u>	<u>(22,353)</u>	<u>-</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	-	-	-	-
Interest income	-	-	-	-
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital grants	154,069	154,069	154,069	-
Loss on disposal of assets	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Capital grants and net transfers</i>	<u>154,069</u>	<u>154,069</u>	<u>154,069</u>	<u>-</u>
<i>Change in net assets before GAAP Adjustment</i>	<u>131,716</u>	<u>131,716</u>	<u>131,716</u>	<u>-</u>
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	8,781	(8,781)
Designated cash	(131,716)	(131,716)	-	(263,432)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,935</u>	<u>\$ (8,781)</u>
Change in net assets, above			\$ 131,716	
Adjustments for depreciation			<u>(8,781)</u>	
Change in net assets (Exhibit A-2))			<u>\$ 122,935</u>	

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Collateral Pledged by Depository for Public Funds
 For the Year Ended June 30, 2009

Schedule I

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP No.</u>	<u>Market Value June 30, 2009</u>
Western Commerce Bank	GNMA #8824	08/20/21	8824	\$ 44,378
	GNMA #80187	04/20/28	80187	65,556
	FNMA #60679	01/01/28	60679	<u>64,477</u>
	Total Western Commerce Bank Pledged Securities			<u>174,411</u>
	Total pledged securities			<u><u>\$ 174,411</u></u>

Note:

Pledged collateral is held in safekeeping by Western Commerce Bank in Carlsbad, New Mexico

See accompanying independent auditors' report

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Schedule of Deposit and Investment Accounts
 For the Year Ended June 30, 2009

Schedule II

Financial Institution	Account Number	Bank Balance	Deposits in Transit	Outstanding Checks	Other Adjustments	Book Balance
Western Commerce Bank:						
Operating account/checking	0112228901	\$ 159,383	\$ -	\$ 1,400	\$ -	\$ 157,983
Checking account	0113687501	8,479	-	-	-	8,479
Certificate of deposit	2061140	11,482	-	-	212	11,694
Total Western Commerce Bank		179,344	-	1,400	212	178,156
State Farm Bank:						
Certificate of deposit	1019762765	11,734	-	-	-	11,734
Certificate of deposit	1020689109	11,652	-	-	-	11,652
Total State Farm Bank		23,386	-	-	-	23,386
Total deposits		\$ 202,730	\$ -	\$ 1,400	\$ 212	201,542
Petty cash						-
Total cash and cash equivalents- June 30, 2009						\$ 201,542
Statement of Net Assets (Exhibit A-1):						
Cash and cash equivalents						\$ 193,242
Restricted cash and cash equivalents						8,300
Total cash and cash equivalents						\$ 201,542

See accompanying independent auditors' report

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2009

	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
Assets			
111 Cash-unrestricted	\$ 193,242	\$ -	\$ 193,242
114 Cash-tenant security deposits	8,300	-	8,300
100 Total cash	<u>201,542</u>	<u>-</u>	<u>201,542</u>
121 Accounts receivable-PHA projects	-	-	-
124 Accounts receivable-other government	57	-	57
126 Accounts receivable-tenants-dwelling rents	5,902	-	5,902
126.1 Allowance for doubtful accounts-dwelling rents	(5,036)	-	(5,036)
129 Accrued interest receivable	-	-	-
120 Total receivables, net of allowance for doubtful accounts	<u>923</u>	<u>-</u>	<u>923</u>
142 Prepaid expenses and other assets	469	-	469
143 Inventories	2,630	-	2,630
150 Total current assets	<u>205,564</u>	<u>-</u>	<u>205,564</u>
161 Land	215,936	-	215,936
162 Buildings	1,850,239	131,716	1,981,955
163 Furniture, equipment & machinery-dwelling	54,330	-	54,330
164 Furniture, equipment & machinery-administration	18,801	-	18,801
166 Accumulated depreciation	(1,134,403)	(8,781)	(1,143,184)
167 Construction in progress	-	-	-
160 Total fixed assets, net of accumulated depreciation	<u>1,004,903</u>	<u>122,935</u>	<u>1,127,838</u>
180 Total non-current assets	<u>1,004,903</u>	<u>122,935</u>	<u>1,127,838</u>
190 Total assets	<u>\$ 1,210,467</u>	<u>\$ 122,935</u>	<u>\$ 1,333,402</u>

See accompanying independent auditors' report

	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
Liabilities and Equity			
<i>Liabilities</i>			
312 Accounts payable-less than 90 days	\$ 2,222	-	\$ 2,222
321 Accrued wage/payroll taxes payable	11,464	-	11,464
322 Accrued compensated absences-current portion	1,134	-	1,134
341 Tenant security deposits	8,300	-	8,300
342 Deferred revenue	291	-	291
345 Other current liabilities	-	-	-
310 Total current liabilities	<u>23,411</u>	<u>-</u>	<u>23,411</u>
354 Accrued compensated absences-noncurrent	<u>3,212</u>	<u>-</u>	<u>3,212</u>
350 Total noncurrent liabilities	<u>3,212</u>	<u>-</u>	<u>3,212</u>
300 Total liabilities	<u>26,623</u>	<u>-</u>	<u>26,623</u>
<i>Equity</i>			
508.1 Invested in capital assets, net of related debt	1,004,903	122,935	1,127,838
512.1 Unrestricted net assets	<u>178,941</u>	<u>-</u>	<u>178,941</u>
513 Total equity/net assets	<u>1,183,844</u>	<u>122,935</u>	<u>1,306,779</u>
600 Total liabilities and equity/net assets	<u>\$ 1,210,467</u>	<u>\$ 122,935</u>	<u>\$ 1,333,402</u>

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2009

	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
Revenues			
703 Net tenant rental revenue	\$ 83,794	\$ -	\$ 83,794
704 Tenant revenue-other	1,340	-	1,340
705 Total tenant revenue	85,134	-	85,134
706 HUD PHA operating grants	115,623	-	115,623
706.1 Capital grants	-	154,069	154,069
711 Investment income-unrestricted	982	-	982
715 Other Revenue	14,565	-	14,565
716 Gain/loss on sale of fixed assets	1,121	-	1,121
700 Total revenue	<u>\$ 217,425</u>	<u>\$ 154,069</u>	<u>\$ 371,494</u>

See accompanying independent auditors' report

Expenses	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
911 Administrative salaries	\$ 29,980	\$ -	\$ 29,980
913 Bookkeeping	-	-	-
914 Advertising and marketing	717	-	717
915 Employee benefit contributions-administrative	9,040	-	9,040
916 Other operating-administrative	8,843	-	8,843
918 Travel	5,757	-	5,757
919 Other	4,277	-	4,277
931 Water	311	-	311
932 Electricity	3,300	-	3,300
933 Gas	6,130	-	6,130
936 Sewer	252	-	252
941 Ordinary maintenance and operations-labor	35,761	268	36,029
942 Ordinary maintenance and operations-materials and other	31,979	22,085	54,064
943 Ordinary maintenance and operations-contract costs	16,882	-	16,882
945 Employee benefit contributions - ordinary maintenance	4,304	-	4,304
961 Insurance premiums	20,446	-	20,446
962 Compensated absences	2,644	-	2,644
963 Payment in lieu of taxes	7,514	-	7,514
964 Bad debt-tenant rents	1,320	-	1,320
969 Total operating expenses	<u>189,457</u>	<u>22,353</u>	<u>211,810</u>
970 Excess operating revenue over operating expenses	<u>27,968</u>	<u>131,716</u>	<u>159,684</u>
971 Extraordinary maintenance	-	-	-
973 Housing assistance payments	-	-	-
974 Depreciation expense	113,249	8,781	122,030
900 Total expenses	<u>302,706</u>	<u>31,134</u>	<u>333,840</u>
1001 Operating transfers in	-	-	-
1002 Operating transfers out	-	-	-
1007 Extraordinary items, net gain/loss	(1,091)	-	(1,091)
1010 Total other financing sources (uses)	<u>(1,091)</u>	<u>-</u>	<u>(1,091)</u>
1000 Excess (deficiency) of revenue over total expenses	<u>(86,372)</u>	<u>122,935</u>	<u>36,563</u>
1103 Beginning equity	1,270,216	-	1,270,216
1104 Prior period adjustments, equity transfers	-	-	-
Ending equity (deficit)	<u>\$ 1,183,844</u>	<u>\$ 122,935</u>	<u>\$ 1,306,779</u>
1119 Unit months available	<u>480</u>	<u>-</u>	<u>480</u>
1121 Number of unit months leased	<u>461</u>	<u>-</u>	<u>461</u>
1127 Excess cash	<u>\$ 167,492</u>	<u>\$ -</u>	<u>\$ 167,492</u>
1162 Building purchases	<u>\$ -</u>	<u>\$ 130,960</u>	<u>\$ 130,960</u>

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COMPLIANCE SECTION



Accounting & Consulting Group, LLP

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

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

We have audited the financial statements of the business-type activities of the Lovington Housing Authority (the "Authority"), a component unit of the City of Lovington, New Mexico (the "City"), as of and for the year ended June 30, 2009, which collectively comprise the Lovington Housing Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated December 1, 2009. We have also audited the budgetary comparisons presented as supplementary information in the accompanying financial statements as of and for the year ended June 30, 2009 as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described as items 2007-2 and FS 08-01 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Certified Public Accountants

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866.307.2727 – 505.883.2727 – Fax 505.884.6719 – albuquerque.office@acgnm.com – www.acgnm.com
Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item FS 08-01 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

We noted certain matters that are required to be reported under Government Auditing Standards January 2007 Revision paragraphs 5.14 and 5.16, and section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items FS 08-08, FS 08-09, FS 08-10, FS 2009-01, FS 2009-02, FS 2009-03 and FS 2009-04.

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

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

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 1, 2009

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Schedule of Findings and Responses
 For the Year Ended June 30, 2009

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements:

1.	Type of auditors' report issued	Unqualified
2.	Internal control over financial reporting:	
a.	Material weaknesses identified?	Yes
b.	Significant deficiencies identified not considered to be material weaknesses?	Yes
c.	Noncompliance material to the financial statements?	No
3.	Summary of audit findings:	
a.	Current Year Audit Findings:	Type of <u>Finding*</u>
	2007-2 — Preparation of Financial Statements	B
	FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A B
	FS 08-08 — Capital Assets Threshold for Capitalization	D
	FS 08-09 — Notification to the State Auditor's Office not Performed Prior to Disposition of Capital Assets	D
	FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act	D
	FS 2009-01 — Tracking of Compensatory Time	F
	FS 2009-02 — Anti-Donation Violation	D
	FS 2009-03 — Internal Control Deviations - Disbursements	F
	FS 2009-04 — Low Income Public Housing Program - Tenant Files	D

* Legend for Type of Finding:

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

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Schedule of Findings and Responses
 For the Year Ended June 30, 2009

SECTION I – SUMMARY OF AUDIT RESULTS (continued)

Financial Statements (continued):

3. Summary of audit findings (continued):

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

	Type of Finding*	Status of Prior Year Findings**
2007-2 — Preparation of Financial Statements	B	RM
FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A B	RM
FS 08-08 — Capital Assets Threshold for Capitalization	D	RM
FS 08-09 — Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets	D	RM
FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act	D	RM
FS 08-11 — Insufficient Documentation Relating to a Credit Card Payment to HSBC	B F	R
FS 08-12 — No Approval by a Board Member for Payment Made for Labor for a Unit Turn Around	F	R

* Legend for Type of Finding:

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

** Legend for Status of Prior Year Findings

- R. Resolved
- RM. Repeated and modified

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-2 — Preparation of Financial Statements

Condition:

Financial statements and related footnote disclosures were not prepared by the Authority.

Criteria:

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems should be implemented and should include controls over financial statement preparation, footnote disclosure preparation, and should give the entity the ability to catch material errors that may effect the financial statements.

Effect:

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

Cause:

Authority personnel do not have the time to prepare the Authority's financial statements, or adequate training to understand the elements of external financial reporting including the preparation of financial statements, the preparation of the related footnote disclosures, or the ability to recognize material errors.

Auditors' Recommendation:

We recommend the Authority's management and personnel receive training on understanding the requirements of external financial reporting. The training should include, but not be limited to:

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

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

Agency Response:

The Lovington Housing Authority will continue to receive training on external financial reporting; GASB, GAAP, and FASB.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight

Condition:

The Authority does not have a comprehensive documented internal control structure. We noted the following areas in which the Authority does not have sufficient key internal controls in place:

- We noted that bank reconciliations are performed by the same individual who has authority to sign checks and post transactions to the general ledger.
- There is not a risk assessment done at the Authority
- There is not a financial expert on the Board of Directors to effectively oversee the financial reporting process
- There is not a conflict of interest policy at the Authority
- No supporting documentation for manual journal entries and there are not appropriate levels of segregation of duties or monitoring for the journal entry process
- Allowance for doubtful accounts estimate was not completed by the client and there is no policy for estimating this amount

Criteria:

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a potential material weakness in internal control.

Effect:

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause:

For the fiscal year 2009 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly. Also, the governing body was not familiar with the requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

Auditors' Recommendation:

The Authority should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Agency Response:

The Lovington Housing Authority adopted an internal control policy on March 8, 2000. The Lovington Housing Authority is a small authority; we strive to follow all rules and regulation to the best of our ability. The Lovington Housing Authority will continue to utilize all its resources to better maintain internal control. The Lovington Housing Authority fee accountant is responsible for the official reconciliation that ties into the Lovington Housing Authority balance sheet.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 08-08 — Capital Assets Threshold for Capitalization

Condition:

During our audit we noted the Housing Authority has not implemented the \$5,000 limit for capitalization of capital assets. The Authority has raised their limit for capitalization of fixed assets to \$500 from \$250.

Criteria:

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

Effect:

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

Cause:

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

Auditors’ Recommendation:

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

Agency Response:

The Lovington Housing Authority has adopted the new capitalization on August 12, 2009. The Lovington Housing Authority will update at the next available board meeting their capitalization policy in accordance with the law.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 08-09 — Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets

Condition:

During our tests related to capital assets, we noted that the Authority disposed of equipment during the year ended June 30, 2009. The Authority obtained approval from its governing board, but failed to notify the State Auditor of the planned disposition.

Criteria:

The New Mexico State Audit Rule 2.2.2.10 V. requires agencies disposing of assets, which have been reported on their capital assets inventory listing, to notify the New Mexico State Auditor’s Office at least 30 days prior to the disposition of such assets.

Effect:

The Authority is not properly exercising its custodial responsibilities over its capital assets. The notification to the State Auditor’s Office is in place to serve as a check to ensure that capital assets are not frivolously disposed of by governmental agencies.

Cause:

Neither the executive director nor the governing board understood that this was a requirement of the New Mexico State Auditor’s Office.

Auditors’ Recommendation:

We recommend that the board implement a policy that capital assets which have been listed on the Authority’s capital asset inventory listing be reported to the New Mexico State Auditor’s office at least 30 days prior to being disposed of, after having been properly approved and attested to by the governing board.

Agency Response:

The Lovington Housing Authority has begun to report on their disposition of all assets to the State Auditor and will continue to follow this procedure.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act

Condition:

During our tests of compliance with the Per Diem and Mileage Act we noted several exceptions out of seven (7) randomly selected disbursements totaling approximately \$2,990:

- a. For one (1) disbursement for approximately \$735, the executive director and various board members traveled to a training conference and received payments in excess of the Per Diem and Mileage Act for both mileage and meals reimbursement. The Authority reimbursed the executive director and board members at a rate of fifty-eight and a half cents (\$.585) a mile, which exceeds the allowable rate for reimbursement. The Authority also reimbursed a board member for approximately \$49, which exceeds the allowable amount for reimbursement of meals for in-state travel
- b. For three (3) disbursements totaling approximately \$2,302, there was not sufficient supporting documentation attached to support the purposes of the reimbursement and the related amounts.

Criteria:

- a. The Mileage and Per Diem Act, NMSA 1978, Sections 10-8-1 through 10-8-8, and Section 2.42.2 NMAC requires that the Authority reimburse each public officer or employee thirty-two cents (\$.32) a mile for each mile traveled in a privately owned vehicle if the travel is necessary for the individual to perform their official duties. Proper internal controls should be in place to ensure that the Authority is in compliance with allowable rates and that the Authority becomes aware of any changes to the rates as they occur.
- b. The Mileage and Per Diem Act, DFA Rule 95-1, as well as good internal controls and sound business practices, requires that the Authority provide adequate support for its travel and per diem transactions to support the purposes of the reimbursement and the related amounts.

Effect:

- a. The executive director and board members received payments in excess of the amounts allowed under the Per Diem and Mileage Act in the amounts of approximately \$185 for each of three board members, and approximately \$322 for the executive director.
- b. Internal controls over travel and per diem transactions are not sufficiently monitored and maintained to prevent or detect accidental or intentional misappropriation of the Authority's assets. Without adequate documentation over the travel and per diem transaction process, it can become difficult to support the purposes of reimbursements and their related amounts.

Cause:

- a. Neither the executive director nor the board understood the limits set by the Per Diem and Mileage Act. They requested the fee accountant calculate the allowable amounts, and the fee accountant based the calculations on the IRS amounts for mileage and per diem rates.
- b. The Authority has failed to maintain its supporting documentation for at least three (3) of its travel and per diem transactions. The purposes and related amounts of the transactions are not adequately supported.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act (continued)

Auditors' Recommendation:

- a. We recommend the Authority follow the Mileage and Per Diem Act, when paying per diem and travel reimbursements. The Authority should ensure that it and the fee accountant have access to and have reviewed the Mileage and Per Diem Act as well as the New Mexico State Auditor Rule. Furthermore, the Authority should be certain that it updates these on an annual basis. We also recommend that the Authority request that the executive director and board members reimburse the Authority for the amounts that they were over reimbursed.
- b. The Authority should ensure that its employees and board members provide sufficient documentation to the Authority so that the Authority can properly support the purposes and the related amounts for its travel and per diem transactions. Additionally, the Authority should ensure that all documentation is adequately maintained and available for inspection.

Agency Response:

We the Lovington Housing Authority paid out the per diem in reference to the calculations of the fee accountant which was resolved last year. The Lovington Housing Authority had last year's exit meeting on December 1, 2008 we were advised on the per diem and have followed the mileage and per diem act since this date. All original documentation is sent to the fee accountant who is currently at the auditor's office.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2009-01 — Tracking of Compensatory Time

Condition:

During our tests related to accrued leave, we noted that compensatory time has not been included in the accrued leave computation prepared by the fee accountant during the year ended June 30, 2009. As a result, the compensatory time calculations are not being considered for accrued compensation purposes.

Criteria:

The City of Lovington personnel manual, which also serves as the Authority's personnel manual, Section 9.10 establishes the guidelines to be followed in determining how an employee accumulates vacation, sick, and compensatory time based upon employment classification and length of employment and how that compensatory leave balance will be distributed upon termination.

Effect:

If someone were to be terminated, the City of Lovington would have to rely on the Authority's executive director's records for payout purposes. The control risk factor leaves room for abuse and overstatement on the ending balances.

Cause:

Only the Authority's executive director is tracking her compensatory time on her self-prepared time sheets. The City of Lovington is not properly tracking accumulated compensation balances and used leave balances.

Auditors' Recommendation:

We recommend that the Authority and the City of Lovington develop a reconciliation report that tracks all three liability components of accrued leave; vacation time, sick leave, and compensatory time. A monthly report should be provided to both parties to ensure accountability, accuracy and good record keeping practices.

Agency Response:

The Lovington Housing Authority will turn in a monthly report to the City of Lovington.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2009-02 — Anti-Donation Violation

Condition:

During our tests related to capital assets, we noted that the Authority donated eighteen (18) ranges to a thrift store during the year ended June 30, 2009. The Authority obtained approval from its governing board, but failed to adhere to State constitutional provisions regarding the Anti-Donation Clause in the New Mexico Constitution Article IX, Section 14.

Criteria:

According to the 2009 State Audit Rule 2.2.2.10 G, it clearly states that adherence to State constitutional provisions must be tested. According to the New Mexico Constitution Article IX, Section 14, no governmental agency shall directly or indirectly make any donation to or in aid of any person, association or public or private corporation.

Effect:

In donating the eighteen (18) ranges to one organization the Authority is providing a service to an organization and receiving nothing in return.

Cause:

The Authority donated ranges to a thrift store only after their attempt to sell all the available ranges in their public auction. The remaining eighteen (18) ranges were then donated to a local charitable organization.

Auditors' Recommendation:

We recommend that the Authority become familiar with the Audit Rule 2009 document provided by the New Mexico Office of the State Auditor. This document clearly states all the compliance issues that regulate the Authority. Future disposal of property or equipment must be carefully considered after review of this document. It is critical to involve the governing board and keep them abreast of all State rulings.

Agency Response:

The Lovington Housing Authority will assure that it will comply with the Audit Rule 2009, and give a copy of the rulings to each board member that is presently serving and to the new board members who come in.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2009-03 — Internal Control Deviations - Disbursements

Condition:

During our review of internal controls over disbursements, we noted three (3) deviations in internal control out of five (5) randomly selected disbursements totaling approximately \$22,519:

- a. Tests performed on one (1) disbursement for approximately \$50 revealed that the purchase was made with out a stamp indicating approval from the governing board.
- b. Tests performed on one (1) disbursement for approximately \$100 revealed that there was not sufficient supporting documentation attached to support the refund of a security deposit.
- c. Tests performed on one (1) disbursement for approximately \$100 revealed that disbursement was not properly posted against the proper tenant's security deposits liability accounts.

Criteria:

- a. Good internal controls and sound business practice requires that the Authority adhere to its established policies and procedures for internal controls over disbursements. The Authority, having established the practice of stamping its disbursements with governing board approval, should ensure that all disbursements have been stamped to show governing board approval.
- b. Good internal controls and sound business practices, requires that the Authority provide adequate support for its disbursement transactions to support the purposes and the related amounts.
- c. Good internal controls and sound business practices, requires that the Authority exercise due diligence and ensure that all transactions are properly posted and to the correct account.

Effect:

Internal controls over disbursements are not sufficiently monitored and maintained to prevent or detect accidental or intentional misappropriation of the Authority's assets. This may result in many issues, including but not limited to, purchase of unauthorized or unnecessary items. Furthermore, in the case of improperly posted transactions, this could result in incorrect balances being reflected that could adversely affect decision making and in this specific case of tenant security deposit, an incorrect reflection of a tenant's security deposit balance.

Cause:

The Authority has failed to adhere to its own established policies and procedures over the internal control structure over disbursements.

Auditors' Recommendation:

The Authority should always follow its established polices and procedures to ensure that the proper internal controls are in place over its disbursements. Additionally, the Authority should ensure that all supporting documentation is adequately maintained and available for inspection. Lastly, the Authority should review all postings to the general ledger on a regular basis to ensure all postings are reasonable and accurate.

Agency Response:

The Lovington Housing Authority will continue to advise the governing board of all of it transactions, we will strive to document all files as necessary.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2009-04 — Low Income Public Housing Program - Tenant Files

Condition:

During our review of tenant files relating to eligibility for tenants participating in the Low Rent Public Housing Program, we noted several issues out of the twelve (12) randomly selected tenant files:

- a. Tests performed on one (1) tenant file revealed that no documentation was available to review the tenant's income so that the Authority could ensure the tenant was indeed eligible for participation in the program.
- b. Tests performed on one (1) tenant files revealed that no copy of photo identification was maintained in the tenant file to ensure that the tenant is indeed the same person claimed on the application.

Criteria:

The Authority is required to maintain complete tenant files. As a condition of admission or continued occupancy, the Authority is required to have the tenant and other family members provide necessary information, documentation, and releases for the Public Housing Agency to verify income eligibility in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement 4-14.850-5.

Effect:

Non-compliance with the eligibility requirements of the program could affect the Authority's federal award funding.

Cause:

The Authority is not properly maintaining tenant files to ensure that:

- a. Proper documentation of the tenant's income is maintained so that the Authority can ensure the tenant is indeed eligible for participation in the program.
- b. A copy of photo identification is maintained in the tenant file to ensure that the tenant is indeed the same person claimed on the application.

Auditors' Recommendation:

The Authority should always follow its established polices and procedures to ensure tenant files maintain the required documentation to substantiate tenant eligibility to participate in its Low Income Public Housing Program. Additionally, we recommend that the Authority develop a coversheet with a checklist to accompany the face of each tenant file to ensure that all tenant information considered necessary is maintained in the tenant file.

Agency Response:

The Lovington Housing Authority will strive to better the protocols for our tenant files.

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STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Other Disclosures
For the Year Ended June 30, 2009

A. AUDITOR PREPARED FINANCIAL STATEMENTS

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

B. EXIT CONFERENCE

The contents of this report were discussed on December 1, 2009. The following individuals were in attendance.

Lovington Housing Authority Officials

Billie Jo Rodriguez, Executive Director

Maria Rios, Chairman of the Board

Accounting and Consulting Group, LLP

Cindy Bryan, Partner