

Accounting & Consulting Group, LLP

Certified Public Accountants

**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, 2010**



**STATE OF NEW MEXICO
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**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
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 June 30, 2010

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STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Official Roster
June 30, 2010

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
Certified Public Accountants

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, 2010, 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, 2010 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2010, 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, 2010, 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, 2010, in conformity with a budgetary basis more fully described in Note 1 which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2010 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, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 1, 2010

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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
 June 30, 2010

Exhibit A-1

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Formula Capital Fund Stimulus Grant	Total
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 154,617	\$ -	\$ -	\$ 154,617
Investments	35,804	-	-	35,804
Accounts receivable - tenants, net of allowance for doubtful accounts of \$3,430	646	-	-	646
Inventory	1,433	-	-	1,433
Prepaid expenses	1,371	-	-	1,371
<i>Total current assets</i>	<u>193,871</u>	<u>-</u>	<u>-</u>	<u>193,871</u>
<i>Noncurrent Assets</i>				
Restricted cash and cash equivalents	6,850	-	-	6,850
Capital assets	2,140,982	244,835	-	2,385,817
Accumulated depreciation	(1,245,691)	(25,079)	-	(1,270,770)
<i>Total assets</i>	<u>\$ 1,096,012</u>	<u>\$ 219,756</u>	<u>\$ -</u>	<u>\$ 1,315,768</u>
LIABILITIES AND NET ASSETS				
<i>Current liabilities</i>				
Accounts payable	985	-	-	985
Accrued payroll	20,069	-	-	20,069
Prepaid rent	73	-	-	73
Compensated absences, current portion	2,270	-	-	2,270
<i>Total current liabilities</i>	<u>23,397</u>	<u>-</u>	<u>-</u>	<u>23,397</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	6,850	-	-	6,850
<i>Total current liabilities (payable from restricted assets)</i>	<u>6,850</u>	<u>-</u>	<u>-</u>	<u>6,850</u>
<i>Non-current liabilities :</i>				
Compensated absences, long term portion	1,159	-	-	1,159
<i>Total non-current liabilities</i>	<u>1,159</u>	<u>-</u>	<u>-</u>	<u>1,159</u>
<i>Total liabilities</i>	<u>31,406</u>	<u>-</u>	<u>-</u>	<u>31,406</u>
<i>Net assets:</i>				
Invested in capital assets, net of related debt	895,291	219,756	-	1,115,047
Unrestricted	169,315	-	-	169,315
<i>Total net assets</i>	<u>1,064,606</u>	<u>219,756</u>	<u>-</u>	<u>1,284,362</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,096,012</u>	<u>\$ 219,756</u>	<u>\$ -</u>	<u>\$ 1,315,768</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
 For the Year Ended June 30, 2010

Exhibit A-2

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Formula Capital Fund Stimulus Grant	Total
<i>Operating revenues:</i>				
Rental revenue	\$ 96,190	\$ -	\$ -	\$ 96,190
Other tenant revenue	7,607	-	-	7,607
<i>Total operating revenues</i>	<u>103,797</u>	<u>-</u>	<u>-</u>	<u>103,797</u>
<i>Operating expenses:</i>				
Personnel services	104,158	-	-	104,158
Contractual services	47,034	-	-	47,034
Maintenance and materials	36,888	2,149	-	39,037
Utilities	19,182	-	-	19,182
Depreciation	112,462	16,298	-	128,760
Miscellaneous	19,815	-	-	19,815
<i>Total operating expenses</i>	<u>339,539</u>	<u>18,447</u>	<u>-</u>	<u>357,986</u>
<i>Operating income (loss)</i>	<u>(235,742)</u>	<u>(18,447)</u>	<u>-</u>	<u>(254,189)</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	114,813	2,149	-	116,962
Interest income	956	-	-	956
Miscellaneous income	735	-	-	735
<i>Total non-operating revenues (expenses)</i>	<u>116,504</u>	<u>2,149</u>	<u>-</u>	<u>118,653</u>
Capital grants	-	8,716	104,403	113,119
Transfers in	-	104,403	-	104,403
Transfers out	-	-	(104,403)	(104,403)
<i>Total capital grants and net transfers</i>	<u>-</u>	<u>113,119</u>	<u>-</u>	<u>113,119</u>
<i>Change in net assets</i>	<u>(119,238)</u>	<u>96,821</u>	<u>-</u>	<u>(22,417)</u>
<i>Total net assets - beginning of year</i>	<u>1,183,844</u>	<u>122,935</u>	<u>-</u>	<u>1,306,779</u>
<i>Total net assets - end of year</i>	<u>\$ 1,064,606</u>	<u>\$ 219,756</u>	<u>\$ -</u>	<u>\$ 1,284,362</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
 For the Year Ended June 30, 2010

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Formula Capital Fund Stimulus Grant	Total
<i>Cash flows from operating activities:</i>				
Cash received from tenant rents	\$ 102,406	\$ -	\$ -	\$ 102,406
Cash payments to employees for services	(96,470)	-	-	(96,470)
Cash payments to suppliers for goods and services	(123,861)	(2,149)	-	(126,010)
<i>Net cash provided (used) by operating activities</i>	<u>(117,925)</u>	<u>(2,149)</u>	<u>-</u>	<u>(120,074)</u>
<i>Cash flows from noncapital financing activities:</i>				
Operating grants	114,813	2,149	-	116,962
Miscellaneous income (expense)	735	-	-	735
<i>Net cash provided (used) by noncapital financing activities</i>	<u>115,548</u>	<u>2,149</u>	<u>-</u>	<u>117,697</u>
<i>Cash flows from capital and related financing activities:</i>				
Capital grants	-	113,119	-	113,119
Acquisition of capital assets	(2,850)	(113,119)	-	(115,969)
<i>Net cash provided (used) by capital and related financing activities</i>	<u>(2,850)</u>	<u>-</u>	<u>-</u>	<u>(2,850)</u>
<i>Cash flows from investing activities:</i>				
Interest on investments	956	-	-	956
<i>Net cash provided (used) by from investing activities</i>	<u>956</u>	<u>-</u>	<u>-</u>	<u>956</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(4,271)	-	-	(4,271)
<i>Cash and cash equivalents - beginning of year</i>	<u>201,542</u>	<u>-</u>	<u>-</u>	<u>201,542</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 197,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,271</u>

The accompanying notes are an integral part of these financial statements

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Formula Capital Fund Stimulus Grant	Total
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>				
Operating income (loss)	\$ (235,742)	\$ (18,447)	\$ -	\$ (254,189)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:				
Depreciation	112,462	16,298	-	128,760
Changes in assets and liabilities				
Accounts receivables	277	-	-	277
Inventory	1,297	-	-	1,297
Prepaid expenses	(1,002)	-	-	(1,002)
Accounts payable	(1,237)	-	-	(1,237)
Accrued payroll expenses	8,605	-	-	8,605
Prepaid expenses	(218)	-	-	(218)
Accrued compensated absences	(917)	-	-	(917)
Tenant deposits	(1,450)	-	-	(1,450)
<i>Net cash provided (used) by operating activities</i>	<u>\$ (117,925)</u>	<u>\$ (2,149)</u>	<u>\$ -</u>	<u>\$ (120,074)</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, 2010

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

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management, who is responsible for their integrity and objectivity. The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America 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, 2010. 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 Fund Program** – This program is funded by HUD and is for the purpose of upgrading existing rental properties.
- **Formula Capital Fund Stimulus Grant** – This fund is to account for the federal stimulus fund for the purpose of purchasing capital assets.

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.

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, 2010

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.

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, 2010

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.

Inventory

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

Prepaid 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.

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, 2010

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.”

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, 2010

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, 2010.

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, 2010

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.

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, 2010, \$0 of the Authority's deposits of \$207,909 was exposed to custodial credit risk. \$0 was uninsured and uncollateralized. As of June 30, 2010, the carrying amount of these deposits was \$207,909.

	Western Commerce Bank	State Farm Bank	Total
Total amount of deposits	\$ 184,084	\$ 23,825	\$ 207,909
FDIC Coverage	<u>(184,084)</u>	<u>(23,825)</u>	<u>(207,909)</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>156,562</u>	<u>-</u>	<u>156,562</u>
Over (Under) collateralized	<u><u>\$ 156,562</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 156,562</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, 2010

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	\$ 190,421
Restricted cash and cash equivalents per Exhibit A-1	6,850
Add: Outstanding checks and other reconciling items	<u>10,638</u>
	207,909
Less: petty cash	<u>-</u>
Bank balance of deposits	<u><u>\$ 207,909</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, 2010

NOTE 3. CAPITAL ASSETS

Component Unit	<u>Balance June 30, 2009</u>	<u>Additions & Transfers in</u>	<u>Deletions & Transfers out</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 215,936	\$ -	\$ -	\$ 215,936
Total capital assets not being depreciated	<u>215,936</u>	<u>-</u>	<u>-</u>	<u>215,936</u>
Capital assets being depreciated:				
Buildings and improvements	1,850,239	2,850	-	1,853,089
Capital Fund Program Assets	131,716	113,119	-	244,835
Machinery & Equipment	37,311	-	1,174	36,137
Vehicles	35,820	-	-	35,820
Total capital assets being depreciated	<u>2,055,086</u>	<u>115,969</u>	<u>1,174</u>	<u>2,169,881</u>
Less accumulated depreciation:				
Buildings and improvements	1,071,951	106,887	-	1,178,838
Capital Fund Program Assets	8,781	16,298	-	25,079
Machinery & Equipment	34,480	1,651	1,174	34,957
Vehicles	27,972	3,924	-	31,896
Total accumulated depreciation	<u>1,143,184</u>	<u>128,760</u>	<u>1,174</u>	<u>1,270,770</u>
Total capital assets, net of depreciation	<u>\$ 1,127,838</u>	<u>\$ (12,791)</u>	<u>\$ -</u>	<u>\$ 1,115,047</u>

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, 2010, totaled \$128,760.

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, 2010

NOTE 4. LONG-TERM LIABILITIES

The following summarizes changes in long-term liabilities during the fiscal year ended June 30, 2010.

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
Accrued compensated absences	\$4,346	\$1,353	\$2,270	\$3,429	\$2,270
Totals	<u>\$4,346</u>	<u>\$1,353</u>	<u>\$2,270</u>	<u>\$3,429</u>	<u>\$2,270</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 party 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% of their 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, 2010 was \$74,777 and \$104,775 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.

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, 2010

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.

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SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO

Statement A-1

Lovington Housing Authority
A Component Unit of the City of Lovington
Statement of Revenues, Expenses and Changes in
Net Assets - Budget (Non-GAAP Budgetary Basis) and Actual
Low Rent Public Housing Program
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 86,900	\$ 86,900	\$ 103,797	\$ 16,897
<i>Total operating revenues</i>	<u>86,900</u>	<u>86,900</u>	<u>103,797</u>	<u>16,897</u>
<i>Operating expenses:</i>				
Personnel services	135,900	135,900	104,158	31,742
Contractual services	44,190	44,190	47,034	(2,844)
Supplies	-	-	-	-
Maintenance and materials	40,600	40,600	36,888	3,712
Utilities	19,700	19,700	19,182	518
Miscellaneous	7,600	7,600	19,815	(12,215)
<i>Total operating expenses</i>	<u>247,990</u>	<u>247,990</u>	<u>227,077</u>	<u>20,913</u>
<i>Operating income (loss)</i>	<u>(161,090)</u>	<u>(161,090)</u>	<u>(123,280)</u>	<u>37,810</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	112,703	112,703	114,813	2,110
Interest income	2,000	2,000	956	(1,044)
Miscellaneous income	-	-	735	735
<i>Total non-operating revenues (expenses)</i>	<u>114,703</u>	<u>114,703</u>	<u>116,504</u>	<u>1,801</u>
Capital grants	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets before GAAP Adjustment</i>	<u>(46,387)</u>	<u>(46,387)</u>	<u>(6,776)</u>	<u>39,611</u>
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	112,462	(112,462)
Designated cash (Budgeted increase in cash)	46,387	46,387	-	46,387
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,183,844</u>	<u>1,183,844</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,064,606</u>	<u>\$ 1,064,606</u>
Change in net assets, above			\$ (6,776)	
No adjustments to revenues			-	
Adjustments for depreciation			<u>(112,462)</u>	
Change in net assets (Exhibit A-2)			<u>\$ (119,238)</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement A-2

Lovington Housing Authority
A Component Unit of the City of Lovington
Statement of Revenues, Expenses and Changes in
Net Assets - Budget (Non-GAAP Budgetary Basis) and Actual
Public Housing Capital Fund Program
For the Year Ended June 30, 2010

	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	2,149	2,149	2,149	-
Utilities	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total operating expenses</i>	<u>2,149</u>	<u>2,149</u>	<u>2,149</u>	<u>-</u>
<i>Operating income (loss)</i>	<u>(2,149)</u>	<u>(2,149)</u>	<u>(2,149)</u>	<u>-</u>
<i>Non-operating revenues (expenses):</i>				
Operating grants	2,149	2,149	2,149	-
Interest income	-	-	-	-
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	<u>2,149</u>	<u>2,149</u>	<u>2,149</u>	<u>-</u>
Capital grants	113,119	113,119	113,119	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Capital grants and net transfers</i>	<u>113,119</u>	<u>113,119</u>	<u>113,119</u>	<u>-</u>
<i>Change in net assets before GAAP Adjustment</i>	113,119	113,119	113,119	-
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	16,298	(16,298)
Designated cash (Budgeted increase in cash)	(113,119)	(113,119)	-	(113,119)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>122,935</u>	<u>122,935</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,756</u>	<u>\$ 219,756</u>
Change in net assets, above			\$ 113,119	
No adjustments to revenues			-	
Adjustments for depreciation			<u>(16,298)</u>	
Change in net assets (Exhibit A-2)			<u>\$ 96,821</u>	

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement A-3

Lovington Housing Authority
 A Component Unit of the City of Lovington
 Statement of Revenues, Expenses and Changes in
 Net Assets - Budget (Non-GAAP Budgetary Basis) and Actual
 Formula Capital Fund Stimulus Grant Program
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	-	-	-	-
<i>Operating expenses:</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Maintenance and materials	-	-	-	-
Utilities	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total operating expenses</i>	-	-	-	-
<i>Operating income (loss)</i>	-	-	-	-
<i>Non-operating revenues (expenses):</i>				
Operating grants	-	-	-	-
Interest income	-	-	-	-
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	-	-	-	-
Capital grants	104,403	104,403	104,403	-
Transfers in	-	-	-	-
Transfers out	(104,403)	(104,403)	(104,403)	-
<i>Capital grants and net transfers</i>	-	-	-	-
<i>Change in net assets before GAAP Adjustment</i>	-	-	-	-
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	-	-
Designated cash (Budgeted increase in cash)	-	-	-	-
<i>Total net assets, beginning of year</i>	-	-	-	-
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in net assets, above			\$ -	
No adjustments to revenues			-	
No adjustments to expenditures			-	
Change in net assets (Exhibit A-2)			<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements

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, 2010

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, 2010</u>
Western Commerce Bank	GNMA #8824	08/20/21	8824	\$ 39,333
	GNMA #80187	04/20/28	80187	59,434
	FNMA #60679	01/01/28	60679	<u>57,796</u>
	Total Western Commerce Bank Pledged Securities			<u>156,562</u>
	Total pledged securities			<u>\$ 156,562</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, 2010

Schedule II

Financial Institution	Account Number	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Western Commerce Bank:					
Operating account/checking	0112228901	\$ 164,886	\$ -	\$ 10,638	\$ 154,248
Checking account	0113687501	7,219	-	-	7,219
Certificate of deposit	2061140	11,979	-	-	11,979
Total Western Commerce Bank		<u>184,084</u>	<u>-</u>	<u>10,638</u>	<u>173,446</u>
State Farm Bank:					
Certificate of deposit	1019762765	11,915	-	-	11,915
Certificate of deposit	1020689109	11,910	-	-	11,910
Total State Farm Bank		<u>23,825</u>	<u>-</u>	<u>-</u>	<u>23,825</u>
Total deposits		<u>\$ 207,909</u>	<u>\$ -</u>	<u>\$ 10,638</u>	<u>197,271</u>
Petty cash					<u>-</u>
Total cash and cash equivalents- June 30, 2010					<u><u>\$ 197,271</u></u>
Statement of Net Assets (Exhibit A-1):					
Cash and cash equivalents					\$ 154,617
Investments					35,804
Restricted cash and cash equivalents					<u>6,850</u>
Total cash and cash equivalents					<u><u>\$ 197,271</u></u>

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, 2010

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872
111	Cash - Unrestricted	\$ 154,617	\$ -
114	Cash - Tenant Security Deposits	6,850	-
100	Total Cash	<u>161,467</u>	<u>-</u>
121	Accounts Receivable - PHA projects	-	-
122	Accounts Receivable - HUD Other Projects	354	-
126	Accounts Receivable - Tenants - Dwelling Rents	3,690	-
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(3,430)	-
129	Accrued Interest Receivable	<u>32</u>	<u>-</u>
120	Total Receivables, Net of Allowance for Doubtful Accounts	646	-
131	Investments - Unrestricted	<u>35,804</u>	<u>-</u>
130	Total Investments	35,804	-
142	Prepaid Expenses and Other Assets	1,371	-
143	Inventories	<u>1,433</u>	<u>-</u>
150	Total Current Assets	<u>200,721</u>	<u>-</u>
161	Land	215,936	-
162	Buildings	1,743,514	244,835
163	Furniture, Equipment & Machinery - Dwellings	17,627	-
164	Furniture, Equipment & Machinery - Administration	54,330	-
165	Leasehold Improvements	109,575	-
166	Accumulated Depreciation	<u>(1,245,691)</u>	<u>(25,079)</u>
160	Total Capital Assets, Net of Accumulated Depreciation	<u>895,291</u>	<u>219,756</u>
180	Total Non-Current Assets	<u>895,291</u>	<u>219,756</u>
190	Total Assets	<u><u>\$ 1,096,012</u></u>	<u><u>\$ 219,756</u></u>

See independent auditors' report

Formula Capital Fund Stimulus Grant 14.885	Total
\$ -	\$ 154,617
-	6,850
-	161,467
-	-
-	354
-	3,690
-	(3,430)
-	32
-	646
-	35,804
-	35,804
-	1,371
-	1,433
-	200,721
-	215,936
-	1,988,349
-	17,627
-	54,330
-	109,575
-	(1,270,770)
-	1,115,047
-	1,115,047
\$ -	\$ 1,315,768

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2010

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872
312	Accounts Payable <= 90 Days	\$ 985	\$ -
322	Accrued Compensated Absences - Current Portion	2,270	-
333	Accounts Payable - Other Government	20,069	-
341	Tenant Security Deposits	6,850	-
342	Deferred Revenues	73	-
310	Total Current Liabilities	<u>30,247</u>	<u>-</u>
354	Accrued Compensated Absences - Non-Current	<u>1,159</u>	<u>-</u>
350	Total Non-Current Liabilities	<u>1,159</u>	<u>-</u>
300	Total Liabilities	<u>31,406</u>	<u>-</u>
508.1	Invested in Capital Assets, Net of Related Debt	895,291	219,756
511	Restricted Net Assets	-	-
512.1	Unrestricted Net Assets	<u>169,315</u>	<u>-</u>
513	Total Equity/Net Assets	<u>1,064,606</u>	<u>219,756</u>
600	Total Liabilities and Equity/Net Assets	<u><u>\$ 1,096,012</u></u>	<u><u>\$ 219,756</u></u>

See independent auditors' report

Formula Capital Fund Stimulus Grant 14.885	Total
\$ -	\$ 985
-	2,270
-	6,850
-	73
-	10,178
-	1,159
-	1,159
-	11,337
-	1,115,047
-	-
-	169,315
-	1,284,362
<u>\$ -</u>	<u>\$ 1,315,768</u>

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2010

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872
70300	Net Tenant Rental Revenue	\$ 96,190	\$ -
70400	Tenant Revenue - Other	7,607	-
70500	Total Tenant Revenue	<u>103,797</u>	<u>-</u>
70600	HUD PHA Operating Grants	114,813	2,149
70610	Capital Grants	-	8,716
71100	Investment Income - Unrestricted	956	-
71500	Other Revenue	735	-
70000	Total Revenue	<u>220,301</u>	<u>10,865</u>
91100	Administrative Salaries	35,035	-
91200	Auditing Fees	10,153	-
91400	Advertising and Marketing	790	-
91500	Employee Benefit Contributions - Administrative	13,848	-
91600	Office Expenses	13,426	-
91800	Travel	4,005	-
91900	Other Operating - Administrative	3,293	-
91000	Total Operating - Administrative	<u>80,550</u>	<u>-</u>
93100	Water	326	-
93200	Electricity	3,161	-
93300	Gas	3,364	-
93600	Sewer	324	-
93000	Total Utilities	<u>7,175</u>	<u>-</u>
94100	Ordinary Maintenance & Operation - Labor	36,052	-
94200	Ordinary Maintenance & Operation - Materials & Other	33,919	-
94300	Ordinary Maintenance & Operation Contracts	26,385	2,149
94500	Employee Benefit Contributions - Ordinary Maintenance	11,545	-
94000	Total Maintenance	<u>107,901</u>	<u>2,149</u>
96110	Property Insurance	13,709	-
96120	Liability Insurance	917	-
96130	Workmen's Compensation	3,168	-
96140	All Other Insurance	1,149	-
96100	Total Insurance Premiums	<u>18,943</u>	<u>-</u>
96210	Compensated Absences	505	-
96300	Payment In Lieu of Taxes	8,902	-
96400	Bad Debt - Tenant Rents	3,101	-
96000	Total Other General	<u>12,508</u>	<u>-</u>
96900	Total Operating Expenses	<u>227,077</u>	<u>2,149</u>
97000	Excess Operating Revenue Over Operating Expenses	<u>(6,776)</u>	<u>8,716</u>
97400	Depreciation Expense	<u>112,462</u>	<u>16,298</u>
90000	Total Expenses	<u>\$ 339,539</u>	<u>\$ 18,447</u>

See independent auditors' report

Formula Capital Fund Stimulus Grant 14.885	Total
\$ -	\$ 96,190
-	7,607
-	103,797
-	116,962
104,403	113,119
-	956
-	735
104,403	335,569
-	35,035
-	10,153
-	790
-	13,848
-	13,426
-	4,005
-	3,293
-	80,550
-	326
-	3,161
-	3,364
-	-
-	6,851
-	36,052
-	33,919
-	28,534
-	11,545
-	110,050
-	13,709
-	917
-	3,168
-	1,149
-	14,858
-	505
-	8,902
-	3,101
-	12,508
-	224,817
104,403	106,343
-	128,760
\$ -	\$ 353,577

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2010

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872
10010	Operating Transfers In	\$ -	\$ -
10020	Operating Transfers Out	-	-
10100	Total Other Financing Sources (Uses)	-	-
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(119,238)	(7,582)
11030	Beginning Equity	1,183,844	122,935
11040-010	Prior Period Adjustments and Correction of Errors	-	-
11040-070	Equity Transfers	-	104,403
11040	Prior period Adjustments,Equity Transfers and Correction of Errors	-	104,403
	Ending Equity (deficit)	<u>\$ 1,064,606</u>	<u>\$ 219,756</u>
11190	Unit Months Available	<u>547</u>	<u>-</u>
11210	Number of Unit Months Leased	<u>490</u>	<u>-</u>
11270	Excess Cash	<u>\$ 152,705</u>	<u>\$ -</u>
11620	Building Purchases	<u>\$ 2,850</u>	<u>\$ 113,119</u>

See independent auditors' report

Formula Capital Fund Stimulus Grant 14.885	Total
\$ -	\$ -
-	-
-	-
104,403	(22,417)
-	1,306,779
-	-
(104,403)	-
(104,403)	-
<u>\$ -</u>	<u>\$ 1,284,362</u>
<u>-</u>	<u>547</u>
<u>-</u>	<u>490</u>
<u>\$ -</u>	<u>\$ 152,705</u>
<u>\$ -</u>	<u>\$ 115,969</u>

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COMPLIANCE SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

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

Hector H. Balderas
New Mexico State Auditor
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, 2010, 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, 2010. 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, 2010 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses and other deficiencies that we considered to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 08-01 and FS 2010-01 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2007-2 to be a significant deficiency.

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 also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings FS 2009-03 and FS 2010-02.

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 it.

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, 2010

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, 2010

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 Finding*
2007-2 — Preparation of Financial Statements	B
FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight	A B
FS 2009-03 — Internal Control Deviations - Disbursements	F
FS 2010-01 — Budgets Over-Expended	A B
FS 2010-02 — Late Audit Report	F

* 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, 2010

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	R
FS 08-09 — Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets	D	R
FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act	D	R
FS 2009-01 — Tracking of Compensatory Time	F	R
FS 2009-02 — Anti-Donation Violation	D	R
FS 2009-03 — Internal Control Deviations - Disbursements	F	RM
FS 2009-04 — Low Income Public Housing Program - Tenant Files	D	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. 115, 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 affect 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 LHA has never been in a troubled status, we have strived to excel in all areas of our accounting practices. Due to our limited resources we are unable to hire a CPA at this time. However we will work closely with our Fee Accountant in order to follow this requirement.

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 to ensure effective design, operation and oversight. We noted the following areas in which the Authority does not have sufficient key internal controls in place:

- There is not a risk assessment done at the Authority
- The operation of key internal controls are not monitored regularly and as a part of an ongoing evaluation of the Authority's control systems
- The governing body does not have a written policy to address oversight of financial reporting and internal controls
- No supporting documentation for manual journal entries and there are not appropriate levels of segregation of duties or monitoring for the journal entry process
- There is inadequate segregation of duties.
- Changes to customer and vendor master files are not reviewed.

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. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 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 current fiscal year 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 115 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 LHA executive director will advise the board of commissioners of the current internal control policy. However due to limited funding an risks of taking cuts in our budget to hire more personnel is not a possibility for the LHA at this time.

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 \$24,314:

- a. Tests performed on one (1) disbursement for approximately \$51 revealed that the purchase was made without a signature indicating approval from the governing board.
- b. Tests performed on two (2) disbursements for approximately \$2,291 revealed that the payee listed in the General Ledger was different from the payee listed on the check.
- c. Test performed on one (1) voided disbursement revealed that the check was printed completely; including payee, and signed by both required parties with no amount included on the check prior to being voided.

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 practice requires that the Authority exercise due diligence and ensure that all transactions are properly posted and to the correct account.
- c. Good internal controls and sound business practice requires that the Authority establish and implement internal control procedures over cash disbursements. The Authority should ensure that all checks are printed with all required information and should be reviewed for accuracy, completeness and reasonableness before signing.

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 policies 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:

(a) the LHA did not have a credit card in order to purchase office supplies. (b) both checks were down under Home Depot, and HD is home depot however it is HD facilities, this company is online and the Home depot is our current credit to local purchases. (c) the LHA did not have a credit card to the local Staples and the check was made out and then voided after.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2010-01 — Budgets Over-Expended

Condition:

The Authority failed to submit its proposed budget for the 2010 fiscal year to the New Mexico Department of Finance and Administration (DFA) by June 1, 2009.

Criteria:

Section 6-6-2A, NMSA 1978, requires each local public body to furnish and file with the local government division, on or before June 1 of each year, a proposed budget for the next fiscal year. At this point, the budget becomes legally enforceable.

Effect:

Because of the failure to obtain DFA approval of its budgets, the Housing Authority is in violation of the applicable laws, regulations and policies established by the State of New Mexico.

Cause:

The Housing Authority was not aware of the requirement to submit the proposed budget to DFA as well as to HUD.

Auditors' Recommendation:

We recommend that the Authority file their proposed budgets as required by state statutes and establish policies and procedures to ensure that all expenditures are budgeted for and funds are not over-expended.

Agency's Response:

The LHA was under the impression that since we were not under a troubled status we did not have to send our budget to the DFA. However we will imply this on next budget and continue to follow this requirement.

FS 2010-02 Late Audit Report

Condition:

The Housing Authority's June 30, 2010 audit report was submitted to the Office of the State Auditor by the due date of December 1, 2010. However, it was not accepted by the Office of the State Auditor as originally submitted.

Criteria:

New Mexico State Auditor Rule 2.2.2 NMAC Section 2.2.2.9 (A) (g) requires that the audit report be filed no later than 5 months after fiscal year-end.

Effect:

Additional state and federal reporting requirements could be delayed until the report is approved by the Office of the State Auditor.

Cause:

Due to differences in interpreting reporting requirements between the auditor and the Office of the State Auditor, the report was considered not timely filed.

Recommendation:

The auditors will submit the report sooner so that disagreements can be resolved prior to the deadline.

Agency's Response:

The City of Lovington Housing Authority did everything in its power to accommodate the auditors in a timely manner. We the LHA strive to follow all rules and regulations to the best of our knowledge.

STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Other Disclosures
For the Year Ended June 30, 2010

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, 2010. The following individuals were in attendance.

Lovington Housing Authority Officials

Billie Jo Rodriguez, Executive Director
Manual Quiroz, Board Member

Accounting and Consulting Group, LLP

Jeff McWhorter, Partner