

State of New Mexico
Lovington Housing Authority
Financial Statements and Required
Supplementary Information
With Accompanying Auditors' Reports
Year Ended June 30, 2011



**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, 2011**

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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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STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Official Roster
June 30, 2011

Board of Directors

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

Administrative Officials

Executive Director	Paul Campos
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FINANCIAL SECTION



Accounting & Consulting Group, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
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, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for each proprietary fund for the year ended June 30, 2011 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, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2011, and the respective change in financial position, and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparisons for each proprietary fund for the year ended June 30, 2011, 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 November 28, 2011 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's 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
November 28, 2011

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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, 2011

Exhibit A-1

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents	\$ 92,283	\$ -	\$ 92,283
Investments	36,147	-	36,147
Accounts receivable - tenants, net of allowance for doubtful accounts of \$1,192	8	-	8
Inventory	692	-	692
Prepaid expenses	1,506	-	1,506
<i>Total current assets</i>	<u>130,636</u>	<u>-</u>	<u>130,636</u>
<i>Noncurrent Assets</i>			
Restricted cash and cash equivalents	7,550	-	7,550
Capital assets	2,375,756	-	2,375,756
Accumulated depreciation	(1,384,838)	-	(1,384,838)
<i>Total assets</i>	<u>\$ 1,129,104</u>	<u>\$ -</u>	<u>\$ 1,129,104</u>
LIABILITIES AND NET ASSETS			
<i>Current liabilities</i>			
Accounts payable	\$ 15,203	\$ -	\$ 15,203
Accounts payable - other governments	7,598	-	7,598
Accrued payroll	3,724	-	3,724
Accrued utilities	543	-	543
Prepaid rent	934	-	934
Compensated absences, current portion	1,905	-	1,905
<i>Total current liabilities</i>	<u>29,907</u>	<u>-</u>	<u>29,907</u>
<i>Current liabilities (payable from restricted assets)</i>			
Tenant deposits	7,550	-	7,550
<i>Total current liabilities (payable from restricted assets)</i>	<u>7,550</u>	<u>-</u>	<u>7,550</u>
<i>Non-current liabilities</i>			
Compensated absences, long term portion	1,067	-	1,067
<i>Total non-current liabilities</i>	<u>1,067</u>	<u>-</u>	<u>1,067</u>
<i>Total liabilities</i>	<u>38,524</u>	<u>-</u>	<u>38,524</u>
<i>Net assets:</i>			
Invested in capital assets, net of related debt	990,918	-	990,918
Unrestricted	99,662	-	99,662
<i>Total net assets</i>	<u>1,090,580</u>	<u>-</u>	<u>1,090,580</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,129,104</u>	<u>\$ -</u>	<u>\$ 1,129,104</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, 2011

Exhibit A-2

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Operating revenues</i>			
Rental revenue	\$ 84,214	\$ -	\$ 84,214
Other tenant revenue	6,431	-	6,431
<i>Total operating revenues</i>	<u>90,645</u>	<u>-</u>	<u>90,645</u>
<i>Operating expenses</i>			
Personnel services	117,129	-	117,129
Contractual services	49,287	-	49,287
Maintenance and materials	58,806	77,210	136,016
Utilities	12,574	-	12,574
Depreciation	126,068	-	126,068
Miscellaneous	32,824	-	32,824
<i>Total operating expenses</i>	<u>396,688</u>	<u>77,210</u>	<u>473,898</u>
<i>Operating income (loss)</i>	<u>(306,043)</u>	<u>(77,210)</u>	<u>(383,253)</u>
<i>Non-operating revenues (expenses)</i>			
Subsidy grant	89,594	5,270	94,864
Capital grant	-	77,210	77,210
Interest income	457	-	457
Miscellaneous income	18,197	-	18,197
Loss on disposal of assets	(1,257)	-	(1,257)
Transfers in	5,270	-	5,270
Transfers out	-	(5,270)	(5,270)
<i>Total capital grants and net transfers</i>	<u>4,013</u>	<u>(5,270)</u>	<u>(1,257)</u>
<i>Change in net assets</i>	<u>(193,782)</u>	<u>-</u>	<u>(193,782)</u>
<i>Total net assets - beginning of year</i>	<u>1,064,606</u>	<u>219,756</u>	<u>1,284,362</u>
<i>Equity transfers in (out)</i>	219,756	(219,756)	
<i>Total net assets - end of year</i>	<u>\$ 1,090,580</u>	<u>\$ -</u>	<u>\$ 1,090,580</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, 2011

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<i>Cash flows from operating activities:</i>			
Cash received from tenant rents	\$ 92,844	\$ -	\$ 92,844
Cash payments to employees for services	(133,931)	-	(133,931)
Cash payments to suppliers for goods and services	(130,524)	(77,210)	(207,734)
<i>Net cash (used) by operating activities</i>	<u>(171,611)</u>	<u>(77,210)</u>	<u>(248,821)</u>
<i>Cash flows from noncapital financing activities:</i>			
Subsidy grants	89,594	5,270	94,864
Miscellaneous income (expense)	18,197	-	18,197
Transfers	5,270	(5,270)	-
<i>Net cash provided by noncapital financing activities</i>	<u>113,061</u>	<u>-</u>	<u>113,061</u>
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	77,210	77,210
Acquisition of capital assets	(3,198)	-	(3,198)
<i>Net cash (used) by capital and related financing activities</i>	<u>(3,198)</u>	<u>-</u>	<u>(3,198)</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	457	-	457
<i>Net cash provided by from investing activities</i>	<u>457</u>	<u>-</u>	<u>457</u>
<i>Net (decrease) in cash and cash equivalents</i>	(61,291)	-	(61,291)
<i>Cash and cash equivalents - beginning of year</i>	<u>197,271</u>	<u>-</u>	<u>197,271</u>
<i>Cash and cash equivalents - end of year</i>	<u>\$ 135,980</u>	<u>\$ -</u>	<u>\$ 135,980</u>

Note: Non cash items transferred from Public Housing Capital Fund Program to Low Rent Public Housing Program.

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)	\$ (306,043)	\$ (77,210)	\$ (383,253)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	126,070	-	126,070
Changes in assets and liabilities			
Accounts receivable	638	-	638
Inventory	641	-	641
Prepaid expenses	(35)	-	(35)
Accounts payable	14,218	-	14,218
Accounts payable - other governments	7,598	-	7,598
Accrued payroll expenses	(16,345)	-	(16,345)
Accrued utilities	543	-	543
Prepaid expenses	861	-	861
Accrued compensated absences	(457)	-	(457)
Tenant deposits	700	-	700
<i>Net cash (used) by operating activities</i>	<u>\$ (171,611)</u>	<u>\$ (77,210)</u>	<u>\$ (248,821)</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, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lovington Housing Authority (Authority), 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, 2011. 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.

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, 2011

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, 2011

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 \$5,000 (amount not rounded) and an estimated useful life in excess of one year. The Authority does have an exception for ranges and refrigerators, which are capitalized regardless of the cost. 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, 2011

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 have not reached the 5 year service level; therefore the accumulated sick leave is not 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, 2011

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

Annual budgets of the Authority are prepared prior to June 1 and must be approved by resolution of the Board of Directors. Once the budget has been formally approved, any amendments must also be approved by the Board of Directors. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total at the fund level.

These budgets are prepared on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted auditing principles. Budgetary basis expenditures exclude encumbrances. The budget secures appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been properly amended by Board of Directors in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budet	Final Budget
Budgeted Funds:		
Low Rent Public Housing Program	\$ (9,245)	\$ (9,245)
Public Housing Capital Fund Program	\$ -	\$ 5,270

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, 2011.

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, 2011

NOTE 2. DEPOSITS AND INVESTMENTS (continued)

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

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Under the Transaction Account Guarantee Program (TAGP) in effect from July 1, 2010 to December 31, 2010, time deposits, savings deposits and interest bearing negotiable order of withdrawal (NOW) accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The TAGP program expired on December 31, 2010. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited coverage for noninterest-bearing transaction accounts in all FDIC-insured depository institutions. The separate coverage on noninterest-bearing transaction accounts became effective on December 31, 2010 and will terminate on December 31, 2012. From December 31, 2010 to July 20, 2011 accounts held by an official custodian for a government unit are insured as follows:

- Up to \$250,000 for the combined total of all time and savings deposits (including NOW accounts), and
- Unlimited coverage for noninterest-bearing transaction (demand deposit) accounts

Through July 20, 2011, there is no difference in deposit insurance coverage when an official custodian deposits money in-state or out-of-state.

Currently the Authority has investments in CD's which are all over 3 months original maturity.

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, 2011, none of the Authority's deposits of \$135,981 was exposed to custodial credit risk as they were insured by FDIC limits.

	Western Commerce	State Farm Bank	Total
Total amount of deposits	\$ 111,174	\$ 24,074	\$ 135,248
FDIC Coverage	(111,174)	(24,074)	(135,248)
Total uninsured public funds	-	-	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Authority's name	-	-	-
Uninsured and uncollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral requirement (50% of uninsured funds)	\$ -	\$ -	\$ -
Pledged Collateral	<u>140,862</u>	<u>-</u>	<u>140,862</u>
Over (Under) collateralized	<u>\$ 140,862</u>	<u>\$ -</u>	<u>\$ 140,862</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, 2011

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	\$ 92,283
Investments per Exhibit A-1	36,147
Restricted cash and cash equivalents per Exhibit A-1	7,550
Add: outstanding checks	808
Less: deposits in transit	1,540
Bank balance of deposits	<u>\$ 135,248</u>

NOTE 3. RECEIVABLES

Receivables as of June 30, 2011, are as follows:

	<u>Low Rent Public Housing Program</u>
Current receivables:	
Tenant	\$ 1,193
Less: Allowance for doubtful accounts	(1,192)
Interest	7
Total receivable	<u>\$ 8</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, 2011

NOTE 4. CAPITAL ASSETS

	Balance June 30, 2010	Transfers	Additions	Deletions	Balance June 30, 2011
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>-</u>	<u>215,936</u>
Capital assets being depreciated:					
Buildings and improvements	1,853,089	244,835	-	2,777	2,095,147
Capital Fund Program Assets	244,835	(244,835)	-	-	-
Machinery & Equipment	36,137	-	3,198	10,482	28,853
Vehicles	35,820	-	-	-	35,820
Total capital assets being depreciated	<u>2,169,881</u>	<u>-</u>	<u>3,198</u>	<u>13,259</u>	<u>2,159,820</u>
Less accumulated depreciation:					
Buildings and improvements	1,178,838	25,079	120,855	1,520	1,323,252
Capital Fund Program Assets	25,079	(25,079)	-	-	-
Machinery & Equipment	34,957	-	1,291	10,482	25,766
Vehicles	31,896	-	3,924	-	35,820
Total accumulated depreciation	<u>1,270,770</u>	<u>-</u>	<u>126,070</u>	<u>12,002</u>	<u>1,384,838</u>
Total capital assets, net of depreciation	<u>\$ 1,115,047</u>	<u>\$ -</u>	<u>\$ (122,872)</u>	<u>\$ 1,257</u>	<u>\$ 990,918</u>

Depreciation expense for the year ended June 30, 2011 totaled \$126,070.

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, 2011

NOTE 5. LONG-TERM LIABILITIES

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

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
Accrued compensated absences	\$ 3,429	\$ 1,448	\$ 1,905	\$ 2,972	\$ 1,905
Totals	<u>\$ 3,429</u>	<u>\$ 1,448</u>	<u>\$ 1,905</u>	<u>\$ 2,972</u>	<u>\$ 1,905</u>

NOTE 6. CONTINGENT LIABILITIES

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

NOTE 7. RISK MANAGEMENT

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 8. 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, 2011 was \$102,044 and \$92,446 respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 9. 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, 2011

NOTE 10. CONCENTRATIONS

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

NOTE 11. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosures is November 23, 2011 which is the date on which the financial statements were issued.

NOTE 12. SUBSEQUENT PRONOUNCEMENTS

In November 2010, GASB Statement No. 60 Accounting and Financial Reporting for Service Concession Arrangements, Effective Date: For financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority is still evaluating the possible effects of this standard.

In November 2010, GASB Statement No. 61 The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34, Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the Authority in upcoming years.

In December 2010, GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, Effective Date: The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority will implement this standard during fiscal year June 30, 2013.

In June 2011, GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position Effective Date: The provisions of Statement 63 are effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the Authority in upcoming years.

In June 2011, GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53 Effective Date: The provisions of Statement 64 are effective for financial statements for periods beginning after June 15, 2011, with earlier application encouraged. The standard is expected to have no effect on the Authority in upcoming years.

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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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<i>Operating revenues:</i>				
Charges for services	\$ 104,350	\$ 104,350	\$ 90,645	\$ (13,705)
<i>Total operating revenues</i>	<u>104,350</u>	<u>104,350</u>	<u>90,645</u>	<u>(13,705)</u>
<i>Operating expenses:</i>				
Personnel services	108,652	108,652	117,129	(8,477)
Contractual services	52,329	52,329	49,287	3,042
Maintenance and materials	31,000	31,000	58,806	(27,806)
Utilities	11,310	11,310	12,574	(1,264)
Miscellaneous	12,300	12,300	32,824	(20,524)
<i>Total operating expenses</i>	<u>215,591</u>	<u>215,591</u>	<u>270,620</u>	<u>(55,029)</u>
<i>Operating income (loss)</i>	<u>(111,241)</u>	<u>(111,241)</u>	<u>(179,975)</u>	<u>(68,734)</u>
<i>Non-operating revenues (expenses):</i>				
Subsidy grants	100,996	100,996	89,594	(11,402)
Interest income	1,000	1,000	457	(543)
Miscellaneous income	-	-	18,197	18,197
<i>Total non-operating revenues (expenses)</i>	<u>101,996</u>	<u>101,996</u>	<u>108,248</u>	<u>6,252</u>
Loss on disposal of assets	-	-	(1,257)	(1,257)
Transfers in	-	-	5,270	5,270
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>4,013</u>	<u>4,013</u>
<i>Change in net assets before GAAP Adjustment</i>	<u>(9,245)</u>	<u>(9,245)</u>	<u>(67,714)</u>	<u>(58,469)</u>
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	126,068	(126,068)
Designated cash (Budgeted increase in cash)	9,245	9,245	-	9,245
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,064,606</u>	<u>1,064,606</u>
<i>Equity transfers in (out)</i>	<u>-</u>	<u>-</u>	<u>219,756</u>	<u>-</u>
<i>Total net assets, end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,090,580</u>	<u>\$ 870,824</u>
Change in net assets, above			\$ (67,714)	
No adjustments to revenues			-	
Adjustments for depreciation			<u>(126,068)</u>	
Change in net assets (Exhibit A-2)			<u>\$ (193,782)</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, 2011

	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	-	77,210	77,210	-
Utilities	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total operating expenses</i>	-	77,210	77,210	-
<i>Operating income (loss)</i>	-	(77,210)	(77,210)	-
<i>Non-operating revenues (expenses):</i>				
Subsidy grants	-	5,270	5,270	-
Interest income	-	-	-	-
Miscellaneous income	-	-	-	-
<i>Total non-operating revenues (expenses)</i>	-	5,270	5,270	-
Capital grants	-	77,210	77,210	-
Transfers in	-	-	-	-
Transfers out	-	-	(5,270)	5,270
<i>Capital grants and net transfers</i>	-	77,210	71,940	5,270
<i>Change in net assets before GAAP Adjustment</i>	-	5,270	-	5,270
<i>(Expenses) not budgeted</i>				
Depreciation	-	-	-	-
Designated cash (Budgeted increase in cash)	-	(5,270)	-	(5,270)
<i>Total net assets, beginning of year</i>	-	-	219,756	219,756
<i>Equity transfers in (out)</i>			(219,756)	
<i>Total net assets, end of year</i>	\$ -	\$ -	\$ -	\$ 230,296
Change in net assets, above			\$ -	
No adjustments to revenues			-	
No adjustments for expenses			-	
Change in net assets (Exhibit A-2)			\$ -	

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
 June 30, 2011

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, 2011</u>
Western Commerce Bank	GNMA #8824	08/20/21	36202KYV1	\$ 34,833
	GNMA #80187	04/20/28	36225CF50	57,263
	FNMA #60679	01/01/28	31362GM40	<u>48,766</u>
	Total Western Commerce Bank Pledged Securities			<u>\$ 140,862</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
 For the Year Ended June 30, 2011

Schedule II

Financial Institution	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Western Commerce Bank:				
Operating account/checking	\$ 91,132	\$ 940	\$ 108	\$ 91,964
Checking account	7,969	600	700	7,869
Certificate of deposit	12,073	-	-	12,073
Total Western Commerce Bank	111,174	1,540	808	111,906
State Farm Bank:				
Certificate of deposit	12,030	-	-	12,030
Certificate of deposit	12,044	-	-	12,044
Total State Farm Bank	24,074	-	-	24,074
Total deposits	<u>\$ 135,248</u>	<u>\$ 1,540</u>	<u>\$ 808</u>	<u>135,980</u>
Total cash and cash equivalents- June 30, 2011				<u>\$ 135,980</u>
Statement of Net Assets (Exhibit A-1):				
Cash and cash equivalents				\$ 92,283
Investments				36,147
Restricted cash and cash equivalents				7,550
Total cash and cash equivalents				<u>\$ 135,980</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, 2011

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
111	Cash - Unrestricted	\$ 92,283	\$ -	\$ 92,283
114	Cash - Tenant Security Deposits	7,550	-	7,550
100	Total Cash	<u>99,833</u>	<u>-</u>	<u>99,833</u>
126	Accounts Receivable - Tenants - Dwelling Rents	1,193	-	1,193
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(1,192)	-	(1,192)
129	Accrued Interest Receivable	7	-	7
120	Total Receivables, Net of Allowance for Doubtful Accounts	<u>8</u>	<u>-</u>	<u>8</u>
131	Investments - Unrestricted	36,147	-	36,147
130	Total Investments	<u>36,147</u>	<u>-</u>	<u>36,147</u>
142	Prepaid Expenses and Other Assets	1,406	-	1,406
143	Inventories	828	-	828
143.1	Allowance for Obsolete Inventories	(36)	-	(36)
150	Total Current Assets	<u>138,186</u>	<u>-</u>	<u>138,186</u>
161	Land	215,936	-	215,936
162	Buildings	1,985,572	-	1,985,572
163	Furniture, Equipment & Machinery - Dwellings	20,029	-	20,029
164	Furniture, Equipment & Machinery - Administration	44,644	-	44,644
165	Leasehold Improvements	109,575	-	109,575
166	Accumulated Depreciation	(1,384,838)	-	(1,384,838)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>990,918</u>	<u>-</u>	<u>990,918</u>
180	Total Non-Current Assets	<u>990,918</u>	<u>-</u>	<u>990,918</u>
190	Total Assets	<u>\$ 1,129,104</u>	<u>\$ -</u>	<u>\$ 1,129,104</u>

See independent auditors' report

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2011

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
312	Accounts Payable <= 90 Days	\$ 15,203	\$ -	\$ 15,203
321	Accrued Wage/Payroll Taxes Payable	3,724	-	3,724
322	Accrued Compensated Absences - Current Portion	1,905	-	1,905
333	Accounts Payable - Other Government	7,598	-	7,598
341	Tenant Security Deposits	7,550	-	7,550
342	Deferred Revenues	934	-	934
345	Other Current Liabilities	543	-	543
310	Total Current Liabilities	<u>37,457</u>	<u>-</u>	<u>37,457</u>
354	Accrued Compensated Absences - Non-Current	1,067	-	1,067
350	Total Non-Current Liabilities	<u>1,067</u>	<u>-</u>	<u>1,067</u>
300	Total Liabilities	<u>38,524</u>	<u>-</u>	<u>38,524</u>
508.1	Invested in Capital Assets, Net of Related Debt	990,918	-	990,918
511	Restricted Net Assets	-	-	-
512.1	Unrestricted Net Assets	99,662	-	99,662
513	Total Equity/Net Assets	<u>1,090,580</u>	<u>-</u>	<u>1,090,580</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 1,129,104</u>	<u>\$ -</u>	<u>\$ 1,129,104</u>

See independent auditors' report

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2011

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
70300	Net Tenant Rental Revenue	\$ 84,214	\$ -	\$ 84,214
70400	Tenant Revenue - Other	6,431	-	6,431
70500	Total Tenant Revenue	90,645	-	90,645
70600	HUD PHA Operating Grants	89,594	5,270	94,864
70610	Capital Grants	-	77,210	77,210
71100	Investment Income - Unrestricted	457	-	457
71500	Other Revenue	18,197	-	18,197
71600	Gain or Loss on Sale of Capital Assets	(1,257)	-	(1,257)
70000	Total Revenue	197,636	82,480	280,116
91100	Administrative Salaries	44,914	-	44,914
91200	Auditing Fees	10,165	-	10,165
91400	Advertising and Marketing	472	-	472
91500	Employee Benefit Contributions - Administrative	11,152	-	11,152
91600	Office Expenses	14,357	-	14,357
91800	Travel	7,143	-	7,143
91900	Other Operating - Administrative	533	-	533
91000	Total Operating - Administrative	88,736	-	88,736
93100	Water	294	-	294
93200	Electricity	4,628	-	4,628
93300	Gas	3,002	-	3,002
93600	Sewer	310	-	-
93000	Total Utilities	8,234	-	7,924
94100	Ordinary Maintenance & Operation - Labor	34,971	-	34,971
94200	Ordinary Maintenance & Operation - Materials & Other	45,651	77,210	122,861
94300	Ordinary Maintenance & Operation Contracts	47,520	-	47,520
94500	Employee Benefit Contributions - Ordinary Maintenance	14,221	-	14,221
94000	Total Maintenance	142,363	77,210	219,573
96110	Property Insurance	14,406	-	14,406
96120	Liability Insurance	1,000	-	1,000
96130	Workmen's Compensation	3,920	-	3,920
96140	All Other Insurance	198	-	198
96100	Total Insurance Premiums	19,524	-	14,604
96210	Compensated Absences	808	-	808
96300	Payment In Lieu of Taxes	7,598	-	7,598
96400	Bad Debt - Tenant Rents	3,357	-	3,357
96000	Total Other General	11,763	-	11,763
96900	Total Operating Expenses	270,620	77,210	342,600
97000	Excess Operating Revenue Over Operating Expenses	(72,984)	5,270	(67,714)
97400	Depreciation Expense	126,068	-	126,068
90000	Total Expenses	\$ 396,688	\$ 77,210	\$ 468,668

See independent auditors' report

STATE OF NEW MEXICO
 Lovington Housing Authority
 A Component Unit of the City of Lovington
 Financial Data Schedule
 June 30, 2011

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
10010	Operating Transfers In	\$ 5,270	\$ -	\$ 5,270
10020	Operating Transfers Out	-	(5,270)	(5,270)
10100	Total Other Financing Sources (Uses)	<u>5,270</u>	<u>(5,270)</u>	<u>-</u>
10000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(193,782)	-	(193,782)
11030	Beginning Equity	<u>1,064,606</u>	<u>219,756</u>	<u>1,284,362</u>
1040-070	Equity Transfers	<u>219,756</u>	<u>(219,756)</u>	<u>-</u>
11040	Prior period Adjustments, Equity Transfers and Correction of Errors	<u>219,756</u>	<u>(219,756)</u>	<u>-</u>
	Ending Equity (deficit)	<u>\$ 1,090,580</u>	<u>\$ -</u>	<u>\$ 1,090,580</u>
11190	Unit Months Available	<u>600</u>	<u>-</u>	<u>600</u>
11210	Number of Unit Months Leased	<u>459</u>	<u>-</u>	<u>459</u>

See independent auditors' report

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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
The Office of Management and Budget
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, 2011, 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 November 28, 2011. 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, 2011 as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the standards applicable to financial statement audits contained in the New Mexico State Audit Rule 2.2.2 NMAC.

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 deficiency described in the accompanying schedule of findings and responses as item FS 08-01 to be a material weakness.

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 did not disclose an instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted 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 item FS 2011-01, FS 2011-05, FS 2011-03, and FS 2011-04.

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 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
November 28, 2011

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, 2011

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 noted? | No |

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-2 — Preparation of Financial Statements (Repeated) (Significant Deficiency)

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.

Management's Response: Management agrees with this finding, neither administrative assistants have adequate training to fully understand the elements of external financial reporting, etc. Also, management agrees that we need more training in these areas, due to the fact that the new Executive Director has not received any training specific to this as of yet. The new Executive Director does look forward to receiving this type of training in the near future.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight (Repeated/Modified) (Material Weakness)

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
- 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.
- The governing body does not have a financial expert on the Board to effectively oversee the financial reporting process

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.

Management's Response: Management understands what this finding is stating. And would like to receive more information regarding this issue, e.g. what a comprehensive internal control structure should consist of. Management will look for direction in this matter in the near future.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2011-01 Actual Expenditures Exceed Budgeted Expenditures (Other Matter)

Condition: The Low Rent Public Housing Program Fund had expenditures that exceeded the respective budget as of June 30, 2011, over expended by \$55,029.

Criteria: Section 6-6-6 of the New Mexico state statutes restricts all officials and governing authorities from approving claims in excess of the approved budget. Additionally, Section 6-6-6 prohibits any payments in excess of the approved budget. The Authority's officials and governing authorities have the obligation to follow applicable state statutes.

Effect: Noncompliance with New Mexico state statutes could subject officials and employees to penalties and fines required by state statutes.

Cause: Inadequate monitoring of budget to actual on a line item basis within funds.

Auditors' Recommendation: We recommend that the Authority increase monitoring of its budget to actual comparisons and use budget adjustments to avoid having expenditures exceed the budget.

Management's Response: This finding was pointed out to the new Executive Director by the previous Executive Director here, at the City of Lovington Housing Authority. At that time, the previous Executive Director blamed the overspending on budget projections made the previous year and submitted to the current year's budget. This is a matter of concern for the new Executive Director and the new Executive Director intends to look at this matter fully, in order to understand what took place and to ensure that this does not happen anymore. As noted, the new Executive Director was not here during this specific fiscal year.

FS 2011-02 Voided Checks (Other Matter)

Criteria: When it is necessary to void a check, the check should be voided both physically and in the accounting system.

Condition: During testwork over voided checks, the auditor noted:

- In 3 of the 16 void checks tested, the Authority failed to completely deface the void checks which contained check signatures
- In 1 of the 16 void checks tested, the Authority was unable to locate the original check

Effect: When sufficient controls over the voiding checks are not designed, implemented and operating effectively, an entity's ability to prevent or detect fraud or mistakes is limited.

Cause: The checks were not defaced or maintained by the fee accountant or by management.

Auditors' Recommendation: We recommend that the Authority develop procedures for the physical destruction of voided checks.

Management's Response: Management was not aware that they were not defacing the voided checks completely and thought that writing "void" on the front face of those checks would suffice.

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

FS 2011-03 Untimely Deposits (Other Matter)

Condition: During our test work of receipts, it was noted that 1 out of 5 receipts were not deposited within 24 hours of receipt. The total amount of these untimely deposits was \$300.00.

Criteria: Good accounting practices require cash deposits to be made in a timely manner.

Cause: The Authority did not make these deposits within the 24 hour period.

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

Auditors' Recommendation: We recommend that the Authority follow established policies and procedures for cash deposits.

Management's Response: During the period in question, the one administrative staff had just come back from medical leave and was only working on a part-time basis and that the previous Executive Director had already left the City of Lovington Housing Authority and the new Executive Director had not been hired as of yet. This was apparently the cause for the untimely deposits during this time and this should be corrected at this time.

FS 2011-04 – Travel and Per Diem (Other Matter)

Condition: During testwork we noted the following condition:

- In 3 out of 5 transactions tested, employees were reimbursed \$35.00 per diem per day which is more than the allowable amount of \$30.00 per diem per day, resulting in an overpayment of \$55.00
- In 3 out of 5 transactions tested, employees were reimbursed \$0.55 per mile which is more than the allowable amount of \$0.51 per mile
- In 2 out of 5 transactions tested, employees were reimbursed for 100% of travel per diem and mileage before the trip took place which is more than the allowable amount of 80% reimbursement before the trip takes place

Criteria: Per the Authority's policy travel policies and procedures shall be in compliance with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-8, NMSA 1978. In accordance with policy NMAC 2.42.2.11 states that the employees should be at the statutory rates unless such rates have been reduced by the governing body of the local public body.

Effect: Unauthorized travel and per diem expenditures may be processed and paid without proper approval and rate calculation. Noncompliance with statutes may subject officials and employees to punishment as defined by state statutes. As well as the Authority has overpaid monies for reimbursements using public funds.

Cause: The Authority did not maintain policies and procedures to ensure that documentation is properly reviewed to ensure compliance with the Authority's policies which follow State Statutes.

Auditors' Recommendations: We recommend the Authority review State Statute NMAC 2.42.2 periodically to ensure compliance as well as use preformatted forms to ensure proper reimbursement rates.

Management's Response: Management was unaware of the discrepancies between the City of Lovington Policies and Procedures (which are used as a guide for the Housing Authority) and the State Statute. Management will work to correct these differences.

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, 2011

SECTION III – PRIOR YEAR AUDIT FINDINGS

2007-2 — Preparation of Financial Statements – Repeated/Modified

FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight – Repeated/Modified

FS 2009-03 — Internal Control Deviations – Disbursements - Resolved

FS 2010-01 — Budgets Over-Expended – Resolved

FS 2010-02 — Late Audit Report - Resolved

STATE OF NEW MEXICO
Lovington Housing Authority
A Component Unit of the City of Lovington
Other Disclosures
For the Year Ended June 30, 2011

A. AUDITOR PREPARED FINANCIAL STATEMENTS

Accounting and Consulting Group, LLP prepared the GAAP-basis financial statements and footnotes of the City of Lovington Housing Authority from the original books and records provided to them by the management of the Authority. The responsibility for the financial statements remains with the Authority.

B. EXIT CONFERENCE

The contents of this report were discussed on November 28, 2011. The following individuals were in attendance.

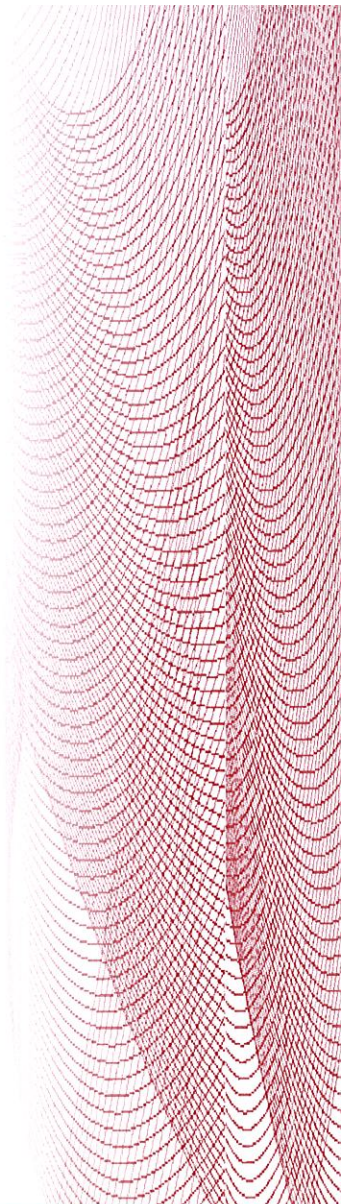
Lovington Housing Authority Officials

Paul Campos, Executive Director

Maria Rios, Board Member

Accounting and Consulting Group, LLP

Jeff McWhorter, Partner



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