

State of New Mexico

**City of Lovington Housing Authority**

(A Component Unit of the City of Lovington, New Mexico)

Annual Financial Report

Year Ended June 30, 2012





**STATE OF NEW MEXICO**  
**CITY OF LOVINGTON HOUSING AUTHORITY**  
**(A COMPONENT UNIT OF THE CITY OF LOVINGTON, NEW MEXICO)**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2012**



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**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
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June 30, 2012

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**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Official Roster  
June 30, 2012

<u>Name</u>	<u>Title</u>
<b>Board of Directors</b>	
Manuel Quiroz	Chairman
Maria Rios	Vice Chairman
Ruth Garcia	Board Member
Javier Morales	Board Member
Mary Ann Harmon	Resident Board Member

<b>Authority Officials</b>	
Paul Campos	Executive Director

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**FINANCIAL SECTION**

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Accounting & Consulting Group, LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Hector H. Balderas  
New Mexico State Auditor  
Board of Directors  
City of Lovington Housing Authority  
Lovington, New Mexico

We have audited the accompanying financial statements of the business-type activities of the City of 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, 2012, 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, 2012 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. An audit also includes 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, 2012, and the respective change in financial position, and where applicable, 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 budgetary comparisons for each proprietary fund referred to above present fairly, in all material respects, the budgetary comparisons of the Authority as of June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the Management's Discussion and Analysis which is required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Authority, and the budgetary comparisons. The accompanying financial information listed as supporting Schedules I and II in the table of contents are presented for purposes of additional analysis and are 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Accounting + Consulting Group, LLP*

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
November 19, 2012

**BASIC  
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Statement of Net Assets  
June 30, 2012

Exhibit A-1

	<u>Low Rent Public Housing Program</u>	<u>Public Housing Capital Fund Program</u>	<u>Total</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 25,536	\$ -	\$ 25,536
Investments	36,347	-	36,347
Accounts receivable, net of allowance for doubtful accounts of \$1,581	6,180	-	6,180
Inventory	1,910	-	1,910
Prepaid expenses	1,486	-	1,486
	<u>71,459</u>	<u>-</u>	<u>71,459</u>
Total current assets			
Noncurrent assets			
Restricted cash and cash equivalents	9,200	-	9,200
Capital assets	2,503,660	-	2,503,660
Accumulated depreciation	(1,491,660)	-	(1,491,660)
	<u>1,021,200</u>	<u>-</u>	<u>1,021,200</u>
Total noncurrent assets			
	<u>\$ 1,092,659</u>	<u>\$ -</u>	<u>\$ 1,092,659</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 46,672	\$ -	\$ 46,672
Accounts payable- other governments	17,330	-	17,330
Accrued liabilities	3,075	-	3,075
Compensated absences, current portion	607	-	607
	<u>67,684</u>	<u>-</u>	<u>67,684</u>
Total current liabilities			
Current liabilities (payable from restricted assets)			
Tenant deposits	9,200	-	9,200
	<u>9,200</u>	<u>-</u>	<u>9,200</u>
Total current liabilities (payable from restricted assets)			
Noncurrent liabilities			
Compensated absences, long-term portion	2,219	-	2,219
	<u>2,219</u>	<u>-</u>	<u>2,219</u>
Total noncurrent liabilities			
	<u>79,103</u>	<u>-</u>	<u>79,103</u>
Total liabilities			
<b>Net Assets</b>			
Invested in capital assets	1,012,000	-	1,012,000
Unrestricted	1,556	-	1,556
	<u>1,013,556</u>	<u>-</u>	<u>1,013,556</u>
Total net assets			
	<u>\$ 1,092,659</u>	<u>\$ -</u>	<u>\$ 1,092,659</u>
Total liabilities and net assets			

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2012

Exhibit A-2

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
<b>Operating Revenues</b>			
Rental revenue	\$ 101,926	\$ -	\$ 101,926
Other tenant revenue	5,802	-	5,802
Total operating revenues	<u>107,728</u>	<u>-</u>	<u>107,728</u>
<b>Operating Expenses</b>			
Personnel services	125,862	-	125,862
Contractual services	48,755	-	48,755
Maintenance and materials	48,164	-	48,164
Utilities	9,589	-	9,589
Depreciation	106,823	-	106,823
Miscellaneous	31,828	-	31,828
Total operating expenses	<u>371,021</u>	<u>-</u>	<u>371,021</u>
Operating income (loss)	<u>(263,293)</u>	<u>-</u>	<u>(263,293)</u>
<b>Nonoperating revenues (expenses)</b>			
Subsidy grant	96,585	-	96,585
Capital grant	-	82,385	82,385
Interest income	244	-	244
Miscellaneous income	7,055	-	7,055
Total nonoperating revenues (expenses)	<u>103,884</u>	<u>82,385</u>	<u>186,269</u>
Change in net assets	<u>(159,409)</u>	<u>82,385</u>	<u>(77,024)</u>
Net assets, beginning	<u>1,090,580</u>	<u>-</u>	<u>1,090,580</u>
Equity transfers in (out)	<u>82,385</u>	<u>(82,385)</u>	<u>-</u>
Net assets, ending	<u>\$ 1,013,556</u>	<u>\$ -</u>	<u>\$ 1,013,556</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Statement of Cash Flows  
For the Year Ended June 30, 2012

Exhibit A-3

	<u>Low Rent Public Housing Program</u>	<u>Public Housing Capital Fund Program</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from tenant rents	\$ 102,281	\$ -	\$ 102,281
Cash payments to employees for services	(127,002)	-	(127,002)
Cash payments to suppliers for goods and services	(98,540)	-	(98,540)
Net cash provided (used) by operating activities	<u>(123,261)</u>	<u>-</u>	<u>(123,261)</u>
Cash flows from noncapital financing activities			
Subsidy grants	96,585	-	96,585
Miscellaneous income	7,054	-	7,054
Net cash provided (used) by noncapital financing activities	<u>103,639</u>	<u>-</u>	<u>103,639</u>
Cash flows from capital and related financing activities			
Capital grants	-	82,385	82,385
Acquisition of capital assets transferred to the Low Rent Public Housing Program	(45,519)	(82,385)	(127,904)
Net cash provided (used) by capital and related financing activities	<u>(45,519)</u>	<u>-</u>	<u>(45,519)</u>
Cash flows from investing activities			
Interest on investments	244	-	244
Purchase of investments	(200)	-	(200)
Net cash provided (used) by investing activities	<u>44</u>	<u>-</u>	<u>44</u>
Net increase (decrease) in cash and cash equivalents	<u>(65,097)</u>	<u>-</u>	<u>(65,097)</u>
Cash and cash equivalents, beginning	<u>99,833</u>	<u>-</u>	<u>99,833</u>
Cash and cash equivalents, ending	<u>\$ 34,736</u>	<u>\$ -</u>	<u>\$ 34,736</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (263,293)	\$ -	\$ (263,293)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	106,823	-	106,823
Changes in assets and liabilities			
Accounts payable	41,201	-	41,201
Accrued payroll expenses	(994)	-	(994)
Current accrued compensated absences	(146)	-	(146)
Customer receivables	(6,172)	-	(6,172)
Inventory	(1,218)	-	(1,218)
Other liabilities	518	-	518
Prepaid expenses	20	-	20
Net cash provided (used) by operating activities	<u>\$ (123,261)</u>	<u>\$ -</u>	<u>\$ (123,261)</u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Notes to the Financial Statements  
June 30, 2012

**NOTE 1. Summary of Significant Accounting Policies**

The City of Lovington Housing Authority (the “Authority”), was organized pursuant to an agreement with the United States Department of Housing and Urban Development (HUD). The contract provided for clean, safe, sanitary housing which would be financed by the 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 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 operations 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.

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

**A. Financial Reporting Entity**

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

The financial statements include those activities and functions related to the City of Lovington Housing Authority which are controlled by or dependent upon its Board of Directors. The accompanying financial statements do not present the financial position and results of operations of the City of Lovington, taken as a whole in accordance with generally accepted accounting principles (GAAP).

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No.’s 14 and 39. Blended component units, although legally separate entities, are in substance part of the government’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its residents and participants.

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Notes to the Financial Statements  
June 30, 2012

**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 government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the Authority does not have any component units required to be reported under GASB Statements No. 14 and No. 39.

**B. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is 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, subject to the availability criterion. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 subsidy grants revenue. Contributions received from HUD for capital additions and improvements are reported as capital grants revenue.

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.

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.

Under the requirements of GASB Statement No. 34, the Authority is required to present certain of its governmental and proprietary funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following:

The Authority reports the following major proprietary funds:

The *Low Rent Public Housing Program* is the government's primary operating fund and operates as the entity's general fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This program is funded through direct grants from HUD and is designed to provide adequate living accommodations to qualified families through reduced rental rates built and owned by the Authority

The *Public Housing Capital Fund Program* is funded by HUD and is for the purpose of upgrading existing rental projects.

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Notes to the Financial Statements  
June 30, 2012

**NOTE 1. Summary of Significant Accounting Policies (continued)**

**C. Assets, Liabilities, and Net Assets**

**Deposits and Investments:** 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.

State statutes authorize the Authority to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the Authority are reported at fair market value unless they are New Mexico municipal bonds in which case they are pledged at par value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**Receivables and Payables:** All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Payables are comprised of unpaid vendor and supplier invoices and are recognized when incurred.

**Inventory:** The Authority's method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories actually are consumed. Inventory is valued at cost and consists of supplies and materials. The cost of purchased supplies and materials is recorded as an expenditure at the time individual inventory items are consumed.

**Capital Assets:** Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Pursuant to the implementation of GASB Statement No. 34, the historical cost of infrastructure assets, (retroactive to 1979) is 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 2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation. The Authority does have an exception for ranges and refrigerators, which are capitalized regardless of the cost.

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.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-33
Machinery and Equipment	3-15
Vehicles	5-10

**Accrued Expenses:** Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through June 30, 2012, along with the applicable PERA and other pension costs in addition accrued utilities and prepaid rent.

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
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Notes to the Financial Statements  
June 30, 2012

**NOTE 1. Summary of Significant Accounting Policies (continued)**

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

**Compensated Absences:** The Authority permits employees to accumulate a limited amount of earned but unused vacation and sick leave based on 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.

**Long-term Obligations:** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

**Net Assets Classification Policies and Procedures:** Equity is classified as net assets and displayed in three components:

- a. *Invested in capital assets, net of related debt:*  
Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted Net Assets:*  
Consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted Net assets:*  
All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*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. Accordingly, actual results could differ from those estimates. Significant estimates in the Authority’s financial statements include depreciation on capital assets.

**NOTE 2. Stewardship, Compliance, and Accountability**

***Budgetary Information***

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 by fund.

These budgets are prepared on the Non-GAAP budgetary basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Notes to the Financial Statements  
June 30, 2012

**NOTE 2. Stewardship, Compliance, and Accountability (continued)**

The budgetary information presented in these financial statements has been amended in accordance with the aforementioned procedures.

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
	Budgeted Funds:	
Low Rent Public Housing Program	\$ (57,609)	\$ (57,850)
Public Housing Capital Fund Program	-	-

The accompanying Statements of Revenues, Expenditures, and Changes in Net Assets Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), a reconciliation of resultant basis, perspective, equity, and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2012 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund can be found on each individual budgetary statement.

**NOTE 3. Deposits and Investments**

State statutes authorize the investment of Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, the state investment pool, money market accounts, and United States government obligations. The Authority is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2012.

Deposits of funds may be made in interest or noninterest 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 collateralized as required by statute.

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

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

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. 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. From December 31, 2010 through December 31, 2012, all noninterest bearing transaction accounts are fully insured, regardless of the account balance and the ownership capacity of the funds. This coverage is available to all depositors, including consumers, businesses, and government entities. The unlimited coverage is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank.

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
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Notes to the Financial Statements  
June 30, 2012

**NOTE 3. Deposits and Investments (continued)**

***Custodial Credit Risk- Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit 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, 2012, \$0 of the Authority's deposits of \$81,172 was exposed to custodial credit risk. \$0 was uninsured and collateralized by collateral held by the pledging bank's trust department, not in the Authority's name and \$0 was uninsured and uncollateralized.

New Mexico State Statutes require 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.

	Western Commerce Bank	State Farm Bank	Total
Amount of deposits	\$ 56,918	\$ 24,254	\$ 81,172
FDIC Coverage	<u>(56,918)</u>	<u>(24,254)</u>	<u>(81,172)</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>121,554</u>	<u>-</u>	<u>121,554</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>121,554</u>	<u>-</u>	<u>121,554</u>
Over (Under) collateralized	<u><u>\$ 121,554</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 121,554</u></u>

The Authority's collateral pledged with financial institutions at June 30, 2012 can be found in Schedule II 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, district, or political subdivision of the State of New Mexico.

**STATE OF NEW MEXICO**  
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Notes to the Financial Statements  
June 30, 2012

**NOTE 3. Deposits and Investments (continued)**

***Reconciliation to the Statement of Net Assets:***

The carrying amount of deposits and investments shown in the preceding page are included in the Authority's Statement of Net Assets as follows:

Cash and cash equivalents per Exhibit A-1	\$ 25,536
Investments per Exhibit A-1	36,347
Restricted cash and cash equivalents per Exhibit A-1	9,200
Add: outstanding checks	10,089
Less: deposits in transit	<u>          -</u>
Bank balance of deposits	<u><u>\$ 81,172</u></u>

**NOTE 4. Receivables**

Accounts receivable as of June 30, 2012, are as follows:

	Low Rent Public Housing Program
Tenant	<u>\$ 1,896</u>
Less: Allowance for doubtful accounts	(1,581)
Miscellaneous	<u>5,865</u>
Total accounts receivable	<u><u>\$ 6,180</u></u>

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**NOTE 5. Capital Assets**

A summary of capital assets and changes occurring during the year ended June 30, 2012, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</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	2,095,147	126,638	-	2,221,785
Machinery and equipment	28,853	1,266	-	30,119
Vehicles	35,820	-	-	35,820
Total capital assets being depreciated	<u>2,159,820</u>	<u>127,904</u>	<u>-</u>	<u>2,287,724</u>
Less accumulated depreciation:				
Buildings and improvements	1,323,252	105,896	-	1,429,148
Machinery and equipment	25,766	926	-	26,692
Vehicles	35,820	-	-	35,820
Total accumulated depreciation	<u>1,384,838</u>	<u>106,822</u>	<u>-</u>	<u>1,491,660</u>
Total capital assets, net of depreciation	<u>\$ 990,918</u>	<u>\$ 21,082</u>	<u>\$ -</u>	<u>\$ 1,012,000</u>

Depreciation expense for the year ended June 30, 2012 was in the amount of \$106,822.

**NOTE 6. Long-term Liabilities**

During the year ended June 30, 2012, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Compensated absences	\$ 2,972	\$ 4,107	\$ 4,253	\$ 2,826	\$ 607
Long-term liabilities	<u>\$ 2,972</u>	<u>\$ 4,107</u>	<u>\$ 4,253</u>	<u>\$ 2,826</u>	<u>\$ 607</u>



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**NOTE 7. Deferred Compensation Plan**

The City of Lovington offers its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Union Central Life Insurance Company. The assets and liabilities are held in trust by Union Central Life Insurance Company.

**NOTE 8. Pension Plan**

The City contributes to a defined contribution pension plan adopted under the provision of Internal Revenue Code Section 401 that includes the City of Lovington Housing Authority employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investment on those contributions.

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 has control of any major changes in the plan. Contribution requirements for the plan are one full year of service with the City. An employee can contribute 3% to 6% of their yearly compensation, and the City will match up to 7%. The total amount of employee and employer contributions to the plan at June 30, 2012 and June 30, 2011 were \$89,266 and \$102,044 respectively. These numbers include both City and Authority employees. The assets and liabilities are held in trust by Hartgraves Insurance.

**NOTE 9. Post-Employment Benefits- State Retiree Health Care Plan**

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 City and the Authority have elected not to participate in the program by adoption of an ordinance.

**NOTE 10. Commitments Under Contractual Agreements**

The Authority is not aware of any commitments as of the year ended June 30, 2012.

**NOTE 11. Risk Management**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries 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

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June 30, 2012

**NOTE 11. Risk Management (continued)**

reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

**NOTE 12. 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 13. 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 14. Other Required Individual Fund Disclosures**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The Authority did not reflect a deficit fund balance as of June 30, 2012.
- B. Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary level is fund level. The Authority's Low Rent Public Housing Program's actual expenditures exceeded approved budgetary authority for the year ended June 30, 2012.
- C. Designated cash appropriations in excess of available balances. The City of Lovington Housing Authority did not exceed approved budgetary authority for the year ended June 30, 2012.

**NOTE 15. Subsequent Pronouncements**

In November 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangement*, to be effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In December 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

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June 30, 2012

**NOTE 15. Subsequent Pronouncements (continued)**

1. Financial Accounting Standards Board (FASB) Statements and Interpretations,
2. Accounting Principles Board Opinions, and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In June 2011 the Governmental Accounting Standards Board (GASB) issued GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

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**SUPPLEMENTARY INFORMATION**

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
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, 2012

	Budget Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<b>Operating Revenues</b>				
Charges for services	\$ 91,900	\$ 107,600	\$ 107,728	\$ 128
Total operating revenues	91,900	107,600	107,728	128
<b>Operating Expenses</b>				
Personnel services	116,540	123,820	125,862	(2,042)
Contractual services	53,620	51,465	48,755	2,710
Maintenance and materials	41,800	42,600	48,164	(5,564)
Miscellaneous	8,525	34,950	31,828	3,122
Utilities	12,400	10,150	9,589	561
Total operating expenses	232,885	262,985	264,198	(1,213)
Operating income (loss)	(140,985)	(155,385)	(156,470)	(1,085)
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	950	950	244	(706)
Miscellaneous income	-	-	7,055	7,055
Subsidy grant	82,426	96,585	96,585	-
Total nonoperating revenues (expenses)	83,376	97,535	103,884	6,349
Change in net assets	(57,609)	(57,850)	(52,586)	5,264
Designated cash	57,609	57,850	-	(57,850)
Net assets, beginning	-	-	1,090,580	1,090,580
Equity transfer in	-	-	82,385	82,385
Net assets, ending	\$ -	\$ -	\$ 1,120,379	\$ 1,178,229
Change in net assets, above			\$ (52,586)	
Adjustments for depreciation			(106,823)	
Change in net assets (Exhibit A-2)			\$ (159,409)	

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
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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, 2012

	Budget Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		Final to Actual
<b>Operating Revenues</b>				
Charges for services	\$ -	\$ -	\$ -	\$ -
Total operating revenues	-	-	-	-
<b>Operating Expenses</b>				
Maintenance and materials	-	-	-	-
Total operating expenses	-	-	-	-
Operating income (loss)	-	-	-	-
<b>Nonoperating Revenues (Expenses)</b>				
Capital grant	-	-	82,385	82,385
Total nonoperating revenues (expenses)	-	-	82,385	82,385
Change in net assets Designated cash	-	-	82,385	82,385
Net assets, beginning	-	-	-	-
Equity transfer out	-	-	(82,385)	(82,385)
Net assets, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in net assets, above Adjustments for depreciation			\$ 82,385	
Change in net assets (Exhibit A-2)			<u>\$ 82,385</u>	

The accompanying notes are an integral part of these financial statements

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**SUPPORTING SCHEDULES**

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Schedule of Deposit and Investment Accounts  
For the Year Ended June 30, 2012

Schedule I

Account Name	Account Type	Commerce Bank	State Farm Bank	Total
<b>Deposits</b>				
General Account	Checking	\$ 34,651	\$ -	\$ 34,651
Security Deposit Account	Checking	10,174	-	10,174
Certificate of Deposit	Certificate of deposit	12,093	-	12,093
Certificate of Deposit	Certificate of deposit	-	12,117	12,117
Certificate of Deposit	Certificate of deposit	-	12,137	12,137
Total amount of deposit in bank		56,918	24,254	81,172
Less: FDIC coverage		56,918	24,254	81,172
Total uninsured public funds		-	-	-
50% collateral requirements		-	-	-
Pledged securities		121,554	-	121,554
Over/(Under) Collateralized		121,554	-	121,554
<b>Bank balance</b>		56,918	24,254	81,172
Outstanding items		(10,089)	-	(10,089)
Deposits in transit		-	-	-
<b>Book balance</b>		<u>\$ 46,829</u>	<u>\$ 24,254</u>	<u>\$ 71,083</u>
Cash and cash equivalents per financial statements:				
Cash and restricted cash- Exhibit A-1				\$ 34,736
Investments- Exhibit A-1				<u>36,347</u>
Total cash and cash equivalents				<u>\$ 71,083</u>

See accompanying independent auditors' report

**STATE OF NEW MEXICO**  
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 Schedule of Collateral Pledged By Depository  
 For Public Funds  
 June 30, 2012

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2012	Name and Location of Safekeeper
<b>Western Commerce Bank</b>					
	GNMA #8824	08/20/21	36202KYV1	\$ 30,834	Federal Home Loan Bank Dallas, TX
	GNMA #80187	04/20/28	36225CF50	54,202	Federal Home Loan Bank Dallas, TX
	FNMA #60679	01/01/28	31362GM40	<u>36,518</u>	Federal Home Loan Bank Dallas, TX
	Total Western Commerce Bank			<u>121,554</u>	
	Total Pledged Securities			<u><u>\$ 121,554</u></u>	

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
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Financial Data Schedule  
June 30, 2012

Schedule III  
Page 1 of 4

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
111	Cash- unrestricted	\$ 25,536	\$ -	\$ 25,536
114	Cash- tenant security deposits	9,200	-	9,200
100	Total cash	<u>34,736</u>	<u>-</u>	<u>34,736</u>
125	Accounts receivable- miscellaneous	5,865	-	5,865
126	Accounts receivable- tenant dwelling rents	1,896	-	1,896
126.1	Allowance for doubtful accounts - dwelling rents	<u>(1,581)</u>	<u>-</u>	<u>(1,581)</u>
120	Total receivables, net of allowance for doubtful accounts	<u>6,180</u>	<u>-</u>	<u>6,180</u>
131	Investments- unrestricted	<u>36,347</u>	<u>-</u>	<u>36,347</u>
130	Total investments	<u>36,347</u>	<u>-</u>	<u>36,347</u>
142	Prepaid expenses and other assets	1,486	-	1,486
143	Inventories	2,010	-	2,010
143.1	Allowance for obsolete inventories	<u>(100)</u>	<u>-</u>	<u>(100)</u>
150	Total current assets	<u>80,659</u>	<u>-</u>	<u>80,659</u>
161	Land	215,936	-	215,936
162	Buildings	2,107,035	-	2,107,035
163	Furniture, equipment, and machinery- dwellings	21,295	-	21,295
164	Furniture, equipment, and machinery- administration	44,644	-	44,644
165	Leasehold improvements	114,750	-	114,750
166	Accumulated depreciation	<u>(1,491,660)</u>	<u>-</u>	<u>(1,491,660)</u>
160	Total capital assets, net of accumulated depreciation	<u>1,012,000</u>	<u>-</u>	<u>1,012,000</u>
180	Total noncurrent assets	<u>1,012,000</u>	<u>-</u>	<u>1,012,000</u>
190	Total assets	<u>\$ 1,092,659</u>	<u>\$ -</u>	<u>\$ 1,092,659</u>

See accompanying independent auditors' report

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
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Financial Data Schedule  
June 30, 2012

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
312	Accounts payable <= 90 days	\$ 46,672	\$ -	\$ 46,672
321	Accrued wages/payroll taxes payable	2,730	-	2,730
322	Accrued compensated absences- current portion	607	-	607
333	Accounts payable- other government	17,330	-	17,330
341	Tenant security deposits	9,200	-	9,200
342	Deferred revenues	9	-	9
345	Other current liabilities	336	-	336
310	Total current liabilities	<u>76,884</u>	<u>-</u>	<u>76,884</u>
354	Accrued compensated absences- noncurrent	2,219	-	2,219
350	Total noncurrent liabilities	<u>2,219</u>	<u>-</u>	<u>2,219</u>
300	Total liabilities	<u>79,103</u>	<u>-</u>	<u>79,103</u>
508.1	Invested in capital assets, net of related debt	1,012,000	-	1,012,000
511	Restricted net assets	-	-	-
512.1	Unrestricted net assets	1,556	-	1,556
513	Total equity/net assets	<u>1,013,556</u>	<u>-</u>	<u>1,013,556</u>
600	Total liabilities and equity/net assets	<u>\$ 1,092,659</u>	<u>\$ -</u>	<u>\$ 1,092,659</u>

**STATE OF NEW MEXICO**  
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Financial Data Schedule  
June 30, 2012

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
70300	Net tenant rental revenue	\$ 101,926	\$ -	\$ 101,926
70400	Tenant revenue- other	5,802	-	5,802
70500	Total rental revenue	<u>107,728</u>	<u>-</u>	<u>107,728</u>
70600	HUD PHA operating grants	96,585	-	96,585
70610	Capital grants	-	82,385	82,385
71100	Investment income- unrestricted	244	-	244
71500	Other revenue	7,055	-	7,055
70000	Total revenue	<u>211,612</u>	<u>82,385</u>	<u>293,997</u>
91100	Administrative salaries	51,939	-	51,939
91200	Auditing fees	11,010	-	11,010
91400	Advertising and marketing	1,027	-	1,027
91500	Employee benefit contributions- administrative	16,567	-	16,567
91600	Office expenses	13,794	-	13,794
91800	Travel	6,246	-	6,246
91900	Other operating- administrative	2,057	-	2,057
91000	Total operating- administrative	<u>102,640</u>	<u>-</u>	<u>102,640</u>
93100	Water	632	-	632
93200	Electricity	3,042	-	3,042
93300	Gas	703	-	703
93600	Sewer	224	-	224
93000	Total utilities	<u>4,601</u>	<u>-</u>	<u>4,601</u>
94100	Ordinary maintenance and operation- labor	30,016	-	30,016
94200	Ordinary maintenance and operation- materials and other	31,052	-	31,052
94300	Ordinary maintenance and operation contracts	48,767	-	48,767
94500	Employee benefit contributions- ordinary maintenance	15,103	-	15,103
94000	Total maintenance	<u>124,938</u>	<u>-</u>	<u>124,938</u>
96110	Property insurance	11,989	-	11,989
96120	Liability insurance	2,673	-	2,673
96130	Workmen's compensation	3,534	-	3,534
96140	All other insurance	161	-	161
96100	Total insurance premiums	<u>18,357</u>	<u>-</u>	<u>18,357</u>

**STATE OF NEW MEXICO**  
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Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
96210	Compensated absences	\$ 2,457	\$ -	\$ 2,457
96300	Payment in lieu of taxes	9,732	-	9,732
96400	Bad debt- tenant rents	1,473	-	1,473
96000	Total other general	13,662	-	13,662
96900	Total operating expenses	264,198	-	264,198
97000	Excess operating revenue over operating expenses	(52,586)	82,385	29,799
97400	Depreciation expense	106,823	-	106,823
90000	Total expenses	371,021	-	371,021
10000	Excess (deficiency) of operating revenue over (under) expenses	(159,409)	82,385	(77,024)
11030	Beginning equity	1,090,580	-	1,090,580
11040-070	Equity transfers	82,385	(82,385)	-
11040	Prior period adjustments, equity transfers, and correction of errors	82,385	(82,385)	-
	Ending equity (deficit)	\$ 1,013,556	\$ -	\$ 1,013,556
11190	Unit months available	600	-	600
11210	Number of unit months leased	493	-	493

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**COMPLIANCE SECTION**

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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  
Board of Directors  
City of 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, 2012, 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 19, 2012. 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, 2012 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

Management of the Authority is responsible for establishing and maintaining effective 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 items FS 2008-1, FS 2011-2, FS 2012-1, FS 2012-2, and FS 2012-3 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 FS 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, and 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 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 2011-1.

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, LLP

Accounting & Consulting Group, LLP  
Roswell, New Mexico  
November 19, 2012

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Schedule of Findings and Responses  
June 30, 2012

**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- Prior Year Audit Findings**

- FS 2007-2 Preparation of Financial Statements- Repeated
- FS 2008-1 Deficiencies in Internal Control Structure, Design, Operation, and Oversight- Revised and Repeated
- FS 2011-1 Actual Expenditures Exceed Budgeted Expenditures- Revised and Repeated
- FS 2011-2 Voided Checks- Revised and Repeated
- FS 2011-3 Untimely Deposits- Resolved
- FS 2011-4 Travel and Per Diem- Resolved

**Section III- Financial Statement Findings and Responses**

**FS 2007-2 Preparation of Financial Statements (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

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.

*Views of Responsible Officials and Planned Corrective Actions:* This has been an ongoing finding due to the fact that the Executive Director of the Housing Authority does not have sufficient training and experience in this area. The Executive Director will check in the near future for any upcoming training in this area that would benefit him.

**Section III- Financial Statement Findings and Responses (continued)**

**FS 2008-1 Deficiencies in Internal Control Structure Design, Operation, and Oversight (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
- 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
- No supporting documentation for manual journal entries, and there are not appropriate levels of segregation of duties or monitoring for the journal entry process. The fee accountant makes journal entries without having a review process done to ensure that journal entries are necessary and correct.
- There is no policy for use of the Home Depot credit cards.

*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.

*Views of Responsible Officials and Planned Corrective Actions:* This is an ongoing finding due to the fact that the Executive Director is the only person available in the office to prepare and implement internal control. It is virtually impossible to segregate duties at this time. In addition, the Authority does not foresee having a financial expert on the board in the near future. A new policy regarding the use of the Western Commerce and Home Depot credit cards has now been implemented. This was done through a resolution presented and accepted at the November Board Meeting which took place on November 21, 2012.

**Section III- Financial Statement Findings and Responses (continued)**

**FS 2011-1 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, 2012, over expended by \$1,085.

*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:* There was an inadequate monitoring of budget to actual on a line item basis within funds. The Authority was unaware that this was occurring.

*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.

*Views of Responsible Officials and Planned Corrective Actions:* The Authority is working to ensure that this does not happen again. Last year's budget spending exceeded the budget by a much larger margin, and the Executive Director is there to ensure that the Authority remains under budget. The Authority is well on its way to meeting that goal.



**Section III- Financial Statement Findings and Responses (continued)**

**FS 2011-2 Voided Checks (Material Weakness)**

*Condition:* When it is necessary to void a check, the check should be voided both physically and in the accounting system. It was noted during the voided check testwork that seven of the 12 checks tested totaling \$9,499.85 had void written across the check, but the signatures were still readable. In one instance, there was a check that was voided in the accounting system but cleared the bank for \$32,918.93.

*Criteria:* *The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that management is responsible for 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 material weakness in internal control.

Good internal control policy dictates that the Authority shall establish and maintain a cash management program to safeguard voided checks. Systems of internal control with the most favorable designs include procedures designed to prevent or detect errors due to misclassification of transactions in the accounting records. (AU 325.21 appdx) Section 12-6-5, NMSA 1978 requires the audit report to set out in detail any violation of good accounting practices found by the audit.

*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:* Responsible officials do not have the communication between departments that is necessary to ensure that checks are voided when they are supposed to be. In addition, responsible officials are not ensuring that an adequate amount of time is taken for checks to be properly voided in the accounting system.

*Auditors' Recommendation:* The Authority should review cash management procedures with the responsible individuals monthly to ensure that all areas of cash have sufficient internal controls, including accounting for all voided checks residing at the entity as well as a documented policy that states who is responsible for voided checks in the system.

*Views of Responsible Officials and Planned Corrective Actions:* The Authority has ensured that each voided check's signature is completed marked out. It has also ensured to write "VOID" across the front of these specific checks. The original checks are then sent to the Authority's fee accountant who in turn ships the documents to the auditor at the end of the year.

**Section III- Financial Statement Findings and Responses (continued)**

**FS 2012-1 Deficiencies in Accounting for Capital Assets (Material Weakness)**

*Condition:* The Authority is not properly accounting for its capital assets. During the capital asset testwork, it was noted that depreciation was not calculated on one of the capital asset additions, which totaled \$5,492 according to the estimated useful lives established by the Housing Authority. In addition, two capital asset disposals were noted during the year but were not taken off the capital asset listing.

*Criteria:* Section 2.20.1.15 of NMAC requires agencies to properly safeguard assets. All assets within an established materiality limit should be tagged with unique numbers and accounted for on the capital asset listing. Current year expenditures in capital projects accounts should be accounted for on the inventory listing. Assets that have been sold or are no longer serviceable should be deleted from inventory in accordance with Section 2.20.1.18 of NMAC.

*Effect:* The lack of an annual inventory of capital assets results in improper safeguarding of capital assets to prevent theft or other losses. Without proper accounting for additions and deletions, and an annual inventory of capital assets, the financial statements of the Authority may be misstated.

*Cause:* Due to the turnover in management, it has been difficult for the Authority to find certain records maintained by former management members. Adequate records are not being kept to ensure that all information is complete and accurate at any given point in time. The Authority is unable to separate out capital assets from the listing in the way they are recorded.

*Auditors' Recommendation:* We recommend that the Authority begin to better separate capital asset additions on the listing, so that when they are disposed of, it is easy to see which assets those are. In addition, we recommend that an annual inventory of capital assets is completed in order to know what is maintained in the Authority's possession. Thirdly, we recommend that the Authority ensure that all depreciation is being calculated on assets at the correct amount each year.

*Views of Responsible Officials and Planned Corrective Actions:* This is an area which will be discussed with the fee accountant to get corrected.

**Section III- Financial Statement Findings and Responses (continued)**

**FS 2012-2 Computer Controls (Material Weakness)**

*Condition:* During our audit, we noted that:

- Adequate controls for access to computer programs and data have not been established by management to restrict access to properly authorized individuals. Lack of such controls exist in the following areas:
  1. Information Security Policy/User Awareness
  2. Configuration of Access Rules/Access Administration
  3. Monitoring
  4. Physical Access
- Adequate controls are not in place to ensure recoverability from interruptions in service in a timely manner and to restore critical information services in the event of a disaster.

*Criteria:* State of New Mexico Statewide Guideline S-GUIDE-002.003 (per NMSA 1978 Section 15-1C-1 et. Seq. and NMAC 1.12.6 and NMAC 1.12.2) establishes an Enterprise Security Policy for the protection of information technology (IT) assets and resources including data and information. The policy establishes that protection must be provided for IT assets, resources, and data/information from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality, availability, accountability, and assurance, and establishes that controls must be maintained over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information.

*Effect:* Lack of policies, access restriction, monitoring, physical security, proper backup procedures, and contingency plans leave the Authority at risk for loss or misuse of computer hardware, data and information. Adequate protection has not been established to safeguard IT assets and resources.

*Cause:* The Authority is not properly safeguarding IT assets and resources. The following deficiencies were noted:

- Management does not have computer usage and security policies in place.
- Access to the Authority's computer is unrestricted to the users. Anyone can access the computer during the day, and computers are not always shut down at night, locked, or logged off of when not in use.
- Lack of contingency plan for disaster recovery
- Lack of using offsite storage for backups

*Auditors' Recommendations:* The Authority should consider implementing the following recommendations:

- Establish written policies governing computer use (Acceptable Use Policy) and security (IT Security Policy). Communicate such policies to Authority employees and other users.
- Set permissions within QuickBooks restrict the access of computer users. Only those that need to be QuickBooks should be allowed into the program.
- Begin locking or logging off the computers when not in use as well as completely shutting the computers down each evening before departure.
- Use the offsite storage for backups by creating monthly backups of information and storing them there.

*Views of Responsible Officials and Planned Corrective Actions:* These changes will be implemented by the Executive Director to ensure that the Authority is in compliance with what is required.

**Section III- Financial Statement Findings and Responses (continued)**

**FS 2012-3 Information System Disaster Recovery Policy (Material Weakness)**

*Condition:* The Authority does not have an approved information system disaster recovery of technology plan should a disaster occur at the entity.

*Criteria:* Information system controls require that a comprehensive plan and procedures be documented in a place for computer system recovery in the eventuality of emergencies and/or natural disasters. The information system plan is a generally accepted tool to help ensure the best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems.

*Effect:* System usage could be impaired or rendered useless for a significant period of time, which could severely impact the Authority's ability to conduct daily operations. Additionally, productivity and effectiveness may be increased with sound information system and technology planning.

*Cause:* The Authority has not placed a high priority to adopting the formal disaster recovery or technology plan.

*Auditors' Recommendation:* The Authority should adopt a disaster recovery plan that would provide procedures and processes for appropriate computer locations. The plan should address items not limited to: system redundancy, data storage, system firewall monitoring, back-up systems, restoration, contact personnel, and vendors. The adopted plan should be tested and communicated to all necessary parties. Annually, the plan should be assessed by information system personnel for content and revised with approvals when appropriate or necessary.

*Views of Responsible Officials and Planned Corrective Actions:* The Executive Director will begin copying important data such as the QuickBooks file, vendors, etc. The Authority will also implement a recovery system appropriate for its computer locations.

**STATE OF NEW MEXICO**  
City of Lovington Housing Authority  
(a component unit of the City of Lovington, New Mexico)  
Other Disclosures  
June 30, 2012

**OTHER DISCLOSURES**

**Exit Conference**

The contents of this report were discussed on November 19, 2012. The following individuals were in attendance:

**Representing the City of Lovington Housing Authority**

Manuel Quiroz  
Paul Campos

Chairman  
Executive Director

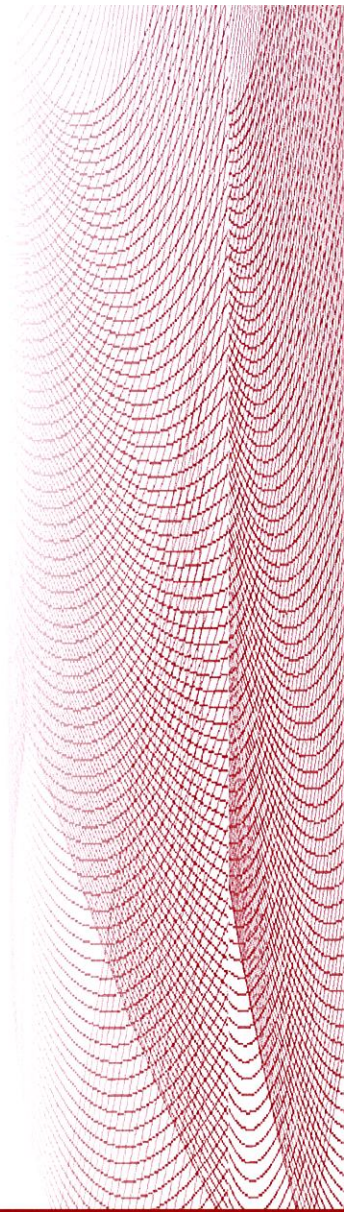
**Representing Accounting & Consulting Group, LLP:**

Jeff McWhorter

Partner

**Auditor Prepared Financial Statements**

Although it would be preferred and desirable for the Authority to prepare its own financial statements, the Authority's personnel did not have the time nor the knowledge to prepare them. Accounting & Consulting Group, LLP prepared the financial statements of the City of Lovington Housing Authority from the original books and records provided to them by the management of the Authority. Management is responsible for the financial statements.



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