



Accounting & Consulting Group, LLP

Certified Public Accountants

State of New Mexico

City of Lovington Housing Authority

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

Annual Financial Report

June 30, 2013

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON, NEW MEXICO)
ANNUAL FINANCIAL REPORT
JUNE 30, 2013

INTRODUCTORY SECTION

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Table of Contents
June 30, 2013

	Exhibit / Schedule	Page
INTRODUCTORY SECTION		
Table of Contents		4
Official Roster		5
FINANCIAL SECTION		
Independent Auditors' Report		9-10
BASIC FINANCIAL STATEMENTS		
Statement of Net Position	A-1	12
Statement of Revenues, Expenses, and Change in Net Position	A-2	13
Statement of Cash Flows	A-3	14
Notes to the Financial Statements		15-24
SUPPLEMENTARY INFORMATION		
Statement of Revenues, Expenses, and Change in Net Position- Budget (Non-GAAP Budgetary Basis) and Actual		
Low Rent Public Housing Program	B-1	26
Public Housing Capital Fund Program	B-2	27
SUPPORTING SCHEDULES		
Schedule of Deposit and Investment Accounts	I	30
Schedule of Collateral Pledged by Depository for Public Funds	II	31
Financial Data Schedule	III	32-35
COMPLIANCE SECTION		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		39-40
Schedule of Findings and Responses	IV	41-48
OTHER DISCLOSURES		49

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Official Roster
June 30, 2013

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

Authority Officials	
Paul Campos	Executive Director

This page is intentionally left blank

FINANCIAL SECTION

This page is intentionally left blank



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

Report on Financial Statements

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, 2013, and the related notes to the financial statements 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, 2013 presented as supplementary information, as defined by the Governmental Accounting Standards Board as of and for the year ended June 30, 2013 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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 City of Lovington Housing Authority, as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance 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 of the proprietary funds for the year ended June 30, 2013 in conformity with the budgetary basis

more fully described in Note 2, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require 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 that missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supporting schedules I and II required by 2.2.2 NMAC and the accompanying Financial Data Schedule presented as supporting Schedule III required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional schedules are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dating November 13, 2013 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* in considering the Authority's internal control over financial reporting and compliance.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
November 13, 2013

**BASIC
FINANCIAL STATEMENTS**

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Statement of Net Position
June 30, 2013

Exhibit A-1

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 70,652	\$ -	\$ 70,652
Investments	36,491	-	36,491
Accounts receivable	1,742	24,320	26,062
Inventory	1,559	-	1,559
Prepaid expenses	1,582	-	1,582
Total current assets	112,026	24,320	136,346
Noncurrent assets			
Restricted cash and cash equivalents	10,575	-	10,575
Capital assets	2,534,465	-	2,534,465
Accumulated depreciation	(1,593,699)	-	(1,593,699)
Total noncurrent assets	951,341	-	951,341
Total assets	\$ 1,063,367	\$ 24,320	\$ 1,087,687
Liabilities			
Current liabilities			
Accounts payable	\$ 2,518	\$ -	\$ 2,518
Accounts payable- primary government	30,014	-	30,014
Accrued payroll	3,080	-	3,080
Current portion of accrued compensated absences	1,258	-	1,258
Total current liabilities	36,870	-	36,870
Current liabilities (payable from restricted assets)			
Tenant deposits	10,575	-	10,575
Total current liabilities (payable from restricted assets)	10,575	-	10,575
Noncurrent liabilities			
Accrued compensated absences	-	-	-
Total noncurrent liabilities	-	-	-
Total liabilities	47,445	-	47,445
Net Position			
Net investment in capital assets	940,766	-	940,766
Restricted for			
Capital projects and improvements	-	24,320	24,320
Tenant deposits	10,575	-	10,575
Unrestricted	64,581	-	64,581
Total net position	1,015,922	24,320	1,040,242
Total liabilities and net position	\$ 1,063,367	\$ 24,320	\$ 1,087,687

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)
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2013

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
Operating Revenues			
Rental revenue	\$ 127,437	\$ -	\$ 127,437
Other tenant revenue	4,107	-	4,107
Total operating revenues	<u>131,544</u>	<u>-</u>	<u>131,544</u>
Operating Expenses			
Personnel services	102,835	-	102,835
Contractual services	48,445	-	48,445
Maintenance and materials	8,971	-	8,971
Utilities	4,091	-	4,091
Depreciation	102,039	-	102,039
Miscellaneous	27,822	-	27,822
Total operating expenses	<u>294,203</u>	<u>-</u>	<u>294,203</u>
Operating income (loss)	<u>(162,659)</u>	<u>-</u>	<u>(162,659)</u>
Nonoperating revenues (expenses)			
Subsidy grant	88,385	-	88,385
Capital grant	-	99,378	99,378
Interest income	197	-	197
Miscellaneous income	1,385	-	1,385
Total nonoperating revenues (expenses)	<u>89,967</u>	<u>99,378</u>	<u>189,345</u>
Change in net position	(72,692)	99,378	26,686
Net position, beginning	1,013,556	-	1,013,556
Equity transfers in (out)	75,058	(75,058)	-
Net position, ending	<u>\$ 1,015,922</u>	<u>\$ 24,320</u>	<u>\$ 1,040,242</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)
Statement of Cash Flows
For the Year Ended June 30, 2013

Exhibit A-3

	Low Rent Public Housing Program	Public Housing Capital Fund Program	Total
Cash flows from operating activities			
Cash received from tenant rents	\$ 137,357	\$ -	\$ 137,357
Cash payments to employees for services	(104,055)	-	(104,055)
Cash payments to suppliers for goods and services	(120,879)	-	(120,879)
	(87,577)	-	(87,577)
Net cash provided (used) by operating activities			
Cash flows from noncapital financing activities			
Subsidy grants	88,385	-	88,385
Miscellaneous income	1,385	-	1,385
	89,770	-	89,770
Net cash provided (used) by noncapital financing activities			
Cash flows from capital and related financing activities			
Capital grants	-	75,058	75,058
Acquisition of capital assets transferred to the Low Rent Public Housing Program	44,245	(75,058)	(30,813)
	44,245	-	44,245
Net cash provided (used) by capital and related financing activities			
Cash flows from investing activities			
Interest on investments	197	-	197
Purchase of investments	(144)	-	(144)
	53	-	53
Net cash provided (used) by investing activities			
Net increase (decrease) in cash and cash equivalents	46,491	-	46,491
Cash and cash equivalents, beginning	34,736	-	34,736
Cash and cash equivalents, ending	\$ 81,227	\$ -	\$ 81,227
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (162,659)	\$ -	\$ (162,659)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	102,039	-	102,039
Changes in assets and liabilities			
Accounts payable	(31,806)	-	(31,806)
Accrued payroll expenses	349	-	349
Current accrued compensated absences	(1,568)	-	(1,568)
Customer receivables	4,438	-	4,438
Inventory	351	-	351
Other liabilities	1,375	-	1,375
Prepaid expenses	(96)	-	(96)
	(87,577)	-	(87,577)
Net cash provided (used) by operating activities	\$ (87,577)	\$ -	\$ (87,577)

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)
Notes to the Financial Statements
June 30, 2013

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.

During the year ended June 30, 2013, the Authority adopted Governmental Accounting Standards Board (GASB) Statements No. 60 through 64. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses issues related to service concession arrangements. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity. The Authority does not have any Service Concession Arrangements or component units. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA Pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions- an Amendment of GASB Statement No. 53*, clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The Authority does not utilize hedge accounting.

A. Financial Reporting Entity

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. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. 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.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

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, No. 39, or No. 61. However, it 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 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 GAAP.

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

The Authority's basic financial statements are prepared in accordance with GAAP as set forth or adopted by the 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 Position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets; restricted; and unrestricted components.

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.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Measurement focus, basis of accounting, and financial statement presentation (continued)

Under the requirements of GASB Statement No. 34, the Authority is required to present certain of its proprietary funds as major based upon certain criteria.

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.

C. Assets, Liabilities, and Net Position

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 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. 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 financial statements. Information Technology Equipment including software is being capitalized and included in furniture, fixtures, and equipment in accordance with NMAC 2.20.1.9C(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.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 1. Summary of Significant Accounting Policies (continued)

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

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 accrued utilities, prepaid rent, and payroll expenditures based on amounts earned by the employees through June 30, 2013, along with the applicable PERA and other pension costs.

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 financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type Statement of Net Position.

Net Position Classification Policies and Procedures: Equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets:*
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.
- b. *Restricted net position:*
Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position:*
All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

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.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

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.

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

	Change in Net Position	
	Original Budget	Final Budget
Budgeted Funds		
Low Rent Public Housing Program	\$ (16,930)	\$ (16,930)
Public Housing Capital Fund Program	-	-

The accompanying Statement of Revenues, Expenses, and Change in Net Position- 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 GAAP, a reconciliation of resultant basis, perspective, equity, and timing differences in the change of net position for the year ended June 30, 2013 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, 2013.

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 financial institution must provide pledged collateral or 50% of the deposit amount in excess of the deposit insurance.

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.

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account (including an interest on lawyer trust accounts) no longer will receive unlimited deposit insurance coverage by the FDIC. Beginning January 1, 2013, all of the Authority's accounts at an insured depository institution, including all

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 3. Deposits and Investments (continued)

noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

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, 2013, \$0 of the Authority's deposits of \$134,760 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.

	Western Commerce Bank	State Farm Bank	Total
Amount of deposits	\$ 110,395	\$ 24,365	\$ 134,760
FDIC Coverage	<u>(110,395)</u>	<u>(24,365)</u>	<u>(134,760)</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>99,925</u>	<u>-</u>	<u>99,925</u>
Uninsured and uncollateralized	<u><u>\$ (99,925)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (99,925)</u></u>
Collateral requirement (50% of uninsured funds)	\$ -	\$ -	\$ -
Pledged Collateral	<u>99,925</u>	<u>-</u>	<u>99,925</u>
Over (Under) collateralized	<u><u>\$ 99,925</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 99,925</u></u>

The Authority's collateral pledged with financial institutions at June 30, 2013 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.

Reconciliation to the Statement of Net Position:

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

Cash and cash equivalents per Exhibit A-1	\$ 70,652
Investments per Exhibit A-1	36,491
Restricted cash and cash equivalents per Exhibit A-1	10,575
Add: outstanding checks	17,042
Less: deposits in transit	<u>-</u>
Bank balance of deposits	<u><u>\$ 134,760</u></u>

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 4. Receivables

Accounts receivable as of June 30, 2013, are as follows:

	Low Rent Public Housing Program	Public Housing Capital Fund Program
	<u> </u>	<u> </u>
HUD	\$ -	\$ 24,320
Tenant	1,107	-
Miscellaneous	635	-
	<u> </u>	<u> </u>
Total accounts receivable	<u>\$ 1,742</u>	<u>\$ 24,320</u>

NOTE 5. Capital Assets

A summary of capital assets and changes occurring during the year ended June 30, 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated				
Land	\$ 215,936	\$ -	\$ -	\$ 215,936
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets not being depreciated	215,936	-	-	215,936
Capital assets being depreciated				
Buildings and improvements	2,221,785	30,805	-	2,252,590
Machinery and equipment	30,119	-	-	30,119
Vehicles	35,820	-	-	35,820
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets being depreciated	2,287,724	30,805	-	2,318,529
Less accumulated depreciation				
Buildings and improvements	1,429,148	101,344	-	1,530,492
Machinery and equipment	26,692	695	-	27,387
Vehicles	35,820	-	-	35,820
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	1,491,660	102,039	-	1,593,699
Total capital assets, net of depreciation	<u>\$ 1,012,000</u>	<u>\$ (71,234)</u>	<u>\$ -</u>	<u>\$ 940,766</u>

Depreciation expense for the year ended June 30, 2013 was in the amount of \$102,039.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 6. Long-term Liabilities

During the year ended June 30, 2013, the following changes occurred in the liabilities reported in the proprietary Statement of Net Position:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 2,826	\$ 1,420	\$ 2,988	\$ 1,258	\$ 1,258
Long-term liabilities	<u>\$ 2,826</u>	<u>\$ 1,420</u>	<u>\$ 2,988</u>	<u>\$ 1,258</u>	<u>\$ 1,258</u>

NOTE 7. 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 to employees; and natural disasters. Through the City of Lovington (the “City”), the Authority has insurance to minimize its exposure.

The City participates in the New Mexico Self-Insurers’ Fund (the “Fund”), which services the City’s worker’s compensation claims. Through this arrangement, the City retains some risk associated with worker’s compensation claims up to \$250,000 per accident.

The Internal Service Fund pays the worker’s compensation claims and premiums, which are then reimbursed by the City’s other Funds. The General Fund pays premiums and the Internal Service Fund pays unemployment premiums.

The New Mexico Self-Insurers’ Fund charges a “premium” to the City to cover expenses of the Fund (including, but not limited to, reinsurance expenses, claims adjusting, rating, and underwriting, safety and loss control, reporting, and administration). This “premium” is equal to 20% of the earned normal premium, which is based on a percentage of the City’s current payroll. Additionally, the “premium” charge includes a factor for recent actual claims experience.

The City continues to carry commercial insurance for all other risks.

NOTE 8. Deferred Compensation Plan

The City 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 9. 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.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 9. Pension Plan (continued)

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, 2013 and June 30, 2012 were \$178,152 and \$169,387 respectively. These numbers include both City and Authority employees. The assets and liabilities are held in trust by Hartgraves Insurance.

NOTE 10. 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 11. Commitments Under Contractual Agreements

The Authority is not aware of any commitments as of the year ended June 30, 2013.

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 net position of individual funds. The Authority did not reflect a deficit net position as of June 30, 2013.
- B. Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary level is fund level. The Authority had no actual expenditures in excess of approved budgetary authority for the year ended June 30, 2013.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Notes to the Financial Statements
June 30, 2013

NOTE 14. Other Required Individual Fund Disclosures (continued)

- 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, 2013.

NOTE 15. Subsequent Pronouncements

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 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.

In March 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 66 *Technical Corrections-2012- an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Report and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contain in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 67 *Financial Reporting for Pension Plans- an amendment of GASB Statements No. 25*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local government pension plans. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In January 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

In April 2013 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governmentals that extend and receive nonexchange financial guarantees. The Authority is analyzing the effects that this pronouncement will have on their financial statements.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Statement of Revenues, Expenses, and Change in Net Position
Budget (Non-GAAP Budgetary Basis) and Actual
Low Rent Public Housing Program
For the Year Ended June 30, 2013

	Budget Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
Operating revenues				
Charges for services	\$ 106,600	\$ 106,600	\$ 131,544	\$ 24,944
Total operating revenues	<u>106,600</u>	<u>106,600</u>	<u>131,544</u>	<u>24,944</u>
Operating expenses				
Personnel services	98,008	98,008	102,835	(4,827)
Contractual services	52,650	52,650	48,445	4,205
Maintenance and materials	42,600	42,600	8,971	33,629
Miscellaneous	24,580	24,580	27,822	(3,242)
Utilities	8,800	8,800	4,091	4,709
Total operating expenses	<u>226,638</u>	<u>226,638</u>	<u>192,164</u>	<u>34,474</u>
Operating income (loss)	<u>(120,038)</u>	<u>(120,038)</u>	<u>(60,620)</u>	<u>59,418</u>
Nonoperating revenues (expenses)				
Interest income	450	450	197	(253)
Miscellaneous income	15,827	15,827	1,385	(14,442)
Subsidy grant	86,831	86,831	88,385	1,554
Total nonoperating revenues (expenses)	<u>103,108</u>	<u>103,108</u>	<u>89,967</u>	<u>(13,141)</u>
Change in net position	(16,930)	(16,930)	29,347	46,277
Designated cash (budgeted increase in cash)	16,930	16,930	-	(16,930)
Net position, beginning	-	-	1,120,379	1,120,379
Equity transfer in	-	-	75,058	75,058
Net position, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,224,784</u>	<u>\$ 1,241,714</u>
Change in net position (non-GAAP budgetary basis)			\$ 29,347	
Adjustments for depreciation			<u>(102,039)</u>	
Change in net position (GAAP basis)			<u>\$ (72,692)</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)
Statement of Revenues, Expenses, and Change in Net Position
Budget (Non-GAAP Budgetary Basis) and Actual
Public Housing Capital Fund Program
For the Year Ended June 30, 2013

	Budget Amounts		Actual Amounts	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		Final to Actual
Operating revenues				
Charges for services	\$ -	\$ -	\$ -	\$ -
Total operating revenues	-	-	-	-
Operating expenses				
Maintenance and materials	-	-	-	-
Total operating expenses	-	-	-	-
Operating income (loss)	-	-	-	-
Nonoperating revenues (expenses)				
Capital grant	-	-	99,378	99,378
Total nonoperating revenues (expenses)	-	-	99,378	99,378
Change in net position	-	-	99,378	99,378
Designated cash (budgeted increase in cash)	-	-	-	-
Net position, beginning	-	-	-	-
Equity transfer out	-	-	(75,058)	(75,058)
Net position, ending	\$ -	\$ -	\$ 24,320	\$ 24,320
Change in net position (non-GAAP budgetary basis)			\$ 99,378	
Adjustments for depreciation			-	
Change in net position (GAAP basis)			\$ 99,378	

The accompanying notes are an integral part of these financial statements

This page is intentionally left blank

SUPPORTING SCHEDULES

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Schedule of Deposit and Investment Accounts
June 30, 2013

Schedule I

Account Name	Account Type	Commerce Bank	State Farm Bank	Total
Deposits				
General Account	Checking	\$ 86,961	\$ -	\$ 86,961
Security Deposit Account	Checking	11,308	-	11,308
Certificate of Deposit	Certificate of deposit	12,126	-	12,126
Certificate of Deposit	Certificate of deposit	-	12,180	12,180
Certificate of Deposit	Certificate of deposit	-	12,185	12,185
Total amount of deposits in bank		<u>110,395</u>	<u>24,365</u>	<u>134,760</u>
Outstanding items		(17,042)	-	(17,042)
Deposits in transit		<u>-</u>	<u>-</u>	<u>-</u>
Book balance		<u>\$ 93,353</u>	<u>\$ 24,365</u>	<u>\$ 117,718</u>
Cash and cash equivalents per Exhibit A-1				\$ 70,652
Restricted cash and cash equivalents per Exhibit A-1				10,575
Investments per Exhibit A-1				<u>36,491</u>
Total deposits and investments				<u>\$ 117,718</u>

See independent auditors' report

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Schedule of Collateral Pledged by Depository for Public Funds
June 30, 2013

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market Value at June 30, 2013</u>	<u>Name and Location of Safekeeper</u>
Western Commerce Bank					
	GNMA #8824	08/20/21	36202KYV1	\$ 24,841	Federal Home Loan Bank Dallas, TX
	GNMA #80187	04/20/28	36225CF50	45,785	Federal Home Loan Bank Dallas, TX
	FNMA #60679	01/01/28	31362GM40	<u>29,299</u>	Federal Home Loan Bank Dallas, TX
	Total Western Commerce Bank			<u>99,925</u>	
	Total pledged securities			<u><u>\$ 99,925</u></u>	

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Financial Data Schedule
June 30, 2013

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
111	Cash- unrestricted	\$ 70,652	\$ -	\$ 70,652
114	Cash- tenant security deposits	10,575	-	10,575
100	Total cash	<u>81,227</u>	<u>-</u>	<u>81,227</u>
122	Accounts Receivable - HUD Other Projects	635	24,320	24,955
126	Accounts receivable- tenants	1,107	-	1,107
120	Total receivables, net of allowance for doubtful accounts	<u>1,742</u>	<u>24,320</u>	<u>26,062</u>
131	Investments - unrestricted	36,491	-	36,491
130	Total investments	<u>36,491</u>	<u>-</u>	<u>36,491</u>
142	Prepaid expenses and other assets	1,582	-	1,582
143	Inventories	1,559	-	1,559
150	Total current assets	<u>122,601</u>	<u>24,320</u>	<u>146,921</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	145,555	-	145,555
166	Accumulated depreciation	(1,593,699)	-	(1,593,699)
160	Total capital assets, net of accumulated depreciation	<u>940,766</u>	<u>-</u>	<u>940,766</u>
180	Total noncurrent assets	<u>940,766</u>	<u>-</u>	<u>940,766</u>
190	Total assets	<u>\$ 1,063,367</u>	<u>\$ 24,320</u>	<u>\$ 1,087,687</u>

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Financial Data Schedule
June 30, 2013

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
312	Accounts payable <= 90 days	\$ 2,518	\$ -	\$ 2,518
321	Accrued wages/payroll taxes payable	3,078	-	3,078
322	Accrued compensated absences- current portion	1,258	-	1,258
333	Accounts payable- other government	29,722	-	29,722
341	Tenant security deposits	10,575	-	10,575
342	Deferred revenue	2	-	2
346	Accrued liabilities - other	292	-	292
310	Total current liabilities	<u>47,445</u>	<u>-</u>	<u>47,445</u>
350	Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
300	Total liabilities	<u>47,445</u>	<u>-</u>	<u>47,445</u>
508.1	Net investment in capital assets	940,766	-	940,766
511.1	Restricted net position	10,575	24,320	34,895
512.1	Unrestricted net position	64,581	-	64,581
513	Total equity/net position	<u>1,015,922</u>	<u>24,320</u>	<u>1,040,242</u>
600	Total liabilities and equity/net position	<u>\$ 1,063,367</u>	<u>\$ 24,320</u>	<u>\$ 1,087,687</u>

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Financial Data Schedule
June 30, 2013

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
70300	Net tenant rental revenue	\$ 127,437	\$ -	\$ 127,437
70400	Tenant revenue- other	4,107	-	4,107
70500	Total rental revenue	<u>131,544</u>	<u>-</u>	<u>131,544</u>
70600	HUD PHA operating grants	88,385	-	88,385
70610	Capital grants	-	99,378	99,378
71100	Investment income- unrestricted	197	-	197
71500	Other revenue	1,385	-	1,385
70000	Total revenue	<u>221,511</u>	<u>99,378</u>	<u>320,889</u>
91100	Administrative salaries	35,596	-	35,596
91200	Auditing fees	10,165	-	10,165
91400	Advertising and marketing	-	-	-
91500	Employee benefit contributions- administrative	15,472	-	15,472
91600	Other operating- administrative	11,479	-	11,479
91800	Travel	1,831	-	1,831
91900	Other operating- administrative	3,127	-	3,127
91000	Total operating- administrative	<u>77,670</u>	<u>-</u>	<u>77,670</u>
93100	Water	375	-	375
93200	Electricity	2,103	-	2,103
93300	Gas	873	-	873
93600	Sewer	252	-	252
93000	Total utilities	<u>3,603</u>	<u>-</u>	<u>3,603</u>
94100	Ordinary maintenance and operations- labor	30,256	-	30,256
94200	Ordinary maintenance and operations- materials and other	4,040	-	4,040
94300	Ordinary maintenance and operation contracts	26,443	-	26,443
94500	Employee benefit contributions- ordinary maintenance	17,505	-	17,505
94000	Total maintenance	<u>78,244</u>	<u>-</u>	<u>78,244</u>
96110	Property insurance	13,218	-	13,218
96120	Liability insurance	2,818	-	2,818
96130	Workmen's compensation	2,748	-	2,748
96140	All other insurance	185	-	185
96100	Total insurance premium	<u>18,969</u>	<u>-</u>	<u>18,969</u>

See independent auditors' report

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Financial Data Schedule
June 30, 2013

Line Item Number	Description	Low Rent Public Housing Program 14.850	Public Housing Capital Fund Program 14.872	Total
96200	Other General Expenses	28	-	28
96210	Compensated absences	1,258	-	1,258
96300	Payment in lieu of taxes	12,392	-	12,392
96000	Total other general	<u>13,678</u>	<u>-</u>	<u>13,678</u>
96900	Total operating expenses	<u>192,164</u>	<u>-</u>	<u>192,164</u>
97000	Excess operating revenue over operating expenses	<u>29,347</u>	<u>99,378</u>	<u>128,725</u>
97400	Depreciation expense	<u>102,039</u>	<u>-</u>	<u>102,039</u>
90000	Total expenses	<u>294,203</u>	<u>-</u>	<u>294,203</u>
10000	Excess (deficiency) of operating revenue over (under) total expenses	(72,692)	99,378	26,686
11030	Beginning net position	<u>1,013,556</u>	<u>-</u>	<u>1,013,556</u>
11040	Prior period adjustments, equity transfers, and correction of errors	<u>75,058</u>	<u>(75,058)</u>	<u>-</u>
	Ending net position	<u>\$ 1,015,922</u>	<u>\$ 24,320</u>	<u>\$ 1,040,242</u>
11190	Unit months available	<u>600</u>	<u>-</u>	<u>600</u>
11210	Number of unit months leased	<u>569</u>	<u>-</u>	<u>569</u>

This page is intentionally left blank

COMPLIANCE SECTION

This page is intentionally left blank



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, 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, the financial statements of the business-type activities and each major fund 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We have also audited the budgetary comparisons of each proprietary fund presented as supplementary information, as defined by the Governmental Accounting Standards Board as of and for the year ended June 30, 2013, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 to be material weaknesses and 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 2008-01, FS 2012-01, FS 2013-01, FS 2013-02 and FS 2013-04 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 2012-03 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as FS 2013-03.

The Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

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

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP
Roswell, New Mexico
November 13, 2013

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Schedule of Findings and Responses
June 30, 2013

Schedule IV
Page 1 of 8

Section I- Summary of Audit Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 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 2007-02 Preparation of Financial Statements- Resolved

FS 2008-01 Deficiencies in Internal Control Structure, Design, Operation, and Oversight- Revised and Repeated

FS 2011-01 Actual Expenditures Exceed Budgeted Expenditures- Resolved

FS 2011-02 Voided Checks- Resolved

FS 2012-01 Deficiencies in Accounting for Capital Assets- Revised and Repeated

FS 2012-02 Computer Controls- Resolved

FS 2012-03 Information Security Disaster Recovery Policy- Revised and Repeated

Section III- Financial Statement Findings and Responses

FS 2008-01 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 inadequate segregation of duties.
- The governing body does not have a financial expert on the Board to effectively oversee the financial reporting process
- The fee accountant used by the Authority did not create an accurate accounts receivable listing. One entry was needed to remove \$26,310 from the accruals in the Low Rent Public Housing Program, and additional accruals of \$24,320 were needed in the Public Housing Capital Fund Program to reasonably state the year end balance.

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' Recommendations: 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. Accounts receivable will be discussed with the fee accountant to get corrected.

Section III- Financial Statement Findings and Responses (continued)

FS 2012-01 Deficiencies in Accounting for Capital Assets (Material Weakness)

Condition: The fee accountant used by the Authority is not properly accounting for Authority capital assets. During the capital asset testwork, it was noted that asset additions of \$3,396 for assembly of equipment was not included in the capital asset subledger listing. Therefore, depreciation of \$226 was not calculated on the addition according to the estimated useful lives established by the Housing Authority.

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: Adequate records are not being kept to ensure that all information is complete and accurate at any given point in time.

Auditors' Recommendations: We recommend that the Authority ensure that all depreciation is being calculated on assets at the correct amount each year and that each asset is accounted for in the capital asset subledger listing.

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 2012-03 Information System Disaster Recovery Policy (Significant Deficiency)

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 had not approved and implemented a disaster recovery plan in the current year.

Auditors' Recommendations: 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 has implemented a monthly procedure in which all QuickBooks, HUD FRS system, and Register information is downloaded onto a flash drive and taken from the Housing Authority office and placed into a secure enclosure at Western Commerce Bank in Lovington, New Mexico

The Authority has also communicated with City of Lovington personnel to have their IT personnel review the system's content and review the Authority's computer system to identify and correct any problem areas that should be addressed.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-01 Deficiencies in Internal Control Over Journal Entries (Material Weakness)

Condition: The Housing Authority does not have a comprehensive documented internal control structure. The internal control structure should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. Also, controls in certain specific areas are not operating as designed. These include:

- There is no review process for journal entries prepared by the fee accountant at the Housing Authority.
- Journal entry numbers in supporting documentation maintained by the fee accountant are not consistent in the general ledger.
- During the journal entry testwork, it was noted in seven out of 10 samples for an amount of \$85,653.68 that no supporting documentation maintained by the fee accountant was included to support the entry. In four of these samples for a total amount of \$24,720.32, a calculation was included, but there was no justification for the amounts.
- During the accounts receivable testwork, it was noted in five out of 20 journal entry samples tested that supporting documentation maintained by the fee accountant was not included to support the receipt amount. These samples relate to the tenant receivables of \$1,107 recorded in the trial balance. The transactions could not be confirmed whether or not they were included in the accounts receivable accrual due to the insufficient documentation.

Criteria: As required by NMSA 1978 Section 6-6-3, the Housing Authority should design and maintain an internal control structure that enables it to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Under SAS 112, the internal control and financial reporting process should have adequate oversight provided by the body charged with governance.

Effect: Because there is not an adequate internal control structure or oversight by the governing body, complete and accurate financial data cannot be verified, assets are not properly safeguarded, reconciliations are not performed, or at a minimum not performed on a timely basis, and adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

Cause: For the fiscal year 2013 management and the body charged with governance did not have expertise and/or training to implement an adequate internal control structure.

Auditors' Recommendations: The Housing 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. Additionally, the Housing Authority should review and approve all journal entries done by the fee accountant each month as well as include all supporting documentation for each receipt or expenditure.

Views of Responsible Officials and Planned Corrective Actions: The Executive Director will be in contact with their fee accountant in order to resolve the issues mentioned above. He plans on working closely with the fee accountant to ensure that all recommended procedures in regards to journal entry documentation and verification are followed. In addition, the Executive Director plans to implement a process where he will review all journal entries from the fee accountant.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-02 Voided and Stale Dated Checks (Material Weakness)

Condition: The Housing Authority does not have a comprehensive documented internal control structure. The internal control structure should include controls that allow the governing body to exercise effective oversight of internal controls and the financial reporting process. Also, controls in certain specific areas are not operating as designed. These include:

- When it is necessary to void a check, the check should be voided both physically and in the accounting system. When attempting to perform testwork on voided checks, the auditors were unable to obtain a voided check listing from the accounting system that is maintained by the fee accountant. This would indicate that checks are not being properly voided in the system.
- During review of bank reconciliations prepared by the fee accountant, it was noted that two checks totaling \$32.74 were included on the reconciliation that were more than a year old.

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

Cause: Checks are not being voided in the accounting system, and no policy is in place to void checks after a certain period of time has passed.

Auditors' Recommendations: The Authority should ensure that when a check must be physically voided, it is also voided within the accounting system. This will ensure that a record is left of the check being voided and not appear that the check did not exist. The Authority should establish a policy to void checks after a certain period of time, not to exceed one year from the date the check was written.

Views of Responsible officials and Planned Corrective Actions: This finding will be resolved by ensuring that each voided check will also reflect as being voided in the accounting system. The Executive Director does not have any knowledge of the mentioned "stale" checks for \$32.74 but will ensure this will not occur again, and that it is properly documented and accounted for.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-03 Inconsistency in Allowance For Tenant Receivables (Other)

Condition: During the current year in the accounts receivable testwork, it was noted that the estimation for the allowance of tenant receivables as recorded by the fee accountant has not been consistent from year to year. In 2011, the allowance was estimated as 100% uncollectable. In 2012, it was estimated to be 83%. Now, in 2013, it has been estimated to be 0%. Based on client documentation, the average of historical data over the last five years estimates a 3% allowance.

Criteria: Statement on Auditing Standards No. 57 documents that management is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take. Estimates should be presented in conformity with applicable accounting standards and be consistent from year to year.

Effect: Because the allowance is not being calculated in a consistent manner, management is unsure how much of tenant receivables are expected to be reasonably collected from year to year.

Cause: For the current year, management did not estimate the allowance in a reasonable manner.

Auditors' Recommendations: The Authority should ensure that historical calculations are being maintained in order to better estimate the percentage that is expected to be uncollectible. This calculation should be used consistently from year to year until a determination is made to reevaluate.

Views of Responsible Officials and Planned Corrective Actions: This is another area which will be reviewed with the Authority's fee accountant in order to address and correct the problem.

Section III- Financial Statement Findings and Responses (continued)

FS 2013-04 Capital Asset Certification (Material Weakness)

Condition: It was noted in the testwork over capital assets that the client did not conduct an annual capital asset inventory that was recorded in a written report, certified as to correctness and signed by the Authority board.

Criteria: The New Mexico Administrative Code (NMAC) 2.20.1.16A & E states that “At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed assets and the results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing body of the agency”.

Effect: Because the Authority is not conducting a physical inventory annually the Authority may have assets they are unaware of or may have assets that have been lost or stolen that they did not know about.

Cause: The Authority did not perform an annual inventory count and have it certified by the board.

Auditors' Recommendations: The Authority should ensure that they perform an annual physical inventory over capital assets and have the Authority board certify the inventory as to correctness.

Views of Responsible Officials and Planned Corrective Actions: The Authority will correct this problem by conducting an annual inventory and having it certified by the board. This will be addressed with the Authority's fee accountant as well.

STATE OF NEW MEXICO
City of Lovington Housing Authority
(a component unit of the City of Lovington)
Other Disclosures
June 30, 2013

Exit Conference

The contents of this report were discussed on November 13, 2013. 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

Jessica Huff, CPA
Eric Olson

In-charge Staff Accountant
Staff Accountant

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.