

**STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
A COMPONENT UNIT OF THE CITY OF LOVINGTON, NEW MEXICO
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

**HARSHWAL & COMPANY LLP
Certified Public Accountants
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INTRODUCTORY SECTION

**STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)**

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JUNE 30, 2015**

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**STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
OFFICIAL ROSTER
FOR THE YEAR ENDED JUNE 30, 2015**

<u>NAME</u>	<u>TITLE</u>
<u>Board of Directors</u>	
Manuel Quiroz	Chairman
Maria Rios	Vice Chairman
Javier Morales	Board Member
Ruth Garcia	Board Member
Mary Ann Harmon	Resident Board Member
<u>Authority Official</u>	
Paul Campos	Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mr. Timothy Keller
New Mexico State Auditor
To the Executive Director and 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 and the major fund of City of Lovington Public Housing Authority (the "Authority"), a component unit of City of Lovington, New Mexico (the "city"), as of and for the year ended JUNE 30, 2015, 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 also have audited the Authority's individual enterprise funds budgetary comparisons presented as supplementary information, as defined by the Government Accounting Standard Boards, as of and for the year ended JUNE 30, 2015 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 statement .

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

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 and the major fund of the City of Lovington Housing Authority as of JUNE 30, 2015, and the respective changes in the financial positions 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 respective budgetary comparisons of the individual enterprise funds for the year then ended in accordance with 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 governmental 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 this missing information.

Other Information

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

The supporting Schedule I and III required by 2.2.2 NMAC and the Financial Data Schedule presented as supporting Schedule II required by the U.S Department of Housing and Urban Development 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 the auditing standards generally accepted in the United states of America. In our opinion, the supporting Schedule I and III required by 2.2.2 NMAC and the Financial Data Schedule presented as supporting Schedule II required by the U.S Department of Housing and Urban Development 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 report dated November 12, 2015 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 controls 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.

**Harshwal & Company LLP
Certified Public Accountants**

Harshwal & Company LLP

**Albuquerque, New Mexico
November 12, 2015**

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Exhibit A-1

STATEMENT OF NET POSITION
JUNE 30, 2015

	Low Rent Public Housing Program <u>14,850</u>
ASSETS	
Currents assets:	
Cash and cash equivalents	\$ 182,911
Investments	36,647
Accounts receivable, net	<u>2,015</u>
Total current assets	<u>221,573</u>
Noncurrent assets:	
Restricted cash and cash equivalents	10,490
Capital assets	462,153
Accumulated depreciation	<u>(244,841)</u>
Total noncurrent assets	<u>227,802</u>
Total assets	<u>449,375</u>
LIABILITIES AND NET POSITIONS	
Current liabilities:	
Accounts payable	607
Accounts payable - primary government	19,220
Other liabilities	<u>2,074</u>
Total current liabilities	<u>21,901</u>
Current liabilities (payable from restricted assets):	
Tenant deposits	<u>10,490</u>
Total current liabilities (payable from restricted assets)	<u>32,391</u>
Total liabilities	<u>32,391</u>
NET POSITION	
Net investment in capital assets	217,312
Restricted:	
Tenant deposits	10,490
Unrestricted	<u>189,182</u>
Total net position	<u>416,984</u>
Total liabilities and net position	<u>\$ 449,375</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)

Exhibit A-2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Low Rent Public Housing Program <u>14,850</u>
Operating revenues:	
Rental revenue	\$ 143,786
Operating tenant revenue	<u>3,495</u>
Total operating revenues	<u>147,281</u>
Operating expenses:	
Personnel services	117,029
Contractual services	62,840
Maintenance and materials	24,364
Utilities	8,181
Depreciation	5,720
Miscellaneous	<u>35,267</u>
Total operating expenses	<u>253,401</u>
Operating income (loss)	<u>(106,120)</u>
Non-operating revenues (expenses):	
Subsidy grant	91,550
Interest income	181
Miscellaneous income	<u>1,370</u>
Total non-operating revenues (expenses)	<u>93,101</u>
Change in net position	(13,019)
Net position - beginning of year	1,145,680
Restatement	<u>(715,677)</u>
Net position - beginning of year, Restated	<u>430,003</u>
Net position - end of year	<u><u>\$ 416,984</u></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)

Exhibit A-3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Low Rent Public Housing Program <u>14,850</u>
<i>Cash flows from operating activities</i>	
Cash received from tenant rents	\$ 212,532
Cash payments to employees for services	(140,338)
Cash payments to suppliers for goods and services	<u>(152,113)</u>
Net cash (used) provided by operating activities	<u>(79,919)</u>
<i>Cash flows from noncapital financing activities</i>	
Subsidy grants	91,550
Miscellaneous income	<u>1,370</u>
Net cash provided (used) by noncapital financing activities	<u>92,920</u>
<i>Cash flows from investing activities</i>	
Interest on investments	181
Purchase of investments	<u>(56)</u>
Net cash provided by investing activities	<u>125</u>
Net increase in cash and cash equivalents	13,126
Cash and cash equivalents - beginning of year	<u>181,630</u>
Restatement	<u>(1,355)</u>
Cash and cash equivalents - end of year	<u><u>\$ 193,401</u></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)

Exhibit A-3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Low Rent Public Housing Program <u>14.850</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Operating income (loss)	\$ (106,120)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation	5,720
Changes in assets and liabilities:	
Accounts payable and other liabilities	(21,176)
Accrued payroll expenses	(21,479)
Current accrued compensated absences	(1,830)
Customer receivables	54,243
Inventory	9,398
Other liabilities	(285)
Prepaid expenses	<u>1,610</u>
Net cash (used) provided by operating activities	\$ <u><u>(79,919)</u></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)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lovington Housing Authority (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 and operation of a Low Rent Public Housing Program. The PHA is a local housing authority (LHA) governed by an appointed board of directors who employ an administrative staff headed by an executive director.

This summary of significant accounting policies of the Authority is presented to assist in the understanding of the Authority's financial statements. The financial statements and notes are the representation of the Authority's management who are 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 government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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. Basis of Accounting, Measurement Focus, 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.

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting, Measurement Focus, and Financial statement presentation (continued)

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.

Under the requirements of GASB Statement No. 34, the Authority is required to present certain 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.

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 OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
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 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 reported at par value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Receivable and Payable: 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.

Inventories: 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.

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 years
Machinery and equipment	3 - 15 years
Vehicles	5 - 10 years

STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accrued Expenses: Accrued expenses are comprised of accrued utilities, prepaid rent, and payroll expenditures based on amounts earned by the employees through JUNE 30, 2015, 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 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:

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.

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.

Unrestricted Net Position – All other net positions 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
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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	\$ 52,387	\$ (6,820)

The accompanying Statement of Revenues, Expenses, and Changes 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, 2015 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, 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, 2015.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Authority. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral or 50.00% of the deposit amount in excess of the deposit insurance.

**STATE OF NEW MEXICO
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NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

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

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

By operation of federal law, beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account (including an Interest on Lawyer Trust Account) no longer will receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, all of the Authority's accounts at an insured depository institution, including 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, 2015, \$0 of the Authority's deposits of \$230,414 was exposed to custodial credit risk of which \$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.

	Wells Fargo Bank	Western Commerce Bank	State Farm Bank	Total
Amount of deposits	\$ 115,084	\$ 90,838	\$ 24,492	\$ 230,414
FDIC Coverage	<u>115,084</u>	<u>90,838</u>	<u>24,492</u>	<u>230,414</u>
Total uninsured public funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Collateralized by securities held by the pledging institutions or by its trust department or agent in other than the Authority's name	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Uninsured and uncollateralized	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Collateral requirement (50% of uninsured public funds)				
Pledged collateral	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Over (under) collateralization	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

Reconciliation to the Statement of Net Position

The carrying amount of deposits shown above is included in the Authority's Statement of Net Position as follows:

Cash and cash equivalents per Exhibit A-1	\$ 182,911
Investments per Exhibit A-1	36,647
Restricted cash and cash equivalents per Exhibit A-1	<u>10,490</u>
Total cash and cash equivalents per Exhibit A-1	<u>230,048</u>
Add: outstanding checks and other reconciling items	516
Less: deposits in transit	(50)
Less: petty cash	<u>(100)</u>
Bank balance of deposits	<u><u>\$ 230,414</u></u>

NOTE 4. RECEIVABLES

Amount receivables as of JUNE 30, 2015, are as follows:

	Low Rent Public Housing Program
	<u>14,850</u>
Tenant	<u>2,015</u>
Total Receivables	<u><u>\$ 2,015</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, 2015**

NOTE 5. CAPITAL ASSETS

A summary of capital assets and changes occurring during the year ended June 30, 2015, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

	<u>Balance</u> <u>June 30, 2014</u>	<u>Restatement</u>	<u>Additions and</u> <u>Transfers In</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets not being depreciated:				
Land	\$ 215,936	\$ _____	\$ _____	\$ 215,936
Total capital assets not being depreciated	<u>215,936</u>	<u>0</u>	<u>0</u>	<u>215,936</u>
Capital assets being depreciated:				
Buildings and improvements	2,347,769	(2,154,532)		193,237
Equipments and vehicles	<u>65,939</u>	<u>(12,959)</u>		<u>52,980</u>
Total capital assets being depreciated	<u>2,413,708</u>	<u>(2,167,491)</u>	<u>0</u>	<u>246,217</u>
Total capital assets	<u>2,629,644</u>	<u>(2,167,491)</u>	<u>0</u>	<u>462,153</u>
Less accumulated depreciation:				
Buildings and improvements	1,628,445	(1,440,928)	5,720	193,237
Equipments and vehicles	<u>63,845</u>	<u>(12,241)</u>		<u>51,604</u>
Total accumulated depreciation	<u>1,692,290</u>	<u>(1,453,169)</u>	<u>5,720</u>	<u>244,841</u>
Total capital assets, net of depreciation	<u>\$ 937,354</u>	<u>\$ (714,322)</u>	<u>\$ (5,720)</u>	<u>\$ 217,312</u>

Depreciation expense for the year ended JUNE 30, 2015, totalled \$5,720.

NOTE 6. LONG-TERM LIABILITIES

During the year ended June 30, 2015, the following changes occurred in liabilities reported in the proprietary Statement of Net Position:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
Compensated Absences	\$ <u>1,830</u>	\$ <u>4,048</u>	\$ <u>5,878</u>	\$ <u>0</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, 2015

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, 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 (the "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, 2015

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 3.00% to 6.00% of their yearly compensation, and the City will match up to 7.00%. The total amount of employee and employer contributions to the plan at JUNE 30, 2015, 2014, and 2013 was \$0, \$236,911, and \$178,152, respectively. 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 (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. 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 12. 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.

STATE OF NEW MEXICO
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(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 13. 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, 2015.
- B Actual expenditures in excess of amount budgeted at the budgetary authority level. Budgetary level is fund level. The Authority had actual expenditures in excess of approved budgetary authority for the year ended JUNE 30, 2015 of \$6,466 in the Low Rent Public Housing Program.
- 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, 2015.

NOTE 14. PROFESSIONAL SERVICES AGREEMENT

City of Lovington Housing Authority (the LHA) entered in professional services agreement with Eastern Regional Housing Authority (the ERHA) on 5th Nov, 2014. Whereas the ERHA operates Low Rent Public Housing Program in compliance with HUD regulations and has agreed to undertake the operational responsibilities for the Low Rent Public Housing Program on the LHA's behalf, and to assist the LHA in its financial reporting requirements for certain state and federal agencies, as required by applicable state and federal law. The ERHA shall begin its responsibilities hereunder on the Effective Date 17th Nov, 2014. Such responsibilities shall continue until the Annual Contributions Contract which LHA currently has with HUD is transferred from the LHA to the ERHA, unless this Agreement is earlier terminated pursuant to the provisions of Paragraph 6 of the agreement.

NOTE 15. RESTATEMENT

Capital Assets:

During the year ended June 30, 2015, the Authority reconciled the capital asset inventory listing as a result of which a prior period adjustment was made in the amount of \$(714,322) to the financial statements of the Authority. Capital assets and accumulated depreciation were adjusted in the amount of \$(2,167,491) and \$(1,453,169) respectively to restate the net positions correctly.

Account Payable:

During the year ended June 30, 2015, the Authority determined that changes to the beginning of year net position was necessary due to incorrect account payable balances in the prior years. As a result, prior year financial statements have been restated to show the effects of the change, where necessary. The adjustment resulted in a prior period adjustment of \$(1,355) to its beginning of year net position.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Statement B-1

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
LOW RENT PUBLIC HOUSING PROGRAM
FOR THE YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual Amounts	Variance
	Original	Final		Favorable Unfavourable Final to Actual
<i>OPERATING REVENUES</i>				
Charges for services	\$ 147,115	\$ 147,340	\$ 147,281	\$ (59)
Total operating revenues	<u>147,115</u>	<u>147,340</u>	<u>147,281</u>	<u>(59)</u>
<i>OPERATING EXPENSES</i>				
Personnel services	60,549	114,435	117,029	(2,594)
Contractual services	60,914	62,380	62,840	(460)
Maintenance and materials	22,345	22,345	24,364	(2,019)
Utilities	7,253	7,977	8,181	(204)
Miscellaneous	<u>30,619</u>	<u>34,078</u>	<u>35,267</u>	<u>(1,189)</u>
Total operating expenses	<u>181,680</u>	<u>241,215</u>	<u>247,681</u>	<u>(6,466)</u>
Operating income (loss)	<u>(34,565)</u>	<u>(93,875)</u>	<u>(100,400)</u>	<u>6,525</u>
<i>NONOPERATING REVENUE (EXPENSES)</i>				
Interest income	161	264	181	(83)
Miscellaneous income	1,370	1,370	1,370	
Subsidy grant	<u>85,421</u>	<u>85,421</u>	<u>91,550</u>	<u>6,129</u>
Total nonoperating revenues (expenses)	<u>86,952</u>	<u>87,055</u>	<u>93,101</u>	<u>6,046</u>
Change in net position	52,387	(6,820)	(7,299)	(479)
Designated cash (budgeted increase in cash)	<u>(52,387)</u>	<u>6,820</u>	<u> </u>	<u>(6,820)</u>
Net position-beginning of year	0	0	1,145,680	1,145,680
<i>Restatement</i>	0	0	(715,677)	(715,677)
Net position-beginning of year, <i>Restated</i>	<u>0</u>	<u>0</u>	<u>430,003</u>	<u>430,003</u>
Net position-end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>422,704</u>	<u>\$ 422,704</u>
Change in net position (non-GAAP budgetary basis)			(7,299)	
Adjustments for depreciation			<u>(5,720)</u>	
Change in net position (GAAP basis)			<u>\$ (13,019)</u>	

The accompanying notes are an integral part of these financial statements

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, 2015

Schedule I

Account Name	Account Type	Wells Fargo Bank	Commerce Bank	State Farm Bank	Total
Deposits					
General account	Checking account	\$ 104,644	\$	\$	\$ 104,644
Security deposit account	Security deposit account	10,440			10,440
General account	Checking account		78,683		78,683
Certificate of deposit	Certificate of deposit		12,155		12,155
Certificate of deposit	Certificate of deposit			12,243	12,243
Certificate of deposit	Certificate of deposit			12,249	12,249
Total amount of deposits in bank		<u>115,084</u>	<u>90,838</u>	<u>24,492</u>	<u>230,414</u>
Outstanding items		(302)	(214)		(516)
Deposits in transit		<u>50</u>			<u>50</u>
Total		114,832	90,624	24,492	229,948
Petty Cash					<u>100</u>
Book Balance		<u>\$ 114,832</u>	<u>\$ 90,624</u>	<u>\$ 24,492</u>	<u>\$ 230,048</u>
Cash and cash equivalents per Exhibit A-1					\$ 182,911
Restricted cash and cash equivalents per Exhibit A-1					10,490
Investments per Exhibit A-1					<u>36,647</u>
Total deposits and investments					<u>\$ 230,048</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Schedule II

FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

Line Item Number	Description	Low Rent Public Housing Program 14.850
111	Cash - unrestricted	\$ 182,911
114	Cash - tenant security deposits	<u>10,490</u>
100	Total cash	<u>193,401</u>
126	Accounts receivable - tenants	<u>2,015</u>
120	Total receivables, net of allowance for doubtful accounts	<u>2,015</u>
131	Investments - Unrestricted	<u>36,647</u>
	Total Investments	<u>36,647</u>
150	Total current assets	<u>232,063</u>
161	Land	215,936
162	Buildings	193,237
163	Furniture, equipment and machinery - dwellings	52,980
166	Accumulated depreciation	<u>(244,841)</u>
160	Total capital assets, net of accumulated depreciation	<u>217,312</u>
180	Total non-current assets	<u>217,312</u>
290	Total assets and deferred outflow of resources	<u>\$ 449,375</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Schedule II

FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

Line Item Number	Description	Low Rent Public Housing Program 14.850
312	Accounts payable ≤ 90 days	\$ 19,220
341	Tenant security deposits	10,490
345	Other Current Liabilities	2,074
347	Inter Program - Due To	<u>607</u>
310	Total current liabilities	<u>32,391</u>
300	Total liabilities	<u>32,391</u>
508.4	Net investment in capital assets	217,312
511.4	Restricted net position	10,490
512.4	Unrestricted net position	<u>189,182</u>
513	Total equity/net position	<u>416,984</u>
600	Total liabilities and equity/net position	<u>\$ 449,375</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Schedule II

FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

Line Item Number	Description	Low Rent Public Housing Program 14.850
70300	Net tenant rental revenue	\$ 143,757
70400	Tenant revenue-other	<u>4,086</u>
70500	Total tenant revenue	<u>147,843</u>
70600	HUD PHA operating grants	91,550
71100	Investment income - unrestricted	181
71600	Gain or Loss on Sale of Capital Assets	<u>808</u>
70000	Total revenue	<u>240,382</u>
91100	Administrative salaries	32,635
91200	Auditing fees	10,177
91300	Management fee	17,286
91400	Advertising and marketing	203
91500	Employee benefit contributions - administrative	15,732
91600	Office Expenses	4,744
91700	Legal Expense	3,608
91800	Travel	<u>21,955</u>
91000	Total operating - administrative	<u>106,340</u>
93100	Water	699
93200	Electricity	1,385
93300	Gas	1,049
93800	Other Utilities Expense	<u>5,048</u>
93000	Total utilities	<u>8,181</u>
94100	Ordinary maintenance and operations labor	62,785
94200	Ordinary maintenance and operations - materials and other	<u>29,352</u>
94000	Total maintenance	<u>92,137</u>
96110	Property insurance	<u>18,485</u>
96100	Total insurance premiums	<u>18,485</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Schedule II

FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015

Line Item Number	Description	Low Rent Public Housing Program 14.850
96200	Other general expenses	\$ 14,387
96210	Compensated absences	5,878
96400	Bad debt - Tenant Rents	<u>2,273</u>
96000	Total other general	<u>22,538</u>
96900	Total operating expenses	<u>247,681</u>
97000	Excess of operating revenue over operating expenses	<u>(7,299)</u>
97400	Depreciation expense	<u>5,720</u>
90000	Total expenses	<u>253,401</u>
10000	Excess (deficiency) of operating revenue over (under) expenses	<u>(13,019)</u>
11030	Beginning Equity	<u>1,145,680</u>
11040	Prior period adjustments, equity transfers, and correction of errors	<u>(715,677)</u>
	Ending net position	<u>\$ 416,984</u>
11190	Unit months available	<u>600</u>
11210	Number of unit months leased	<u>596</u>
11270	Excess Cash	<u>\$ 179,032</u>

See accompanying independent auditor's report

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)

Schedule III

SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT)
 FOR THE YEAR ENDED JUNE 30, 2015

Prepared by Agency Staff Name: _____ Title: _____ Date: _____

RFB #/ RFP #/ State-wide Price Agreement #	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address of All Vendor(s) that responded	In-state/ Out-of- state Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in- state and chose Veteran's preference (Y or N)	Brief Description of the Scope of Work
There were no purchases that exceeded \$60,000 as of June 30, 2015.								

See accompanying independent auditor's report

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 *GOVERNMENT AUDITING
STANDARDS* INDEPENDENT AUDITORS' REPORT**

Mr. Timothy Keller
New Mexico State Auditor
To the Executive Director and Board of Directors
City of Eunice Housing Authority
Eunice, New Mexico

We have audited, in accordance with the 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 the 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, 2015, 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 the proprietary fund presented as supplementary information, and have issued our report thereon dated November 12, 2015.

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 to determine the audit procedures that are appropriate in the circumstances 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. 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as item FS 2012-001 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of finding and responses as item 2014-003 to be 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 are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item FS 2014-002.

Authority's Responses to Findings

The Authority 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 Authority'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

Harshwal & Company LLP
Certified Public Accountants

Harshwal & Company LLP

Albuquerque, New Mexico
November 12, 2015

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

Schedule IV

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)?

Yes

No

Yes

None reported

Noncompliance material to the financial statement noted?

Yes

No

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

Schedule IV

SECTION II - AUDIT FINDING IN RELATION TO FINANCIAL STATEMENTS

FS 2012-001 Deficiencies in Accounting for Capital Assets (Material Weakness)

Condition: The capital asset inventory system was not being reconciled. Also, the Authority is not properly recording the capital asset additions to the capital asset inventory. As a result, adjustments totaling \$714,322 for business type activities were required to properly record the Authority's assets. The Authority is working with accounting of capitalize the capital fund program monies correctly to ensure this issue is resolved in subsequent years.

Criteria: Per state statute 12-6-10, NMSA 1978 and regulation 2.20.1.15 NMAC, the Authority should establish controls over its fixed assets for the primary purpose of safeguarding them and establishing accountability for their custody and use. Assets must be properly capitalized, classified, valued and depreciated.

Effect: The failure to maintain adequate capital asset records results in the inability of the authority to maintain control over the capital assets and also results in the authority being noncompliant with state requirements.

Cause: The Authority has not kept a complete inventory of their capital assets.

Auditor's Recommendations: We recommend that the Authority complete an inventory of all their capital assets and update it annually for any additions or dispositions of assets. Also, those capital assets must be depreciated according to state requirements.

Management's Response: The City of Lovington HA would capitalize the Capital Fund Program Monies. ERHA does not capitalize the Capital Fund Program as we only capitalize \$5,000 and over.

Estimated Completion Date: FYE 2015

Responsible party: ERHA Finance Director

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

Schedule IV

SECTION II - AUDIT FINDING IN RELATION TO FINANCIAL STATEMENTS - Cont'd

FS 2014-002 Late IPA Recommendation Form (Other)

Condition

The Authority did not submit its completed and signed IPA Recommendation Form and audit contract to the State Auditor by the required deadline. The contract was prepared on June 29, 2015 and approved by the State Auditor's office on July 06, 2015.

The Authority is in professional service agreement with Easter Regional housing Authority (ERHA) and working with this issue to ensure this is resolved in subsequent years.

Criteria

The New Mexico Administrative Code (NMAC) 2.2.2.8 paragraph 6 of subsection G states that “the agency shall deliver the fully completed and signed IPA Recommendation Form for Audits and the completed audit contract to the State Auditor by the deadline.” For local public bodies, this deadline date is May 15th.

Effect

Recommendation and related contracts that are not received by the State Auditor is a violation of the New Mexico Administrative Code.

Cause

The Authority did not submit their IPA Recommendation timely.

Recommendation

We recommend that the Authority ensure all reports are filed timely with the State Auditor to be in compliance with all New Mexico State Statutes.

Management Response: ERHA will ensure to procure the IPA for FYE 2016 timely and submit the recommendation to the Office of the State Auditor by the deadline.

Estimated Completion Date: FYE 2016

Responsible party: Chief Procurement Officer

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

Schedule IV

SECTION II - AUDIT FINDING IN RELATION TO FINANCIAL STATEMENTS - Cont'd

FS 2014-003 Expenditures in Excess of Budget (Significant Deficiency)

Condition:

The Authority over expended its budget in the Low Rent Public Housing Fund \$6,466. The Authority did make progress in resolving this finding and also the Authority is working with Eastern Regional Housing Authority for submitting budget changes to the Board of Commissioners to ensure this issue is resolved in subsequent years.

Criteria:

Budgetary controls, which include the timely adoption of budget adjustments, should prevent any expenditure in excess of the approved budget. (NMSA 6-6-6(I)).

Effect:

Any expenditure in excess of the approved budget indicates a lack of controls in the purchasing process which leads to unauthorized purchases being made with Authority money.

Cause:

The Authority over expended its budget in the above fund because of inadequate monitoring of the budget.

Recommendations:

We recommend the Authority establish policies and procedures governing the budgetary process and monitoring of the budget in order to properly prepare and adjust the budget in order to properly authorize all expenditures.

Management Response: ERHA will review budgets in December 2015, March 2016 and June 2016 and will submit changes to the Board of Commissioners for approval.

Estimated Completion Date: June 2016

Responsible party: ERHA Executive Director, Finance Director and Deputy Director.

STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)
PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

Schedule IV

The following summarizes the prior year audit findings:

FS 2008-001	Deficiencies in Internal Control Structure, Design, Operation, and Oversight (Material Weakness) - Resolved.
FS 2012-001	Deficiencies in Accounting for Capital Assets (Material Weakness) - Revised and repeated.
FS 2013-001	Deficiencies in Internal Control Over Journal Entries (Material Weakness) - Resolved.
FS 2013-002	Voided and Stale Dated Checks (Significant Deficiency) -Resolved
FS 2013-003	Inconsistency in Allowance For Tenant Receivables (Other) - Resolved
FS 2013-004	Capital Asset Certification (Material Weakness) - Resolved.
FS 2014-001	Inaccurate Accounts Receivable Listing (Material Weakness) - Resolved
FS 2014-002	Late IPA Recommendation Form (Other) - Repeated
FS 2014-003	Expenditures in Excess of Budget (Significant Deficiency) - Repeated

**STATE OF NEW MEXICO
CITY OF LOVINGTON HOUSING AUTHORITY
(A COMPONENT UNIT OF THE CITY OF LOVINGTON)**

**OTHER DISCLOSURES
FOR THE YEAR ENDED JUNE 30, 2015**

A. FINANCIAL STATEMENTS PREPARATION

The Financial statements and notes to the Financial statements for the year ended, June 30, 2015 were prepared by Harshwal & Company, LLP based on management chart of accounts and trial balances including adjusting entries, correcting or closing entries approved by management. These services are allowable under SAS 115.

B. EXIT CONFERENCE

The contents of this report were discussed with the City of Lovington Housing Authority on November 12, 2015. The following individuals were in attendance.

Representing City of Lovington Housing Authority

Chris Herbert	Executive Director
Irene Andazola	Deputy Director
Olivia Cruz	Finance Director

Representing Harshwal & Company, LLP

Sanwar Harshwal	Managing Partner (CPA)
Mariem Tall	Staff Auditor
Jolene Calderon	Staff Auditor