



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**STATE OF NEW MEXICO  
RUTH VISAGE SENIOR APARTMENTS  
(A Department of the Eastern Plains  
Council of Governments)**

**Financial Statements  
For the Year Ended December 31, 2012**



**Ruth Visage Senior Apartments**  
**A Department of the Eastern Plains Council of Governments**  
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**For The Year Ended December 31, 2012**

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**Ruth Visage Senior Apartments**  
**A Department of the Eastern Plains Council of Governments**  
**Official Roster**  
**For The Year Ended December 31, 2012**

<u>Directors</u>	<u>Position</u>	<u>Government Represented</u>
<b>EXECUTIVE COMMITTEE</b>		
Gary Watkins	Chairman	Roosevelt County
Caleb Chandler	Vice-Chairman	Curry County
Wesley Shafer	Treasurer	Curry County
Vanita Menapace	Member	Harding County
Alvin Maestas, Sr.	Member	Guadalupe County
George Gonzales	Member	De Baca County
Apolonio Ramirez	Member	Quay County
Van Robertson	Member	Union County
<b>CURRY COUNTY</b>		
Caleb Chandler	Member	Curry County
Fidel Madrid	Member	City of Clovis
Wesley Shafer	Member	Village of Grady
Lewis Cooper	Member	Town of Texico
Tuck Monk	Member	Village of Melrose
<b>DE BACA COUNTY</b>		
George Gonzales	Member	De Baca County
<b>GUADALUPE COUNTY</b>		
Vincente Cordova	Member	Guadalupe County
Alvin Maestas, Sr.	Member	City of Santa Rosa
Paul Madrid	Member	Town of Vaughn
<b>HARDING COUNTY</b>		
Vanita Menapace	Member	Harding County
Linda Lewis	Member	Village of Mosquero
Stella Devers	Member	Village of Roy
<b>QUAY COUNTY</b>		
Apolonio Ramirez	Member	Village of Logan
Cynthia Lee	Member	Village of San Jon
<b>ROOSEVELT COUNTY</b>		
Bill Cathey	Member	Roosevelt County
Gary Watkins	Member	City of Portales
LaVerne Sheller	Member	Village of Causey
Kay Nuckols	Member	Village of Elida
Becky Frazee	Member	Village of Dora
Toni Whitecotton	Member	Village of Floyd
<b>UNION COUNTY</b>		
Van Robertson	Member	Union County
Jack Chosvig	Member	City of Clayton
Lee Dixon	Member	Village of Des Moines
Terry McNabb	Member	Village of Folsom
<u>Staff</u>	<u>Position</u>	
Sandy Chancey	Executive Director (EPCOG)	

## **INDEPENDENT AUDITOR'S REPORT**

Mr. Hector H. Balderas, State Auditor and  
The Ruth Visage Senior Apartments  
A Department of the Eastern Plains Council of Governments  
Portales, New Mexico

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison for the general fund of the Ruth Visage Senior Apartments (RVSA) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the RVSA's basic financial statements 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 basic financial statements are free of 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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the budgetary comparison for the general fund of the RVSA, as of December 31, 2012, and the respective changes in

financial position 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 and Discussion and Analysis that the Governmental Accounting Standards Board requires 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 RVSA's financial statements. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the budgetary comparison schedule as required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of expenditures of federal awards* and the budgetary comparison schedule as required by 2.2.2 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 schedule of expenditures is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013 on our consideration of RVSA'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 RVSA's internal control over financial reporting and compliance.



Hinkle + Landers, P.C  
Albuquerque, NM  
November 8, 2013

**RUTH VISAGE APARTMENTS**  
**A DEPARTMENT OF THE EASTERN PLAINS COUNCIL OF GOVERNMENTS**  
**(GOVERNMENT-WIDE)**  
**STATEMENT OF NET POSITION**  
**As of December 31, 2012**

<b>ASSETS</b>	<u>Notes</u>	<u>Governmental Activities</u>
<b>Current assets</b>		
Cash	2	\$ <b>40,236</b>
Accounts receivable, net of allowance	3	<b>15,240</b>
Prepaid expenses		<u><b>7,000</b></u>
Total current assets		<u><b>62,476</b></u>
<b>Noncurrent assets</b>		
Capital assets, net	4	<u><b>1,174,050</b></u>
<i>Deposits held in trust</i>		
Cash restricted to meet tenant deposit liabilities		<u><b>6,478</b></u>
<i>Restricted deposits</i>		
Cash restricted for replacement reserve		<b>152,677</b>
Cash restricted for taxes and insurance		<u><b>985</b></u>
Total restricted deposits		<u><b>153,662</b></u>
<b>Total Assets</b>		<b>\$ <u><u>1,396,666</u></u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable		\$ <b>2,495</b>
Accrued expenses		<b>807</b>
Prepaid tenant rent	3	<b>1,063</b>
Mortgage loan payable - USDA (current portion)	5	<u><b>6,186</b></u>
Total current liabilities		<u><b>10,551</b></u>
<b>Noncurrent liabilities</b>		
<i>Deposit Liability</i>		
Tenant security deposits payable		<u><b>8,649</b></u>
Mortgage loan payable - USDA (long-term portion)	5	<b>1,177,034</b>
Mortgage loan payable - NMMFA	5	<b>300,000</b>
Accrued interest		<u><b>6,286</b></u>
Total noncurrent liabilities		<u><b>1,491,969</b></u>
<b>Total Liabilities</b>		<u><b>1,502,520</b></u>
<b>NET POSITION</b>		
Net investment in capital assets		<b>(309,170)</b>
Unrestricted		<u><b>203,316</b></u>
Total net position		<u><b>(105,854)</b></u>
<b>Total Liabilities and Net Position</b>		<b>\$ <u><u>1,396,666</u></u></b>

SEE INDEPENDENT AUDITOR'S REPORT  
The accompanying notes are an integral part of these financial statements

**RUTH VISAGE APARTMENTS**  
**A DEPARTMENT OF THE EASTERN PLAINS COUNCIL OF GOVERNMENTS**  
**(GOVERNMENT-WIDE)**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended December 31, 2012**

<b>Functions/Programs</b>	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position For Governmental Activities
<b>Primary Government</b>				
General government	258,243	85,010	136,870	\$ (36,363)
General revenues:				
Investment income				510
Miscellaneous income				4,951
Total general revenues and transfers				5,461
Change in net position				(30,902)
Net position, beginning of year				(74,952)
Net position, end of year				\$ (105,854)

SEE INDEPENDENT AUDITOR'S REPORT  
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**RUTH VISAGE APARTMENTS**  
**A DEPARTMENT OF THE EASTERN PLAINS COUNCIL OF GOVERNMENTS**  
**BALANCE SHEET - GOVERNMENTAL FUND**  
**As of December 31, 2012**

		<u>General Fund</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$	40,236
Restricted cash and investments		160,140
Receivables:		
Intergovernmental		11,919
Other receivables		3,321
Prepaid expenses		7,000
Total assets	\$	<u>222,616</u>
<b>LIABILITIES:</b>		
Accounts payable	\$	2,495
Accrued expenses		807
Unearned revenue		1,063
Deposits held in trust		8,649
Total liabilities		<u>13,014</u>
<b>FUND BALANCE:</b>		
Non-spendable: prepaid expense		7,000
Restricted		160,140
Unassigned		42,462
Total fund balance		<u>209,602</u>
Total liabilities and fund balance	\$	<u>222,616</u>

**Amounts reported for governmental activities in the statement of net position are different because:**

<i>Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the balance sheet</i>	\$	1,174,050
 <i>Other liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</i>		
Accrued interest		(6,286)
 <i>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:</i>		
Current bonds notes payable		(6,186)
Notes payable		<u>(1,477,034)</u>
Statement of net position of governmental funds	\$	<u>(105,854)</u>

**RUTH VISAGE APARTMENTS**  
**A DEPARTMENT OF THE EASTERN PLAINS COUNCIL OF GOVERNMENTS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended December 31, 2012**

	<u><b>General Fund</b></u>
<b>Revenues:</b>	
Federal	\$ 50,280
State	86,590
Charges for services	85,010
Investment income	510
Miscellaneous	<u>4,951</u>
Total revenues	<u>227,341</u>
<b>Expenditures:</b>	
Current:	
General government	145,439
Debt service:	
Principal	19,805
Interest	<u>81,633</u>
Total expenditures	<u>246,877</u>
Excess (deficiency) of revenues over expenditures	<u>(19,536)</u>
Other financing sources (uses)	
Operating transfers in	-
Operating transfers out	<u>-</u>
Total other financing sources (uses)	<u>-</u>
Net change in fund balances	(19,536)
Fund balance, beginning of year	<u>229,138</u>
Fund balance, end of year	<u>\$ 209,602</u>
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>	
Net change in fund balances - total governmental funds	\$ (19,536)
Amounts reported to governmental activities in the statement of activities are different because:	
<i>Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditure in governmental funds.</i>	
	(37,457)
<i>The issuance of long-term debt (e.g. bonds, notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:</i>	
Increase in accrued interest	6,286
Principal payments on notes payable	<u>19,805</u>
Change in net position of governmental activities	<u>\$ (30,902)</u>

SEE INDEPENDENT AUDITOR'S REPORT  
The accompanying notes are an integral part of these financial statements

**RUTH VISAGE APARTMENTS**  
**A DEPARTMENT OF THE EASTERN PLAINS COUNCIL OF GOVERNMENTS**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**(MODIFIED ACCRUAL BUDGETARY BASIS) TO ACTUAL**  
**For The Year Ended December 31, 2012**

		<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Federal	\$	-	-	50,280	50,280
Rental income (includes State grants)		171,000	171,000	171,600	600
Investment income		150	150	510	360
Miscellaneous		-	-	4,951	4,951
Total revenues		<u>171,150</u>	<u>171,150</u>	<u>227,341</u>	<u>56,191</u>
<b>Expenditures:</b>					
Current:					
General government		111,713	111,713	145,439	(33,726)
Debt service:					
Principal		37,158	37,158	19,805	17,353
Interest		-	-	81,633	(81,633)
Total expenditures		<u>148,871</u>	<u>148,871</u>	<u>246,877</u>	<u>(98,006)</u>
Net change in fund balances		22,279	22,279	(19,536)	154,197
Fund balance, beginning of year				<u>229,138</u>	
Fund balance, end of year	\$			<u><u>209,602</u></u>	

SEE INDEPENDENT AUDITOR'S REPORT  
The accompanying notes are an integral part of these financial statements

**RUTH VISAGE APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Notes To Financial Statements**  
**For The Year Ended December 31, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Entity**

Ruth Visage Senior Apartments (RVSA) is a twenty six (26) unit rural development housing complex located at 1101 W. Fir in Portales, NM. The apartment complex is owned by the Eastern Plains Council of Governments (EPCOG), a New Mexico nonprofit corporation. RVSA's occupants must be elderly, handicapped, or disabled meeting certain requirements.

In evaluating how to define the RVSA 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 No. 14 and No. 39. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the election 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 is conducted within the geographic boundaries of the RVSA and is generally available to 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 RVSA is able to exercise oversight responsibility. Based on the application of these criteria, there are no component units included in the reporting entity.

The RVSA is a department of the Eastern Plains Council of Governments and is required to be reported as a governmental fund.

**B. Basis of Accounting**

**1. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This is the same approach used in preparation of proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. Also, fiduciary funds are not included in the government-wide financial statements. Interfund payables and receivables have been eliminated in determining the government-wide financial statements.

**RUTH VISAGE APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Notes To Financial Statements**  
**For The Year Ended December 31, 2012**

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements

Net position should be reported as restricted when constraints placed on net position use is either externally imposed by law through constitutional provisions or enabling legislation. Restricted assets are applied first before unrestricted assets.

**2. GAAP Presentation**

The financial statements of the RVSA are prepared in accordance with Generally Accepted Accounting Principles generally accepted in the United States of America (GAAP). The RVSA's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**3. Fund Financial Statements**

Fund financial statements report detailed information about the RVSA. The RVSA has one major fund and no non-major funds for the year ended December 31, 2012. See item 1-B-7 for more detail.

**4. Governmental Funds**

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**5. Revenue Recognition**

In applying the "susceptible to accrual concept" under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 60 days of year-end and available to pay obligations of the current period). This includes reimbursements from state and federally funded projects, which are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

The RVSA is implementing GASB Statement No. 33 on any non-exchange transaction. A non-exchange transaction occurs when a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The RVSA has two types of non-exchange transactions: government-mandated non-exchange transaction revenues (federal programs

**RUTH VISAGE APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Notes To Financial Statements**  
**For The Year Ended December 31, 2012**

that state or local governments are mandated to perform), and voluntary non-exchange transactions (grants, entitlements, and donations by non-governmental entities, including private donations). The RVSA recognizes non-exchange transactions in the financial statements as income unless it is not measurable (reasonably estimate), if any.

Revenues from grants that are restricted for specific uses are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual. Interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

**6. Expenditure Recognition**

The measurement focus of governmental fund accounting is based on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

Expenditures, other than vacation and sick pay, are recorded when the related fund liability is incurred. Expenditures charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

**7. Fund Accounting**

The accounts of the RVSA are organized on a basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenue and expenditures. The sole fund of the RVSA is a governmental fund type and is grouped as a General Fund.

The General Fund is the general operating fund of the RVSA. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered a major fund and there were no other funds.

The government reports the following significant program/grants in the general fund:

- *Rural Rental Housing Loans – to provide economically designed and constructed rental and cooperative housing and related facilities suited for rural residents.*

**8. GASB Statement #54**

In February 2009, the GASB issued Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement 54.

**RUTH VISAGE APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Notes To Financial Statements**  
**For The Year Ended December 31, 2012**

As a result, in the governmental fund financial statements, fund balances previously reported as reserved and unreserved are now reported as non-spendable, restricted, or unrestricted (committed, assigned or unassigned).

**9. Spending Policy**

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the RVSA's policy to use restricted resources first. When expenditures/expenses are incurred for purposes, for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the RVSA's policy to spend committed resources first.

**C. Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the RVSA as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and are capitalized. The valuation bases for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Sub-grantees purchasing equipment by sub-grant made by the RVSA to other agencies is not accounted for in capital assets. Purchased capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date of donation. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000 and estimated useful life in excess of two years. The RVSA includes software in capital assets if it meets the minimum capitalization policy in the furniture and equipment category. The RVSA does not develop computer software for internal use and therefore, does not have a policy for capitalizing computer software developed for internal use.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

<u>Type</u>	<u>Estimated Depreciable Life</u>
Land	Perpetual
Building	40
Furnishings	10
Equipment	7

**D. Budgets**

The RVSA adopts annual operating budgets in accordance with U.S. Department of Agriculture regulations which do not require subsequent amendments, except for State of New Mexico requirements. Additionally, the budget is a program budget and not an official budget and cannot be relied on for State compliance purposes. The RVSA prepares its budgets on the modified accrual budgetary basis. Depreciation and interest expense are not budgeted by the RVSA.

**RUTH VISAGE APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Notes To Financial Statements**  
**For The Year Ended December 31, 2012**

**E. Reconciliation between Budgetary Basis and GAAP Basis**

Budgetary comparisons shown in the schedule compare actual revenues and expenses with the modified accrual budgetary basis amounts as amended. Budgetary control is required to be maintained at the individual fund level. Additionally, the budget is a program budget and not an official budget and cannot be relied on for State compliance purposes.

**F. Indirect Cost**

RVSA does not have a negotiated Indirect Cost Rate with federal grantors but does allocate expenditures such as overhead costs not directly attributable to specific programs. These expenditures are allocated monthly among all funds based upon the budgeted expenditures for each fund as a percentage of total budgeted expenditures.

**G. Tenant Receivables and Allowance for Doubtful Accounts**

Tenant receivables are reported net of an allowance for doubtful accounts. The RVSA provides an allowance for uncollectible accounts equal to the estimated uncollectible portion of a client rent receivable. Management's estimate is based on historical experience and its evaluation of the current status of the client rent receivable. It is the policy of the RVSA to allowance any rent receivable amounts that have not been collected over sixty (60) days.

**H. Rental Income and Leasing Operations**

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the RVSA and tenants of the property are operating leases.

**I. Replacement Reserves**

In accordance with the terms of the loan agreement with the USDA, the RVSA is required to fund a replacement reserve in the amount of \$15,000 per year until the reserve account reached the minimum of \$150,000. The reserve had a balance of \$152,677 at December 31, 2012.

**J. Property Management Agreement**

In accordance with the management agreement, the Partnership paid the JL Gray Company Inc, an agent of the General Partner, property management fees of \$7,710. The fees are for services rendered in connection with leasing and operation of the Apartments. The property management fees are equal to \$46 per occupied unit per month with a maximum annual compensation of \$9,200.

**K. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**L. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or the balance sheet will sometimes



**RUTH VISAGE APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Notes To Financial Statements**  
**For The Year Ended December 31, 2012**

report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized until then.

**M. Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term highly liquid investments, which are readily convertible into cash within ninety (90) days of purchase.

The RVSA's cash and cash' equivalents are considered to be cash on hand, demand deposits, and short-term investments.

State statutes authorize the investment of RVSA's funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, and money market accounts. The RVSA is also allowed to invest in United States Government obligations. All funds of the RVSA must follow the above investment policies.

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 RVSA. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

**N. Net Position and Fund Balance**

Net position on the Statement of Net Position includes the following:

*Net Investment in Capital Assets* – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

*Restricted* – the component of net position that reports the difference between assets and liabilities of RVSA that consists of assets with constraints placed on their use that are legally enforceable by legislation and the like to be used only for the purposes specified.

*Unrestricted* – the difference between the assets and liabilities that is not reported in net position invested in capital assets or restricted net position.

In the fund level financial statements, the RVSA has no designated fund balance. The RVSA applies restricted funds first to expenditures before applying restricted funds when

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applicable. Designated fund balances represent tentative plans for future use of financial resources.

**O. Fund Balance**

The RVSA's fund balance is classified under the following GASB Statement 54 components:

*Non-spendable:* Non-spendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The RVSA's prepaid expense of \$7,000 is considered non-spendable fund balance for the year ended December 31, 2012.

*Restricted:* Restricted fund balance represents amounts constrained to specific purposes that are externally imposed or imposed by law through constitutional provisions or enabling legislation (such as taxpayers, grantors, bondholders, and higher levels of government) The RVSA's restricted cash balance of \$160,140 is considered as restricted fund balance for the year ended December 31, 2012.

*Committed:* Committed fund balance is constrained to specific purposes by the highest level of decision-making authority The RVSA does not have any committed fund balance for the year ended December 31, 2012.

*Assigned:* Assigned fund balance is constrained by the Legislature and Executive branch's intent to be used by the government for specific purposes or in some cases by legislation. Intent can be expressed by the governing body or an official or body to which the governing body delegates authority. The RVSA does not have any assigned fund balance for the year ended December 31, 2012.

*Unassigned:* Unassigned fund balance is the residual classification for the general fund. The RVSA does not currently have a minimum fund balance policy The RVSA has an unassigned fund balance of \$42,462 for the year ended December 31, 2012.

**2. CASH BALANCES**

In accordance with Section 6-10-17, NMSA, 1978 Compilation, deposits of public money are required to be collateralized. Pledged collateral is required to have an aggregate value equal to one half of the amount of public money in each account. Securities, which are obligations of the United States, State of New Mexico, its agencies, institutions, counties, municipalities or other subdivisions are accepted as security at market value. No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration.

The RVSA has no formal deposit policies for its accounts. Deposits (cash or cash equivalents) are carried at cost, which approximates market value. Beginning January 1, 2013, noninterest-bearing transaction accounts will no longer be insured separately from depositors' other accounts at the same FDIC-insured depository institutions (IDI) instead, noninterest-bearing

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transaction accounts will be added to any of a depositor's other accounts in the applicable ownership category and the aggregate balance insured up to at least the Standard Maximum Deposit Insurance Amount of \$250,000 per depositor, at each separately chartered IDI. See the FDIC website at [www.fdic.gov/deposit/deposits/unlimited\\_expiration.html](http://www.fdic.gov/deposit/deposits/unlimited_expiration.html), for more information.

The Governmental Accounting Standards Board has issued its Statement #40 which requires information on custodial risk be disclosed. Custodial credit risk is risk that in the event of bank failure, RVSA's deposits may not be returned to it. RVSA's deposit policy is to collateralize one half of the uninsured public money in each account. The following is a listing of deposits of public money and collateral pledged at values acceptable per state statute, by the depositing financial institutions as of December 31, 2012:

Account Name	Type	Bank Balance	Outstanding Items	Book Balance
Operations - Wells Fargo*	Operating	\$ 44,215	(4,079)	40,136
Petty cash - On Site	Operating	-	-	100
Tax and Insurance - Wells Fargo*	Reserve	985	-	985
Replacement Reserve - The Citizens Bank of Clovis	Reserve	152,677	-	152,677
Security Deposit - Wells Fargo*	Security Deposit	6,478	-	6,478
Total bank balance		<u>204,355</u>	<u>(4,079)</u>	<u>200,376</u>
Less: FDIC coverage		<u>(250,000)</u>		
Uninsured balance		<u>-</u>		
50% collateral requirement		<u>\$ -</u>		

\* denotes non-interest bearing

There were no remaining uninsured and collateralized deposits exposed to custodial credit risk. As of December 31, 2012, the amount of the RVSA's bank balance exposed to custodial credit risk was as follows:

Uninsured and collateral held by the pledging Bank's trust dept. not in the RVSA's name	\$ <u>-</u>
--	-------------

**3. RECEIVABLES AND UNEARNED REVENUE**

Receivables at December 31, 2012 consist of the following:

Receivables:	General
Tenant rent	\$ 1,006
Property rental assistance	7,729
Interest subsidy	4,190
Other	2,315
	<u>\$ 15,240</u>

The RVSA considered all amounts fully collectible and therefore has not set up any allowances for doubtful accounts.

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The RVSA reported unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. These funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue and unearned revenue reported in the funds were as follows:

Tenant rent received in advance      \$ 1,063

**4. CAPITAL ASSETS AND DEPRECIATION**

A summary of changes in capital assets for the fiscal year ended December 31:

	<u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>2012</u>
Land	\$ 45,652	-	-	-	45,652
Building	1,456,500	-	-	-	1,456,500
Furnishings	10,446	-	-	-	10,446
Equipment	<u>26,430</u>	-	-	-	<u>26,430</u>
Total property and equipment	1,539,028	-	-	-	1,539,028
Less accumulated depreciation					
Total accumulated depreciation	<u>(327,521)</u>	<u>(37,457)</u>	-	-	<u>(364,978)</u>
Total property and equipment, net	<u>\$ 1,211,507</u>	<u>(37,457)</u>	-	-	<u>1,174,050</u>

Current year depreciation expense for the year ended December 31, 2012 was \$37,457. There were no additions to capital assets for the fiscal year ended December 31, 2012.

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**RUTH VISAGE APARTMENTS**  
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**5. LONG-TERM DEBT**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and statement of net position. RVSA does not have authority to issue bonds, however, it has acquired debt financing through the federal government and the State of New Mexico finance authority.

At December 31, 2012, long-term debt consisted of:

	2011	Additions	Retirements	2012	Due Within One Year
<b>USDA LOAN</b> -The partnership has an \$ obligation to the United States Department of Agriculture bearing an interest rate of 6.25%. The loan is payable in monthly installments of \$6,786 including interest and principal. The loan is secured by the property and matures in November of 2053.	1,189,025	-	(5,805)	1,183,220	6,186
<b>NMMFA Loan</b> - The partnership has an obligation to the New Mexico Mortgage Finance Authority secured by the property. Monthly non-compounding interest will accrue at the rate of 2%. The RVSA shall make 360 monthly interest-only payments on the balance of unpaid principal. The entire principal amount of the loan will be due and payable in October of 2032 or sooner if sold, refinanced, or otherwise transferred.					
	300,000	-	-	300,000	-
<b>Total</b>	<u>\$ 1,489,025</u>	<u>-</u>	<u>(5,805)</u>	<u>1,483,220</u>	<u>6,186</u>

Long term maturities for the year ended December 31, 2012 are as follows:

<b>Principal</b>				
Years		NMFA Loan Agreement	USDA Rural Development Loan	Total
2013	\$	-	6,186	6,186
2014		-	6,592	6,592
2015		-	7,025	7,025
2016		-	7,486	7,486
2017		-	7,978	7,978
2018-2022		-	48,467	48,467
2023-2027		-	66,605	66,605
2028-2032		300,000	91,532	391,532
2033-2037		-	125,788	125,788
2038-2042		-	172,864	172,864
2043-2047		-	237,558	237,558
2048-2052		-	326,464	326,464
2053		-	78,676	78,676
<b>Total</b>		<u>300,000</u>	<u>1,183,220</u>	<u>1,483,220</u>

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<b>Interest</b>			
<u>Years</u>	<u>NMFA Loan Agreement</u>	<u>USDA Rural Development Loan</u>	<u>Total</u>
2013	6,000	75,252	81,252
2014	6,000	74,846	80,846
2015	6,000	74,413	80,413
2016	6,000	73,952	79,952
2017	6,000	73,460	79,460
2018-2022	30,000	358,723	388,723
2023-2027	30,000	340,584	370,584
2028-2032	29,000	315,657	344,657
2033-2037	-	281,402	281,402
2038-2042	-	234,326	234,326
2043-2047	-	169,632	169,632
2048-2052	-	80,727	80,727
2053	-	2,707	2,707
Total	\$ 119,000	2,155,679	2,274,679

**6. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN AND POST EMPLOYMENT BENEFITS**

During the fiscal year ended December 31, 2012, the RVSA had no employees eligible for retirement benefits and, therefore, had no retirement benefit expenditures during the year.

**7. RISK MANAGEMENT**

The RVSA is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which its fiscal agent EPCOG carried commercial insurance in the name of the RVSA. Settled claims have not exceeded this commercial coverage in the past year.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of December 31, 2012, the RVSA did not have any probable risk of loss.

**8. DEPOSITS HELD FOR TENANTS**

Deposits collected from tenants held as rental security deposits amounted to \$6,478 at year end. The liability associated with these tenant deposits totaled \$8,649 at year end.

**9. FUND FINANCIAL BEGINNING FUND BALANCE**

The RVSA was determined to be a component unit of the EPCOG by other auditors and accordingly, the audit report was not prepared in accordance with GASB standards in the prior year. As a result, beginning fund balance at the governmental fund level was calculated by using known data at the end of the 2012 fiscal year.

**10. SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The RVSA recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the

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financial statements. The RVSA's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The RVSA has evaluated subsequent events through November 8, 2013, which is the date the financial statements were available to be issued.

**RUTH VISAGE APARTMENTS**  
**A DEPARTMENT OF THE EASTERN PLAINS COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended December 31, 2012**

<b>Federal Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass- through Identifying Number</b>	<b>Grant Award Expended (Loan)</b>
<i>Direct:</i>			
U.S. Department of Agriculture			
Rural Rental Housing Loans*	10.415*		\$ 1,183,220 (Loan)
Interest Subsidy	10.xxx		<u>50,280</u>
Total U.S. Department of Agriculture			<u>1,233,500</u>
Total federal awards expended			<u>\$ 1,233,500</u>

\* Denotes major program

Selected Disclosures

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Ruth Visage Apartments, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.
2. The RVSA did not receive any noncash assistance.
3. Payments to subrecipients-n/a None





**INDEPENDENT AUDITOR'S 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**

Mr. Hector H. Balderas, State Auditor and  
The Ruth Visage Senior Apartments  
A Department of the Eastern Plains Council of Governments  
Portales, 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 governmental activities and each major fund of Ruth Visage Senior Apartments (RVSA), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise RVSA's basic financial statements and have issued our report thereon dated November 8, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the RVSA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the RVSA's internal control. Accordingly, we do not express an opinion on the effectiveness of the RVSA'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 questioned costs, 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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: 12-02.

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 accompany schedule of findings and questioned costs to be a significant deficiency: 12-03.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the RVSA'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 questioned costs as item: 12-01.

**The RVSA's Response to Findings**

The RVSA's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The RVSA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 results 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hinkle + Landers, P.C.  
Albuquerque, NM  
November 8, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Mr. Hector H. Balderas, State Auditor and  
The Ruth Visage Senior Apartments  
A Department of the Eastern Plains Council of Governments  
Portales, New Mexico

**Report on Compliance for Each Major Federal Program**

We have audited Ruth Visage Senior Apartment's (RVSA) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the RVSA's major federal programs for the year ended December 31, 2012. The RVSA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the RVSA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the RVSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the RVSA's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the RVSA, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 12-01. Our opinion on each major federal program is not modified with respect to this matter.

The RVSA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The RVSA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

#### **Report on Internal Control Over Compliance**

Management of the RVSA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the RVSA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the RVSA's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Hinkle + Landers, P.C.  
Albuquerque, NM  
November 8, 2013

**RUTH VISAGE SENIOR APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Schedule of Findings and Questioned Costs**  
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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

*Financial Statements:*

Type of Auditor’s report issued Unmodified

*Internal Control over financial reporting:*

Material weaknesses identified?	<u>X</u> yes	__ no
Significant deficiencies identified that are not considered to be material weaknesses?	<u>X</u> yes	__ no
Non-compliance material to financial statements noted?	__ yes	<u>X</u> no

*Federal Awards:*

Internal Control

Material weaknesses identified?	__ yes	<u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	__ yes	<u>X</u> no

Type of Auditor’s report issued on major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes      \_\_ no

Identification of major program as noted below:

CFDA Numbers Funding Source	Name of Federal Programs	Funding Source
10.415	Rental Housing Loans	U.S. Dept. of Agriculture

Dollar threshold use to distinguish between  
A and B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_ yes      X no

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**SECTION II & III- FINANCIAL STATEMENTS AND FEDERAL AWARD FINDINGS**

<u>Reference #</u>	<u>Findings</u>	<u>Status of Prior Year Findings</u>	<u>Financial Statement Finding</u>	<u>Federal Award Finding</u>	<u>Material Weakness</u>	<u>Significant Deficiency</u>	<u>State Compliance</u>
12-01	Late Audit Report/Data Collection Form	Current	No	Yes	No	No	Yes
12-02	SAS 115-Material Adjustments by Auditor	Current	Yes	No	Yes	No	No
12-03	Lack of Adequate Documentation/Approval for Expenditures	Current	Yes	No	No	Yes	No

**CURRENT YEAR FINDINGS**

**12-01 – LATE AUDIT REPORT/DATA COLLECTION FORM**

**Federal Program Information:**

*Funding Agencies:* U.S. Dept. of Agriculture

*Titles:* Rental Housing Loans

*CFDA Numbers:* 10.415

*Award Period:* 2012

**Type of Finding: Federal Award, State Compliance, Other Matter**

**Statement of Condition:**

This report was mailed to the Office of the State Auditor on January 22, 2014. In addition, the data collection form and reporting package were not submitted to the federal clearinghouse and federal agencies timely.

**Criteria:**

The New Mexico State Auditors' Office has issued 2 NMAC 2.2, Requirements for Contracting and Conducting Audits of Agencies, due dates for special purpose government audits to be in his office by December 1, 2012 and the report was due March 31, 2010 for reporting to the federal government in accordance with provisions of OMB Circular A-133. In addition, OMB Circular A-133.32 requires the data collection form and reporting package to be filed with the federal clearinghouse and federal agencies within 9 months after fiscal year end.

**Effect:**

The report was not available for the New Mexico State Auditor and other state and federal agencies to review on a timely basis.

**Cause:**

Management was unaware of the fact that the RVSA's audit must also be submitted to the Office of the State Auditor. As a result, the data collection form has not been submitted

**Recommendation:**

We recommend management continue to develop systems and personnel in order to keep records current and available for timely auditing.

**Management Response:**

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The Eastern Plains Council of Governments understands the seriousness of these findings and has been working toward revising policies and procedures to address these issues as well as full reconciliation of all funds to ensure correct beginning account balances for 2013. The accounting system has been secured to limit access and ensure proper reports are produced. Personnel in charge at that time are no longer employed with the organization. This process has taken a significant amount of time to complete, and following the completion of the 2013 audit in early 2014, all late audits will be caught up and we will be on track to submit audits on time.

**12-02 – SAS 115 MATERIAL ADJUSTMENTS BY AUDITOR**

**Type of Finding: Material Weakness**

**Statement of Condition:**

Statement of Auditing Standards (SAS) 115 effectively states that an auditor cannot serve as a part of the internal controls of the client, however, several material adjustments were made to the RVSA's books. Adjustments include:

- \$364,978 adjustment to accumulated depreciation
- \$31,577 adjustment to interest expense

**Criteria:**

Some of the key underlying concepts of Statement of Auditing Standards (SAS) 115 are

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements, which would include review of the auditor's preparation of the report.

Recording these adjustments is considered a significant process that the client needs to maintain. Also since significant adjustments to the financials were made, it calls into question whether the RVSA staff has the qualifications and training to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

**Effect:**

Because these adjustments were made/identified by the auditor, and not by the RVSA, it shows an internal control weakness in maintaining the general ledger and would potentially extend to the audit report. This significantly increases the potential for misstated financial statements.

**Cause:**

The RVSA's personnel and internal control procedures were not effective in identifying and correcting necessary accruals to the general ledger that would have resulted in material misstatement of the financial statements had they not been identified/corrected by the auditor.

**Recommendation:**

We recommend that the RVSA make adjustments to their general ledger in a timely manner. Asking for technical advice from the auditor or from someone else when these adjustments are needed is not considered a control deficiency as long as the staff of the RVSA initiates/makes the adjustment and understands how and why the adjustments were made

**Management Response:**

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**A Department of the Eastern Plains Council of Governments**  
**Schedule of Findings and Questioned Costs**  
**For The Year Ended December 31, 2012**

Eastern Plains Council of Governments accepts this recommendation, and will continue to work with our accountant to strengthen our accounting practices and ensure that all fiscal records are kept according to federal guidelines.

**12-03 – LACK OF ADEQUATE DOCUMENTATION/APPROVAL FOR EXPENDITURES**

**Type of Finding: Significant Deficiency**

**Condition:**

The RVSA followed the EPCOG's disbursement policy for the first half of the fiscal year. During our disbursement test work, we noted the following:

- A purchase order did not accompany all of the expenditures (14 out of 52),
- Proper approval of disbursements was not occurring on a consistent basis (14 out of 52),
- The RVSA did not have completed purchase orders before purchases were made (14 out of 52)

It should be noted that for second half of the year, a management company was hired and proper support and approval were provided for RVSA disbursements.

**Criteria:**

Section 6.20.2.17 of NMAC requires the EPCOG/RVSA to establish and implement written policies and procedures for purchasing which shall be in compliance with the Procurement Code, Section 13-1-21 at seq., NMSA 1978.

**Effect:**

At the beginning of the year, the EPCOG/RVSA had no effective spending controls in place. Those controls would have provided for the availability of funds and would have determined whether expenditure was allowable prior to initiation of the expenditure. Also, having lack of authorization for purchases made increases the risk for misappropriation, budget over expending, or fraudulent activities.

**Cause:**

There was an oversight in the internal control process, and items were not authorized through a purchase order or proper approval before the purchase was made.

**Recommendation:**

It is our recommendation that the internal controls that are in place are followed for all nonrecurring items.

**Management Response:**

Eastern Plains Council of Governments accepts this recommendation, and will continue to work with our accountant to strengthen our purchase order and internal control policies to ensure that funds are spent in accordance with state and federal guidelines.



**RUTH VISAGE SENIOR APARTMENTS**  
**A Department of the Eastern Plains Council of Governments**  
**Exit Conference**  
**For The Year Ended December 31, 2012**

An exit conference was held in a closed session on November 8, 2013, and the contents of this report were discussed. Present at the exit conference were:

Representing Ruth Visage Senior Apartments:

Fidel Madrid

Vice Chairperson of the EPCOG

Sandy Chancey

Executive Director of the EPCOG

Representing Hinkle + Landers, P.C.:

Farley Vener, CPA, CFE

Independent auditor, Hinkle + Landers, P.C.

Maclen Enriquez

Independent auditor, Hinkle + Landers, P.C.

**PREPARATION OF FINANCIAL STATEMENTS**

The accompanying financial statements of the Ruth Visage Senior Apartments have been prepared by Hinkle + Landers, P.C., the organization's independent public auditors; however, the financial statements are the responsibility of management.