

Northern Regional Housing Authority

Financial Statements

For the Year Ended June 30, 2018



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INTRODUCTORY SECTION

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**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
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JUNE 30, 2018**

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**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
OFFICIAL ROSTER
JUNE 30, 2018**

<u>Name</u>		<u>Title</u>
	<u>Board of Commissioners</u>	
Santiago Chavez		Board Chair
Lauren Reichelt		Board Secretary
Della Baronne		Boardmember
Ryan Downey		Boardmember
Tim Gallegos		Boardmember
Rayetta Trujillo		Boardmember
Paul Andrus		Boardmember
Alfred Abeita		Boardmember
Garland Moore		Boardmember
	<u>Administrative Officials</u>	
Michael Cabral		Acting Executive Director
Amy Quintana		Finance Director

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BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners and Management
Northern Regional Housing Authority
Wayne Johnson
New Mexico State Auditor
U.S. Office of Management and Budget
Taos, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of Northern Regional Housing Authority (the "Housing Authority"), as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Housing Authority'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 misstatement, whether due to fraud or error.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Housing Authority'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 Housing Authority'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 Housing Authority as of June 30, 2018, and the respective changes in financial position and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Statements A-1 through A-4 on and notes to the Required Supplementary Information on pages 40 through 45 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority's basic financial statements. The introductory section, the Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Supporting Schedules I through II required by 2.2.2 NMAC, and Schedule III Financial Data Schedule as required by the U.S Department of Housing and Urban Development are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Supporting Schedules I, II, and III in the table of contents 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, and Supporting Schedules I, II and III are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The introductory 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, New Mexico
September 28, 2018

**BASIC
FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018**

Assets

Current assets		
Cash	\$	280,020
Receivables:		
Grants		205,796
Tenants, net		4,018
Inventory		3,683
Prepaid expenses		7,268
		<hr/>
Total current assets		500,785
		<hr/>
Noncurrent assets		
Restricted cash		99,196
Capital assets		15,490,244
Less: accumulated depreciation		(10,215,343)
		<hr/>
Total noncurrent assets		5,374,097
		<hr/>
<i>Total assets</i>		5,874,882
		<hr/>
Deferred outflows of resources		
Deferred outflows - PERA		625,306
Deferred outflows - OPEB		10,838
		<hr/>
<i>Total deferred outflows of resources</i>		636,144
		<hr/>
<i>Total assets and deferred outflows of resources</i>	\$	<u><u>6,511,026</u></u>

The accompanying notes are an integral part of these financial statements.

Liabilities

Current liabilities	
Accounts payable	\$ 3,459
Accrued payroll	27,224
Tenant deposits	47,367
FSS deposits	2,553
Other current liabilities	4,361
Due to other governments	33,513
Unearned revenue	1,470
Compensated absences	13,608
	<hr/>
Total current liabilities	133,555
	<hr/>
Noncurrent liabilities	
Compensated absences	13,608
Net pension liability - PERA	994,838
Net pension liability - OPEB	515,704
	<hr/>
Total noncurrent liabilities	1,524,150
	<hr/>
<i>Total liabilities</i>	1,657,705
	<hr/>
Deferred inflows of resources	
Deferred inflows - PERA	61,233
Deferred inflows - OPEB	117,373
	<hr/>
<i>Total deferred inflows of resources</i>	178,606
	<hr/>
Net position	
Investment in capital assets	5,274,901
Restricted for:	
Section 8 housing	49,276
Unrestricted	(649,462)
	<hr/>
<i>Total net position</i>	4,674,715
	<hr/>
<i>Total liabilities, deferred inflows of resources, and net position</i>	\$ 6,511,026
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

<i>Operating revenues</i>	
Rental revenue	\$ 286,109
Other tenant revenue	23,880
Subsidy grants	3,372,752
<i>Total operating revenues</i>	<u>3,682,741</u>
 <i>Operating expenses</i>	
Personnel services	1,029,159
Contractual services	95,130
Supplies	64,584
Utilities	162,753
Insurance	80,239
Computer and software expenses	21,655
Postage	8,804
Bad debt	16,433
Housing assistance payments	2,391,593
Depreciation	398,998
Legal	8,274
Relocation cost	152
Other office related expenses	43,310
<i>Total operating expenses</i>	<u>4,321,084</u>
<i>Operating loss</i>	(638,343)
 <i>Nonoperating revenue (expenses)</i>	
Interest income	255
Extraordinary maintenance	(42,054)
Casualty loss	(47,405)
Fraud recovery	4,988
Insurance proceeds	47,101
Miscellaneous income	13,226
<i>Total nonoperating expenses</i>	<u>(23,889)</u>
 <i>Income before capital grants</i>	
Capital grants	<u>103,024</u>
<i>Change in net position</i>	(559,208)
 <i>Net position - beginning of year</i>	
<i>Net position - restatement (NOTE 8)</i>	5,775,521
<i>Net position - beginning of year as restated</i>	<u>(541,598)</u>
	<u>5,233,923</u>
 <i>Net position - end of year</i>	
	<u>\$ 4,674,715</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

<i>Cash flows from operating activities:</i>	
Cash received from tenants	\$ 283,716
Cash received from subsidy grants	3,372,752
Cash payments to employees for services	(771,027)
Cash payments to suppliers for goods and services	(2,917,515)
<i>Net cash used by operating activities</i>	<u>(32,074)</u>
 <i>Cash flows from noncapital financing activities:</i>	
Cash received from miscellaneous sources	18,214
Insurance proceeds	47,101
Extraordinary maintenance	(42,054)
Casualty loss	(47,405)
<i>Net cash used by noncapital financing activities</i>	<u>(24,144)</u>
 <i>Cash flows from investing activities:</i>	
Investment earnings, net of fees	255
<i>Net cash provided by investing activities</i>	<u>255</u>
 <i>Cash flows from capital and related financing activities:</i>	
Cash received from capital grants	103,024
Acquisition of capital assets	(265,652)
<i>Net cash used by capital and related financing activities</i>	<u>(162,628)</u>
<i>Net decrease in cash</i> (218,591)	
<i>Cash - beginning of year</i> <u>597,807</u>	
 <i>Cash - end of year</i> <u>\$ 379,216</u>	
 <i>Reconciliation of operating loss to net cash provided (used) by operating activities:</i>	
Operating loss	\$ (638,343)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	398,998
Net pension and OPEB expense	258,729
Changes in assets and liabilities:	
Receivables	(21,611)
Inventories	787
Prepaid expenses	(844)
Accounts payable and due to others	(13,179)
Accrued liabilities	(4,760)
Other current liabilities	(1,795)
FSS deposits	(9,557)
Unearned revenue	(4,662)
Compensated absences	4,163
<i>Net cash used by operating activities</i>	<u>\$ (32,074)</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies

Northern Regional Housing Authority (the “Housing Authority”) is a public housing authority that provides affordable housing to low-income and disadvantaged families in Cibola County, Taos County, McKinley County, Rio Arriba County, San Juan County, San Miguel County, Mora County, Los Alamos County, Colfax County, and Sandoval County; except for areas within the region that are within the territorial boundaries of a municipality or county that has established a local housing authority. As of June 30, 2018, the Housing Authority operations were located in Taos County, though it is authorized to operate in the other counties listed. The programs are primarily funded with federal grants, management fees, and tenant rents.

The Northern Regional Housing Authority was created under the authority of 11-3A-4 NMSA 1978, which was amended by Senate Bill 20 on March 31, 2009. Under that Bill the New Mexico Legislature restructured the State’s Regional Housing Authorities, however the Authority did not begin operations until April 1, 2014. The Housing Authority also assists other organizations and units of local governments to operate, manage, and administer housing programs and projects and achieve this objective.

The Housing Authority managed the operations of the Taos County Housing Authority under contract from April 1, 2014 to July 31, 2014 and Village of Cimarron Housing Authority from July 22, 2014 to June 30, 2016. On August 1, 2014 the Housing Authority consolidated with the Taos County Housing Authority.

During fiscal year 2017 Northern Regional Housing Authority merged with the Cimarron Housing Authority and Grants Housing Authority. Currently, the Housing Authority manages nine (9) low rent public housing developments containing 205 total units and administers Housing and Urban Development’s (HUD) Housing Choice Vouchers Section 8 housing assistance program.

A. Financial Reporting Entity

The reporting entity for the Housing Authority is based upon criteria established by the Governmental Accounting Standards Board (GASB). All functions of the Housing Authority for which it exercises oversight responsibility are included. The oversight responsibility includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, and special financing relationships.

This summary of significant accounting policies of the Housing Authority is presented to assist in the understanding of the Housing Authority’s financial statements. The financial statements and notes are the representation of the Housing Authority’s management, who is responsible for their integrity and objectivity. The financial statements of the Housing Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities.

In evaluating how to define the Housing Authority for financial reporting purposes, management has considered all potential programs and operations of the Housing Authority. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, as amended by GASB Statement No. 39, GASB and Statement No. 61. 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.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing board by the Housing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion is the scope of public service.

Application of this criterion involves considering whether the activity benefits the Housing Authority and/or its residents and participants, or whether the activity is conducted within the geographic boundaries of the Housing Authority and is generally available to its residents and participants.

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 Housing Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Housing Authority has no component units, and is not a component unit of another governmental agency.

The following programs are maintained by the Housing Authority:

Low Rent Public Housing Program – The overall objective of the Public and Indian Housing program is to provide and operate cost-effective, decent, safe and affordable dwellings for lower income families.

Section 8 Housing Choice Voucher Program – These programs, funded through direct grants from HUD, provide rental assistance to qualified families through rent subsidies paid directly to third-party landlords.

Capital Fund Projects – Funded on a reimbursement basis by HUD, the program funds may be used for the development, financing, and modernization of public housing developments and for management improvements. Per HUD requirements, these funds are presented within the Low Rent Public Housing Program on the Financial Statements.

Management Fund Program – This program accounts for the revenues and expenditures generated by the Authority's management of the City of Grants Housing Authority under contract from November 17, 2015 to December 31, 2016, and Cuba Housing Authority under contract from April 16, 2016 to December 31, 2016.

State and Local Program – This program accounts for the revenues and expenditures generated by the Authority's Linkages Permanent Supportive Housing Program. The contract was awarded January 1, 2016 between the Authority and New Mexico Mortgage Finance Authority. The program is to provide affordable housing opportunities for low income individuals with serious mental illness within the Service Provider's jurisdiction.

B. Basis of Presentation and Accounting

The Housing Authority's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as set forth or adopted by the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), and their predecessors, the National Council on Governmental Accounting ("NCGA") and the Accounting Principles Board ("APB"),

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation and Accounting (continued)

respectively. Generally accepted accounting principles for local governments include those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units.

The accounting and financial reporting treatment applied to the Housing Authority is determined by its measurement focus. The Housing 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 Statement of Net Position. Net position (i.e., total assets, deferred outflows net of total liabilities and deferred inflows) are segregated into net investment in capital assets; restricted; and unrestricted components.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are subsidy grants and charges to customers for the management of the housing authority activities. Operating expenses for enterprise funds include the personnel and contractual services, repair and maintenance, housing assistance payments, other administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue Recognition: Management contract revenues are recorded as services are performed. Management contract fee payments received in advance are deferred until earned.

Dwelling rental revenues are recorded as rents become due. Rental payments received in advance are deferred until earned.

Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The Housing Authority has entered into contracts with U.S. Department of Housing and Urban Development (HUD) to develop, manage and own public housing projects. HUD makes monthly operating subsidy contributions within the public housing program. Such contributions are reflected as operating grants revenue. Contributions received from HUD for capital additions and improvements are reported as capital grants revenue.

C. Assets, Liabilities and Net Position or Equity

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures such as the lives of capital assets. Accordingly, actual results could differ from those estimates.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Significant estimates in the Housing Authority's financial statements include depreciation on capital assets, allowance for doubtful accounts for grant and tenant receivables, the current portion of accrued compensated absences, the net pension liability, the net OPEB liability, and related deferred inflows and deferred outflows.

Deposits and Investments: The Housing Authority is authorized under the provision of 6-10-10 NMSA 1978, as amended, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an Agency of the United States. The Housing Authority's cash and cash equivalents are considered to be cash on hand and demand deposits, however the Housing Authority does not have any cash equivalents or investments.

Short-term investments are Certificates of Deposits and time accounts with original maturities of three months or less from the date of acquisition and are classified consistent with the Financial Data Schedule outline prescribed by HUD.

Before any local funds are invested or reinvested for the purpose of short-term investment pursuant to Section 6-10-10.1 NMSA 1978, as amended, the local public body finance official shall notify and make such funds available to banks, savings and loan associations and credit unions located within the geographical boundaries of their respective governmental unit, subject to the limitation on credit union accounts.

To be eligible for such funds, the financial institution shall pay to the local public body the rate established by the state treasurer pursuant to a policy adopted by the State Board of Finance for such short-term investments. The Housing Authority had no short-term investments as of June 30, 2018.

State regulations require that uninsured demand deposits and deposit-type investments such as certificates of deposit, be collateralized by the depository thrift or banking institution. Currently, state statutes require that a minimum of fifty percent (50%) of balances on deposit with any one institution must be collateralized, with higher requirements up to one hundred percent (100%) for financially troubled institutions. However, any portion of PHA/IHA funds not insured by a Federal insurance organization shall be fully 100% and continuously collateralized with specific and identifiable U.S. Government or Agency securities prescribed by HUD. If the securities pledged are United States government securities, they are pledged at market value; if they are New Mexico municipal bonds, they are pledged at fair market value.

Fair Value Measurements: The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). As of June 30, 2018, there are no items required to be valued using the fair value framework.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Accounts Receivable: All receivables are presented net of an allowance for doubtful accounts. The allowance is comprised of all accounts receivable which management estimates to be uncollectible, which for the Public Housing Low Rent program is 90% of the balance allowed for and for Section 8 Housing Choice Vouchers program is 80% of the balance allowed for based upon prior experience with tenant collectability and the length of time receivables are outstanding.

Inventory: The inventory held consists of expendable supplies held for consumption and recorded at cost. The cost is recorded as expenditures at the time of consumption. Inventory for the Housing Authority is valued at cost using the first in, first out method.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Statement of Net Position.

Capital Assets: Capital assets, which include property, plant, and equipment, are defined by the Housing Authority as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. The Housing Authority does have an exception for purchases made under Capital Fund Projects. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Depreciation is recorded using the straight-line method based on the estimated useful life of the asset. The following lives are utilized:

<u>Assets</u>	<u>Years</u>
Buildings and structures	40-45
Furniture, fixtures, and equipment	5-10

Deferred Inflows/Outflows of Resources: GASB 63 amended previous guidance on deferred revenues in the Statement of Net Position to include deferred outflow of resources, which is the consumption of net position by the Housing Authority that is applicable to a future reporting period and deferred inflow of resources, which is acquisition of net position by the Housing Authority that is applicable to a future reporting period.

Compensated Absences: Housing Authority employees are entitled to be compensated for accrued vacation time off, which is reported as an expense and a liability of the program that will fund it. When an employee separates from employment with the Housing Authority in good standing, the employee is eligible to receive payment for accrued time remaining.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies (continued)

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

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB): For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position: Net position is reported in three categories: net investment in capital assets, restricted, and unrestricted:

- **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** – Net position is reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors, grantors, contributions or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net position** – Net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Unrestricted and Restricted Revenues: When both restricted and unrestricted resources are available for use, it is the Housing Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets

The Housing Authority's budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of the anticipated revenue and expenditures. Annual budgets of the Housing Authority are prepared, approved by the Board of Commissioners, and submitted to the New Mexico Mortgage Finance Authority for review not less than 30 days prior to the beginning of its fiscal year.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1. Summary of Significant Accounting Policies (continued)

E. New Accounting Standards Adopted

During the year ended June 30, 2018, the Housing Authority adopted GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, No. 81, *Irrevocable Split-Interest Agreements*, No. 85, *Omnibus 2017*, No. 86, *Certain Debt Extinguishment Issues*, are required to be implemented for the fiscal year ending June 30, 2018.

The pronouncement adopted that materially affects the financial statements and disclosures of the Housing Authority for the year ended June 30, 2018 is GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*.

The requirements of this Statement improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense.

NOTE 2. Deposits

State Statutes authorize the investment of Housing Authority funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Housing Authority properly followed State investment requirements as of June 30, 2018.

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 Housing Authority. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit. Excess funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

All of the Housing Authority's accounts at an insured depository institution, including all non-interest-bearing transaction accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000 for demand deposit accounts and \$250,000 for time and savings accounts.

Custodial Credit Risk – Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the Housing Authority's deposits may not be returned to it. The Housing 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, 2018, \$165,401 of the Housing Authority's bank balance of \$415,401 was exposed to custodial credit risk. Although the \$165,401 was uninsured, all of this amount was collateralized by collateral held by the pledging bank's trust department, not in the Housing Authority's name.

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NOTE 2. Deposits (continued)

Section 6-10-17, New Mexico Statutes Annotated, 1978 Compilation states the types of collateral allowed is limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico. All depositories had collateral exceeding the amount required by law.

	Centinel Bank
Amount of deposits	\$ 415,401
FDIC Coverage	(250,000)
Total uninsured public funds	165,401
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Housing Authority's name	610,000
Uninsured and uncollateralized	\$ -
Collateral requirement (100% of uninsured funds)	\$ 165,401
Pledged Collateral	610,000
Over (Under) collateralized	\$ 444,599
Reconciliation to the Statement of Net Position:	
Cash - Statement of Net Position	\$ 280,020
Restricted cash per Statement of Net Position	99,196
Total cash	379,216
Plus: reconciling items	36,385
Less: petty cash	(200)
Bank balance of deposits	\$ 415,401

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NOTE 3. Receivables

Receivables as of June 30, 2018 are as follows:

	Low Rent Public Housing Program	Section 8 Housing Vouchers Program	Total
U.S. Department Housing and Urban Development	\$ 202,517	\$ 3,279	\$ 205,796
Tenant rents	36,802	1,688	38,490
Allowance for doubtful accounts	<u>(33,122)</u>	<u>(1,350)</u>	<u>(34,472)</u>
Total tenant rents	<u>3,680</u>	<u>338</u>	<u>4,018</u>
Total accounts receivable	<u>\$ 206,197</u>	<u>\$ 3,617</u>	<u>\$ 209,814</u>

NOTE 4. Capital Assets

The following summarizes changes in capital assets activity for the Housing Authority during the year ended June 30, 2018:

Total for Housing Authority	Balance June 30, 2017	Additions	Dispositions and Adjustments	Balance June 30, 2018
Capital assets not depreciated				
Land	\$ 232,913	\$ -	\$ -	\$ 232,913
Construction in process	<u>-</u>	<u>168,104</u>	<u>-</u>	<u>168,104</u>
Total assets not depreciated	<u>232,913</u>	<u>168,104</u>	<u>-</u>	<u>401,017</u>
Capital assets depreciated				
Buildings and structures	14,264,345	91,298	-	14,355,643
Furniture, fixtures, and equipment	<u>727,334</u>	<u>6,250</u>	<u>-</u>	<u>733,584</u>
Total assets depreciated	<u>14,991,679</u>	<u>97,548</u>	<u>-</u>	<u>15,089,227</u>
Total assets	15,224,592	265,652	-	15,490,244
Less accumulated depreciation for:				
Buildings and structures	9,803,597	361,472	(565,868)	9,599,201
Furniture, fixtures, and equipment	<u>12,747</u>	<u>37,527</u>	<u>565,868</u>	<u>616,142</u>
Total accumulated depreciation	<u>9,816,344</u>	<u>398,999</u>	<u>-</u>	<u>10,215,343</u>
Capital assets, net	<u>\$ 5,408,248</u>	<u>\$ (133,347)</u>	<u>\$ -</u>	<u>\$ 5,274,901</u>

Depreciation expense for the year ended June 30, 2018 totaled \$398,999 for all the Housing Authority Programs.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4. Capital Assets (continued)

The following summarizes changes in capital assets activity for the Low Rent Public Housing Program during fiscal year 2018:

Low Rent Public Housing Program	Balance June 30, 2017	Additions	Dispositions and Adjustments	Balance June 30, 2018
Capital assets not depreciated				
Land	\$ 232,913	\$ -	\$ -	\$ 232,913
Construction in process	-	168,104	-	168,104
Total assets not depreciated	<u>232,913</u>	<u>168,104</u>	<u>-</u>	<u>401,017</u>
Capital assets depreciated				
Buildings and structures	14,264,345	91,298	-	14,355,643
Furniture, fixtures, and equipment	707,112	4,999	-	712,111
Total assets depreciated	<u>14,971,457</u>	<u>96,297</u>	<u>-</u>	<u>15,067,754</u>
Total assets	15,204,370	264,401	-	15,468,771
Less accumulated depreciation for:				
Buildings and structures	9,803,597	361,472	(565,868)	9,599,201
Furniture, fixtures, and equipment	-	34,517	565,868	600,385
Total accumulated depreciation	<u>9,803,597</u>	<u>395,989</u>	<u>-</u>	<u>10,199,586</u>
Capital assets, net	<u>\$ 5,400,773</u>	<u>\$ (131,588)</u>	<u>\$ -</u>	<u>\$ 5,269,185</u>

Depreciation expense for the year ended June 30, 2018 totaled \$395,989 for the Low Rent Public Housing Program.

The following summarizes changes in capital assets activity for the Section 8 Housing Choice Voucher Program during fiscal year 2018:

Section 8 Housing Choice Voucher Program	Balance June 30, 2017	Additions	Dispositions and Adjustments	Balance June 30, 2018
Capital assets depreciated				
Furniture, fixtures, and equipment	20,093	1,243	-	21,336
Total assets depreciated	<u>20,093</u>	<u>1,243</u>	<u>-</u>	<u>21,336</u>
Total assets	20,093	1,243	-	21,336
Less accumulated depreciation for:				
Furniture, fixtures, and equipment	12,736	2,983	-	15,719
Total accumulated depreciation	<u>12,736</u>	<u>2,983</u>	<u>-</u>	<u>15,719</u>
Capital assets, net	<u>\$ 7,357</u>	<u>\$ (1,740)</u>	<u>\$ -</u>	<u>\$ 5,617</u>

Depreciation expense for the year ended June 30, 2018 totaled \$2,983 for the Section 8 Housing Choice Voucher Program.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4. Capital Assets (continued)

The following summarizes changes in capital assets activity for the State and Local Program during fiscal year 2018:

Total for State and Local Programs	Balance June 30, 2017	Additions	Dispositions and Adjustments	Balance June 30, 2018
Capital assets depreciated				
Furniture, fixtures, and equipment	129	8	-	137
Total assets depreciated	<u>129</u>	<u>8</u>	<u>-</u>	<u>137</u>
Total assets	129	8	-	137
Less accumulated depreciation for:				
Furniture, fixtures, and equipment	11	27	-	38
Total accumulated depreciation	<u>11</u>	<u>27</u>	<u>-</u>	<u>38</u>
Capital assets, net	<u>\$ 118</u>	<u>\$ (19)</u>	<u>\$ -</u>	<u>\$ 99</u>

Depreciation expense for the year ended June 30, 2018 totaled \$27 for State and Local Programs.

NOTE 5. Long-Term Liabilities

The following summarizes changes in compensated absences activity during fiscal year 2018:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Compensated Absences	<u>\$ 23,053</u>	<u>\$ 31,396</u>	<u>\$ 27,233</u>	<u>\$ 27,216</u>	<u>\$ 13,608</u>

NOTE 6. Pension Plan – Public Employee Retirement Association of NM

Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial

Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits Provided – Benefits are generally available at age 65 with five or Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members.

**STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
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NOTE 6. Pension Plan – Public Employee Retirement Association of NM (continued)

Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the largest average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4 and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit. Generally, under Tier II pension factors were reduced by .5%, employee Contribution increased 1.5 percent and effective July 1, 2014 employer contributions were raised .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

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NOTE 6. Pension Plan – Public Employee Retirement Association of NM (continued)

Contributions – See PERA’s compressive annual financial report for Contribution provided description.

PERA Contribution Rates and Pension Factors as of July 1, 2016						
Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factor per Year of Service		Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary less than \$20,000	Annual Salary greater than \$20,000		TIER 1	TIER 2	
State Plan 3	7.42 %	8.92 %	16.99 %	3.0 %	2.5 %	90 %
Municipal Plan 1 (plan open to new employers)	7.0 %	8.5 %	7.4 %	2.0 %	2.0 %	90 %
Municipal Plan 2 (plan open to new employers)	9.15 %	10.65 %	9.55 %	2.5 %	2.0 %	90 %
Municipal Plan 3 (plan closed to new employers 6/95)	13.15 %	14.65 %	9.55 %	3.0 %	2.5 %	90 %
Municipal Plan 4 (plan closed to new employers 6/00)	15.65 %	17.15 %	12.05 %	3.0 %	2.5 %	90 %
Municipal Police Plan 1	7.0%	8.5%	10.40%	2.0%	2.0%	90%
Municipal Police Plan 2	7.0%	8.5%	15.40%	2.5%	2.0%	90%
Municipal Police Plan 3	7.0%	8.5%	18.90%	2.5%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	2.5%	90%
Municipal Police Plan 5	16.3%	17.8%	18.90%	3.5%	3.0%	90%
Municipal Fire Plan 1	8.0%	9.5%	11.40%	2.0%	2.0%	90%
Municipal Fire Plan 2	8.0%	9.5%	17.90%	2.5%	2.0%	90%
Municipal Fire Plan 3	8.0%	9.5%	21.65%	2.5%	2.0%	90%
Municipal Fire Plan 4	12.8%	14.3%	21.65%	3.0%	2.5%	90%
Municipal Fire Plan 5	16.2%	17.7%	21.65%	3.5%	3.0%	90%
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.0%	3.0%	90%
State Police and Adult Correctional Officer Plan 1	7.60%	9.10%	25.50%	3.0%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	3.0%	90%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions –

At June 30, 2018, the Housing Authority reported a liability of \$994,838 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016.

**STATE OF NEW MEXICO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6. Pension Plan – Public Employee Retirement Association of NM (continued)

The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017.

The Housing Authority’s proportion of the net pension liability was based on a projection of the Housing Authority’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the Housing Authority’s proportion was 0.07240%, which was an increase of 0.0275% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Housing Authority recognized pension expense of \$317,086. At June 30, 2018, the Housing Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 39,091	\$ 50,953
Net difference between expected and actual investments on pension plan investments	81,620	-
Change in assumptions	45,877	10,280
Change in proportion	393,423	-
Authority's contributions subsequent to the measurement date	<u>65,295</u>	<u>-</u>
Total	<u>\$ 625,306</u>	<u>\$ 61,233</u>

\$65,295 reported as deferred outflows of resources related to pensions resulting from the Housing Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pensions expense as follows:

2019	\$ 224,923
2020	211,616
2021	86,092
2022	(23,853)
2023	-

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NOTE 6. Pension Plan – Public Employee Retirement Association of NM (continued)

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

PERA Fund

PERA	
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial Assumptions:	
Investment rate of return	7.51% annual rate, net of investment expense
Projected benefit payment	100 years
Payroll Growth	2.75% for first 9 years, then 3.254% annual rate
Projected salary increases	2.75% to 14.00% annual rate
Includes inflation at	2.25% annual rate first 9 years
	2.75% all other years
Mortality Assumption	RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ALL FUNDS - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.5	1.79
Credit Oriented Fixed Income	15.0	5.77
Real Assets	<u>20.00</u>	7.35
Total	100.00%	

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NOTE 6. Pension Plan – Public Employee Retirement Association of NM (continued)

Discount rate. A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the Housing Authority’s proportionate share of the net pension liability to changes in the discount rate. The following presents the Housing Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.51 percent, as well as what the Housing Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

	1% Decrease (6.51%)	Current Discount Rate (7.51%)	1% Increase (8.51%)
Housing Authority's proportionate share of the net pension liability	\$ 1,559,239	\$ 994,838	\$ 525,459

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in separately issued PERA’s financial reports.

NOTE 7. Post-Employment Benefits – State Retiree Health Care Plan

General Information about the OPEB

Plan description. Employees of the Housing Authority are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA’s financial information is included with the financial presentation of the State of New Mexico.

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NOTE 7. Post-Employment Benefits – State Retiree Health Care Plan (continued)

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees covered by benefit terms – At June 30, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	<u>97,349</u>
	<u>160,035</u>
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	<u>48,756</u>
	<u>97,349</u>

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee’s salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer’s participation in the Fund. Contributions to the Fund from the Housing Authority were \$16,080 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Housing Authority reported a liability of \$515,704 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Housing Authority’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the Housing Authority’s proportion was 0.07577 percent.

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NOTE 7. Post-Employment Benefits – State Retiree Health Care Plan (continued)

For the year ended June 30, 2018, the Housing Authority recognized OPEB expense of \$20,503. At June 30, 2018 the Housing Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ 19,790
Net difference between expected and actual investments on OPEB plan investments	-	7,419
Change in assumptions	-	90,164
Change in proportion	-	-
Authority's contributions subsequent to the measurement date	<u>10,838</u>	<u>-</u>
Total	<u>\$ 10,838</u>	<u>\$ 117,373</u>

Deferred outflows of resources totaling \$10,838 represent Housing Authority contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

2020	(24,954)
2021	(24,954)
2022	(24,954)
2023	(17,557)
Thereafter	-

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NOTE 7. Post-Employment Benefits – State Retiree Health Care Plan (continued)

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

Asset Class	Long-Term Rate of Return
U.S. core fixed income	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

Discount Rate. The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7. Post-Employment Benefits – State Retiree Health Care Plan (continued)

Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the Housing Authority as well as what the Housing Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

	<u>1% Decrease (2.81%)</u>	<u>Rate (3.81%)</u>	<u>1% Increase (4.81%)</u>
Housing Authority's proportionate share of the net OPEB liability	<u>\$ 625,541</u>	<u>\$ 515,704</u>	<u>\$ 429,527</u>

The following presents the net OPEB liability of the Housing Authority, as well as what the Housing Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Rate</u>	<u>1% Increase</u>
Housing Authority's proportionate share of the net OPEB liability	<u>\$ 438,642</u>	<u>\$ 515,704</u>	<u>\$ 575,794</u>

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the Housing Authority had no outstanding amount of contributions to the OPEB plan and therefore, had no payables reported at fiscal year 2018.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8. Prior Period Adjustments

There was a beginning balance adjustment in the amount of \$70,976 due to an amount in prior year that the Housing Authority was disputing for construction services and was resolved in the current year and so the prior period adjustment removes the liability that was on the financial statements in fiscal year 2017.

In addition, the Housing Authority has a prior period adjustment of (\$612,574) which was required for implementation of GASB Statement No. 75. The adjustment reflects a beginning net pension liability of (\$622,345) and a beginning of deferred outflow of resources- employer contributions subsequent to the measurement date of \$9,771.

Net position

Net position, July 1, 2017 as previously reported	\$ 5,775,521
Adjustment to reflect beginning balance of net pension liability for GASB No. 75	(622,345)
Adjustment to reflect beginning balance of deferred outflows for GASB No. 75	9,771
Adjustment to remove prior year accounts payable	<u>70,976</u>
Net position, July 1, 2017, as restated	<u><u>\$ 5,233,923</u></u>

The total adjustment to beginning balances due to the two required adjustments required as described above total \$541,598.

NOTE 9. Risk Management

The Housing Authority is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of property, errors and omissions and natural disasters. The Authority has purchased commercial insurance through the Housing Authority Insurance Group.

The Housing Authority has not filed any claims for which the settlement amount exceeded the insurance coverage during the past year. However, should a claim be filed against the Authority which exceeds the insurance coverage, the Authority would be responsible for a loss in excess of the coverage amounts. As claims are filed, the Housing Authority Insurance Group assesses and estimates the potential for loss and handles all aspects of the claim.

At June 30, 2018, no unpaid claims have been filed which exceed the policy limits and to the best of management's knowledge and belief all known and unknown claims will be covered by insurance. No major lawsuits have been filed against the Housing Authority.

NOTE 10. Concentrations

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

NOTE 11. Subsequent Events

The date to which events occurring after June 30, 2018, the date of the most recent Statement of Net Position, have been evaluated for possible adjustment to the financial statements or disclosures is September 28, 2018 which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

	2018 Measurement Date (As of and for the Year Ended June 30, 2017)	2017 Measurement Date (As of and for the Year Ended June 30, 2016)	2016 Measurement Date (As of and for the Year Ended June 30, 2015)	2015 Measurement Date (As of and for the Year Ended June 30, 2014)
Northern Regional Housing Authority proportion of the net pension liability (asset)	0.07240%	0.04490%	0.0367%	0.0400%
Northern Regional Housing Authority proportionate share of the net pension liability (asset)	\$ 994,838	\$ 717,351	\$ 374,186	\$ 284,831
Northern Regional Housing Authority covered payroll	481,372	304,643	241,697	241,697
Northern Regional Housing Authority proportionate share of the net pension liability (asset) as a percentage of its covered payroll	206.67%	235.47%	154.82%	117.85%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	76.99%	81.29%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Northern Regional Housing Authority will present information for those years for which information is available. Complete information for Northern Regional Housing Authority is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See independent auditors' report.
See notes to required supplementary information.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN
LAST 10 FISCAL YEARS***

	<u>As of and for the Year Ended June 30, 2018</u>	<u>As of and for the Year Ended June 30, 2017</u>	<u>As of and for the Year Ended June 30, 2016</u>	<u>As of and for the Year Ended June 30, 2015</u>
Contractually required contribution	\$ 64,589	\$ 58,005	\$ 36,710	\$ 31,084
Contributions in relation to the contractually required	<u>(64,589)</u>	<u>(58,005)</u>	<u>(36,710)</u>	<u>(31,084)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Northern Regional Housing Authority covered payroll	536,008	481,372	304,643	241,697
Contribution as a percentage of covered payroll	12.05%	12.05%	12.05%	12.86%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Northern Regional Housing Authority will present information for those years for which information is available. Complete information for Northern Regional Housing Authority is not available prior to fiscal year 2015, the year the statement's requirements became effective.

See independent auditors' report.
See notes to required supplementary information.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

Changes of benefit terms: The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of PERA's CFAR. <https://www.saonm.org>

Assumptions: The Public Employ Retirement Association of New Mexico Annual Actuarial Valuations as of June 2017 report is available at <http://www.nmpera.org/>

See independent auditors' report.
See notes to required supplementary information.

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**STATE OF NEW MEXICO
 NORTHERN REGIONAL HOUSING AUTHORITY
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 RETIREE HEALTH CARE OPEB PLAN
 LAST 10 FISCAL YEARS***

Schedule A-3

	2018 Measurement Date (As of and for the Year Ended June 30, 2017)
Northern Regional Housing Authority's proportion of the net OPEB liability (asset)	0.01138%
Northern Regional Housing Authority's proportionate share of the net OPEB liability (asset)	\$ 515,704
Northern Regional Housing Authority's covered payroll	481,372
Northern Regional Housing Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	107.13%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Northern Regional Housing Authority's name is not available prior to fiscal year 2018, the year the statement's requirements became effective.

See independent auditors' report.
 See notes to required supplementary information.

**STATE OF NEW MEXICO
 NORTHERN REGIONAL HOUSING AUTHORITY
 SCHEDULE OF CONTRIBUTIONS
 RETIREE HEALTH CARE OPEB PLAN
 LAST 10 FISCAL YEARS***

Schedule A-4

	As of and for the Year Ended June 30, 2018
Contractually required contribution	\$ 10,838
Contributions in relation to the contractually required contribution	10,838
Contribution deficiency (excess)	\$ -
Northern Regional Housing Authority's covered payroll	536,008
Contribution as a percentage of covered payroll	2.02%

* Governmental Accounting Standards Board Statement No. 75 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for Northern Regional Housing Authority's name is not available prior to fiscal year 2018, the year the statement's requirements became effective.

See independent auditors' report.
 See notes to required supplementary information.

SUPPORTING SCHEDULES

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF DEPOSITS AND INVESTMENTS
JUNE 30, 2018**

<u>Bank Account Type/ Name</u>	<u>Centinel Bank</u>	<u>Total</u>
Cash Deposits:		
Checking-Low Rent Operating	\$ 171,730	\$ 171,730
Checking-Section 8	144,404	144,404
Checking-Linkages account	11,043	11,043
Checking-Management Fund	38,688	38,688
Debit Card Account	453	453
Checking-Low-Rent Security Deposit	49,083	49,083
Total Cash Deposits	<u>415,401</u>	<u>415,401</u>
Total Deposits	415,401	415,401
Reconciling items	<u>(36,385)</u>	<u>(36,385)</u>
Plus: Cash on hand		<u>200</u>
<i>Reconciled balance June 30, 2018</i>	<u><u>\$ 379,016</u></u>	<u><u>\$ 379,216</u></u>
Reconciliation to financial statements:		
Cash:		
Statement of net position		\$ 280,020
Restricted cash:		
Statement of net position		<u>99,196</u>
<i>Cash per Financial Statements</i>		<u><u>\$ 379,216</u></u>

See independent auditors' report.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY FOR PUBLIC FUNDS
JUNE 30, 2018**

<u>Name of Depository</u>	<u>Description of Pledged Collateral</u>	<u>Maturity</u>	<u>CUSIP Number</u>	<u>Fair Market June 30, 2018</u>
Centinel Bank	West Las Vegas	8/15/2021	953769KWS	\$ 175,000
	Ruidoso NM Muni Sch Dist	8/1/2026	781338LA4	200,000
	Estancia Sch Dist	8/15/2025	297326FV7	<u>235,000</u>
			Total Centinel Bank	<u><u>\$ 610,000</u></u>

Name and location of safekeeper for above pledged collateral:
The Independent Bankers Bank, 1700 Rio Grande St, Austin, Texas

See independent auditors' report.

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**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
FINANCIAL DATA SCHEDULE
JUNE 30, 2018**

Line Item Number	Description	Low Rent Public Housing Program 14.850	Section 8 Housing Choice Vouchers Program 14.871	Management Fund Program 14.XXX
111	Cash - Unrestricted	\$ 163,545	\$ 71,291	\$ 38,688
113	Cash - Other Restricted	-	49,276	-
114	Cash - Tenant Security Deposits	47,367	-	-
100	<i>Total Cash</i>	<u>210,912</u>	<u>120,567</u>	<u>38,688</u>
122	Accounts Receivable-HUD Other Projects	202,517	3,279	-
126	Accounts Receivable-Tenants-Dwelling Rents	29,091	-	-
126.1	Allowance for Doubtful Accounts-Dwelling Rents	(26,182)	-	-
128	Fraud Recovery	7,711	1,688	-
128.1	Fraud Recovery - Allowance for Doubtful Accounts	(6,940)	(1,350)	-
120	<i>Total Receivables, Net of Allowance for Doutful Accounts</i>	<u>206,197</u>	<u>3,617</u>	<u>-</u>
142	Prepaid Expenses and Other Assets	6,639	626	-
143	Inventories	4,092	-	-
143.1	Allowance for Obsolete Inventories	(409)	-	-
144	Inter Program Due From	86,764	-	-
150	<i>Total Current Assets</i>	<u>514,195</u>	<u>124,810</u>	<u>38,688</u>
161	Land	232,912	-	-
162	Buildings	14,355,644	-	-
163	Furniture, Equipment & Machinery- Dwellings	292,834	-	-
164	Furniture, Equipment & Machinery- Administration	419,277	21,336	-
166	Accumulated Depreciation	(10,199,586)	(15,719)	-
167	Construction in Progress	168,104	-	-
160	<i>Total Capital Assets, Net of Accumulated Depreciaton</i>	<u>5,269,185</u>	<u>5,617</u>	<u>-</u>
180	<i>Total Non-Current Assets</i>	<u>5,269,185</u>	<u>5,617</u>	<u>-</u>
190	<i>Total Assets</i>	<u>5,783,380</u>	<u>130,427</u>	<u>38,688</u>
200	Deferred Outflows of Resources	490,457	142,449	-
290	<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 6,273,837</u>	<u>\$ 272,876</u>	<u>\$ 38,688</u>

See Independent Auditors' Report.

State and Local Program 14.XXX	Total
\$ 9,049	\$ 282,573
-	49,276
-	47,367
<u>9,049</u>	<u>379,216</u>
-	205,796
-	29,091
-	(26,182)
-	9,399
-	<u>(8,290)</u>
-	<u>209,814</u>
3	7,268
-	4,092
-	(409)
-	<u>86,764</u>
<u>9,052</u>	<u>686,745</u>
-	232,912
-	14,355,644
-	292,834
137	440,750
(38)	(10,215,343)
-	<u>168,104</u>
<u>99</u>	<u>5,274,901</u>
<u>99</u>	<u>5,274,901</u>
<u>9,151</u>	<u>5,961,646</u>
<u>3,238</u>	<u>636,144</u>
<u>\$ 12,389</u>	<u>\$ 6,597,790</u>

See Independent Auditors' Report.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
FINANCIAL DATA SCHEDULE
JUNE 30, 2018**

Line Item Number	Description	Low Rent Public Housing Program 14.850	Section 8 Housing Choice Vouchers Program 14.871	Management Fund Program 14.XXX
312	Accounts Payable <=90 Days	\$ 2,310	\$ 1,147	\$ -
321	Accrued Wage/Payroll Taxes Payable	22,832	4,374	-
	Accrued Compensated Absences-Current			
322	Portion	10,927	2,681	-
333	Accounts Payable - Other Government	33,513	-	-
341	Tenant Security Deposits	47,367	-	-
342	Deferred Revenues	1,470	-	-
345	Other Current Liabilities	2,553	-	-
346	Accrued Liabilities-Other	4,361	-	-
347	Inter Program Due to	-	86,582	-
310	<i>Total Current Liabilities</i>	<u>125,333</u>	<u>94,784</u>	<u>-</u>
	Accrued Compensated Absences -Non-			
354	Current	10,928	2,680	-
357	Accrued Pension and OPEB Liabilities	1,180,238	327,577	-
350	<i>Total Non-Current Liabilities</i>	<u>1,191,166</u>	<u>330,257</u>	<u>-</u>
300	<i>Total Liabilities</i>	<u>1,316,499</u>	<u>425,041</u>	<u>-</u>
400	Deferred Inflows of Resources	141,470	36,856	-
508.1	Net Investment in Capital Assets	5,269,185	5,617	-
511	Restricted Net Position	-	49,276	-
512.1	Unrestricted Net Position	(453,317)	(243,914)	38,688
513	<i>Total Equity/Net Position</i>	<u>4,815,868</u>	<u>(189,021)</u>	<u>38,688</u>
600	<i>Total Liabilities, Deferred Inflows of Resources and Equity/Net Position</i>	<u>\$ 6,273,837</u>	<u>\$ 272,876</u>	<u>\$ 38,688</u>

See Independent Auditors' Report.

State and Local Program 14.XXX	Total
\$ 2	\$ 3,459
18	27,224
-	13,608
-	33,513
-	47,367
-	1,470
-	2,553
-	4,361
182	86,764
202	220,319
-	13,608
2,727	1,510,542
2,727	1,524,150
2,929	1,744,469
280	178,606
99	5,274,901
-	49,276
9,081	(649,462)
9,180	4,674,715
\$ 12,389	\$ 6,597,790

See Independent Auditors' Report.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
FINANCIAL DATA SCHEDULE
JUNE 30, 2018**

Line Item Number	Description	Low Rent Public Housing Program 14.850	Section 8 Housing Choice Vouchers Program 14.871	Capital Fund Program 14.872
70300	Net Tenant Rental Revenue	\$ 286,109	\$ -	\$ -
70400	Tenant Revenue- Other	23,880	-	-
70500	<i>Total Tenant Revenue</i>	<u>309,989</u>	<u>-</u>	<u>-</u>
70600	HUD PHA Operating Grants	623,914	2,622,539	91,124
70610	Capital Grants	-	-	103,024
70800	Other Governmental Grants	-	-	-
71100	Investment Income - Unrestricted	107	135	-
71400	Fraud Recovery	-	4,988	-
71500	Other Revenue	59,895	432	-
70000	<i>Total Revenue</i>	<u>993,905</u>	<u>2,628,094</u>	<u>194,148</u>
91100	Administrative Salaries	241,297	106,593	-
91200	Auditing Fees	24,851	6,176	-
91400	Advertising and Marketing	773	347	-
	Administrative	204,129	95,209	-
91600	Office Expense	36,300	9,704	-
91700	Legal Expense	7,444	824	-
91800	Travel	14,910	5,005	-
91900	Other Operating - Administrative	32,435	11,430	-
91000	<i>Total Operating - Administrative</i>	<u>562,139</u>	<u>235,288</u>	<u>-</u>
92200	Relocation Costs	152	-	-
92500	<i>Total Tenant Services</i>	<u>152</u>	<u>-</u>	<u>-</u>
93100	Water	30,972	-	-
93200	Electricity	41,257	-	-
93300	Gas	41,744	-	-
93600	Sewer	29,352	-	-
93000	<i>Total Utilities</i>	<u>\$ 143,325</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

Management Fund Program 14.XXX	State and Local Program 14.XXX	Total
\$ -	\$ -	\$ 286,109
-	-	23,880
-	-	309,989
-	-	3,337,577
-	-	103,024
-	35,175	35,175
13	-	255
-	-	4,988
-	-	60,327
13	35,175	3,851,335
-	717	348,607
-	40	31,067
-	-	1,120
-	649	299,987
-	178	46,182
-	6	8,274
-	8	19,923
-	41	43,906
-	1,639	799,066
-	-	152
-	-	152
-	-	30,972
-	-	41,257
-	-	41,744
-	-	29,352
\$ -	\$ -	\$ 143,325

See Independent Auditor's Report

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
FINANCIAL DATA SCHEDULE
JUNE 30, 2018**

Line Item Number	Description	Low Rent Public Housing Program 14.850	Section 8 Housing Choice Vouchers Program 14.871	Capital Fund Program 14.872
94100	Ordinary Maintenance & Operation - Labor	\$ 175,624	\$ -	\$ -
94200	Ordinary Maintenance & Operation - Materials & Other	64,584	-	-
94300	Ordinary Maintenance & Operation - Contracts	46,002	-	-
94500	Employee Benefit - Contributions Ordinary Maintenance	153,619	-	-
94000	<i>Total Maintenance</i>	<u>439,829</u>	<u>-</u>	<u>-</u>
95200	Protective Services - Other Contract	741	-	-
95000	<i>Total Protective Services</i>	<u>741</u>	<u>-</u>	<u>-</u>
96110	Property Insurance	37,782	-	-
96120	Liability Insurance	8,985	2,033	-
96130	Workman's Compensation	15,816	3,948	-
96140	All Other Insurance	9,506	2,057	-
96100	<i>Total Insurance Premiums</i>	<u>72,089</u>	<u>8,038</u>	<u>-</u>
96200	Other General Expenses	-	7,266	-
96210	Compensated Absences	24,893	6,504	-
96300	Payment in Lieu of Taxes	12,045	-	-
96400	Bad Debt - Tenant Rents	16,433	-	-
96000	<i>Total Other General</i>	<u>53,371</u>	<u>13,770</u>	<u>-</u>
96900	<i>Total Operating Expenses</i>	<u>1,271,646</u>	<u>257,096</u>	<u>-</u>
97000	<i>Excess Operating Revenue Over Operating Expenses</i>	<u>\$ (277,741)</u>	<u>\$ 2,370,998</u>	<u>\$ 194,148</u>

See Independant Auditor's Report

Management Fund Program 14.XXX	State and Local Program 14.XXX	Total
\$ -	\$ -	\$ 175,624
-	-	64,584
-	-	46,002
-	-	153,619
-	-	439,829
-	-	741
-	-	741
-	-	37,782
-	14	11,032
35	30	19,829
18	15	11,596
53	59	80,239
-	-	7,266
-	-	31,397
-	-	12,045
-	-	16,433
-	-	67,141
53	1,698	1,530,493
\$ (40)	\$ 33,477	\$ 2,320,842

See Independent Auditor's Report

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
FINANCIAL DATA SCHEDULE
JUNE 30, 2018**

Line Item Number	Description	Low Rent Public Housing Program 14.850	Section 8 Housing Choice Vouchers Program 14.871	Capital Fund Program 14.872
97100	Extraordinary Maintenance	\$ 12,330	\$ -	\$ 29,724
97200	Casualty Losses - Non-Capitalized	47,405	-	-
97300	Housing Assistance Payments	-	2,360,565	-
97400	Depreciation Expense	<u>395,761</u>	<u>2,982</u>	<u>228</u>
90000	<i>Total Expenses</i>	<u>1,727,142</u>	<u>2,620,643</u>	<u>29,952</u>
10010	Operating Transfers In	91,124	-	-
10020	Operating Transfers Out	<u>-</u>	<u>-</u>	<u>(91,124)</u>
10100	<i>Total Other Financing Sources (Uses)</i>	<u>91,124</u>	<u>-</u>	<u>(91,124)</u>
10000	<i>Excess (Deficiency) of Operating Revenue Over (Under) Expenses</i>	<u>(733,237)</u>	<u>7,451</u>	<u>164,196</u>
11030	Beginning Equity	5,804,606	(71,049)	-
11040	Prior Period Adjustments, Equity Transfers and Corrections	<u>(419,697)</u>	<u>(125,423)</u>	<u>-</u>
11040-20	Equity Transfers	164,196	-	(164,196)
	Ending Equity (deficit)	<u>4,815,868</u>	<u>(189,021)</u>	<u>-</u>
11190	Unit Months Available	<u>2,448</u>	<u>5,129</u>	<u>-</u>
11210	Number of Unit Months Leased	<u>2,127</u>	<u>4,759</u>	<u>-</u>
11270	Excess Cash	<u>272,566</u>	<u>-</u>	<u>-</u>
11620	Building Purchases	<u>-</u>	<u>-</u>	<u>164,196</u>
11630	Furniture & Equipment- Dwelling Purchases	<u>156,378</u>	<u>-</u>	<u>-</u>
11640	Furniture & Equipment- Administrative Purchases	<u>\$ 4,999</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

Management Fund Program 14.XXX	State and Local Program 14.XXX	Total
\$ -	\$ -	\$ 42,054
-	-	47,405
-	31,028	2,391,593
-	27	398,998
<u>53</u>	<u>32,753</u>	<u>4,410,543</u>
-	-	91,124
-	-	<u>(91,124)</u>
-	-	-
<u>(40)</u>	<u>2,422</u>	<u>(559,208)</u>
34,361	7,603	5,775,521
<u>4,367</u>	<u>(845)</u>	<u>(541,598)</u>
-	-	-
<u>38,688</u>	<u>9,180</u>	<u>4,674,715</u>
<u>-</u>	<u>48</u>	<u>7,625</u>
<u>-</u>	<u>48</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>272,566</u>
<u>-</u>	<u>-</u>	<u>164,196</u>
<u>-</u>	<u>-</u>	<u>156,378</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,999</u>

See Independent Auditor's Report

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COMPLIANCE SECTION

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*

Board of Commissioners and Management
Northern Regional Housing Authority
Wayne Johnson
New Mexico State Auditor
U.S. Office of Management and Budget
Taos, 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 Northern Regional Housing Authority (the "Housing Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described on the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2018-001 and 2018-002.

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 findings and questioned costs to be significant deficiency as item 2018-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority 's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported per section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of Section 12-6-5 NMSA 1978 Findings as items 2018-006, 2018-007 and 2018-008.

Housing Authority's Responses to Findings

The Housing Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Housing 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 Housing 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 Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cordova CPAs LLC". The signature is written in a cursive, flowing style.

Cordova CPAs LLC
Albuquerque, NM
September 28, 2018

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FEDERAL FINANCIAL ASSISTANCE

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners and Management
Northern Regional Housing Authority
Wayne Johnson
New Mexico State Auditor
U.S. Office of Management and Budget
Taos, New Mexico

Report on Compliance for Each Major Federal Program

We have audited the Northern Regional Housing Authority's (the "Housing Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Housing Authority's major federal programs for the year ended June 30, 2018. The Housing Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Housing Authority'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 Housing Authority's compliance.

Basis for Qualified Opinion on the Section 8 Housing Choice Voucher Program

As described in the accompanying schedule of findings and questioned costs, the Housing Authority did not comply with requirements regarding CFDA 14.871 Section 8 Housing Choice Voucher Program as described in finding 2018-004 for Eligibility. Compliance with such requirements is necessary, in our opinion, for the Housing Authority to comply with the requirements applicable to that program.

Qualified Opinion on the Section 8 Housing Choice Voucher Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Section 8 Housing Choice Voucher Program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Housing Authority 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 Housing Authority'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 the Uniform Guidance, 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 Housing Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-004 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-005 to be a significant deficiency.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Cordova CPAs LLC
Albuquerque, NM
September 28, 2018

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor or Pass-Through Grantor / Program Title</u>	<u>Grant or State Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Funds Provided to Subrecipients</u>	<u>Noncash Assistance</u>
U.S. Department of Housing and Urban Development					
<i>Direct Programs:</i>					
Public and Indian Housing	NM088	14.850	\$ 1,636,017	\$ -	\$ -
Public Housing Capital Fund	CFP 2016	14.872	104,448	-	-
Public Housing Capital Fund	CFP 2017	14.872	16,628	-	-
<i>Total Capital Fund Program</i>			<u>121,076</u>	<u>-</u>	<u>-</u>
Section 8 Housing Choice Voucher Program	* N/A	14.871	2,620,643	-	-
<i>Total U.S. Department of Housing and Urban Development</i>			<u>4,377,736</u>	<u>-</u>	<u>-</u>
<i>Total Federal Financial Assistance</i>			<u>\$ 4,377,736</u>	<u>\$ -</u>	<u>\$ -</u>

* Denotes Major Federal Financial Assistance Program

See independent auditors' report.
See accompanying notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards**1 Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Northern Regional Housing Authority and is presented on the full accrual basis of accounting, which is the same basis as was used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2 Loans

The Housing Authority did not expend federal awards related to loans or loan guarantees during the year.

3 10% de minimus Indirect Cost Rate

The Housing Authority did not elect to use the allowed 10% indirect

4 Federally Funded Insurance

The Housing Authority has no federally funded insurance.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR-ENDED JUNE 30, 2018**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | None noted |

Federal Awards:

- | | | | | | | | |
|--|----------------|--|-----------------|--------|--|--|--|
| 1. Internal control over major programs: | | | | | | | |
| a. Material weaknesses identified? | Yes | | | | | | |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes | | | | | | |
| 2. Type of auditors' report issued on compliance for major programs | Qualified | | | | | | |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? | Yes | | | | | | |
| 4. Identification of major programs: | | | | | | | |
| <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;">CFDA
Number</td> <td style="width: 100px;"></td> <td style="text-align: center; border-bottom: 1px solid black;">Federal Program</td> </tr> <tr> <td style="text-align: center;">14.871</td> <td></td> <td style="text-align: center;">Section 8 Housing Choice Voucher Program</td> </tr> </table> | CFDA
Number | | Federal Program | 14.871 | | Section 8 Housing Choice Voucher Program | |
| CFDA
Number | | Federal Program | | | | | |
| 14.871 | | Section 8 Housing Choice Voucher Program | | | | | |
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 | | | | | | |
| 6. Auditee qualified as low-risk auditee? | No | | | | | | |

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 Capital Fund Projects Initiated and Started Without Approval from Federal Oversight and Before any Environmental Reviews Were Completed and Approved (Material Weakness)

Condition: During our audit, we noted that there were several CFP projects in the Grants location regarding the rehabilitation of the homes there and a few infrastructure projects in Taos that were started without prior approval from HUD and before obtaining certain documentation such as the environmental reviews that were completed and approved by HUD. The former Executive Director presented to the Board that the contract for this rehab project was already approved by HUD and was ready for board approval so that the work could begin.

Criteria: According to 24 CFR section 905.200(a), the Housing Authority may not incur any cost in excess of the total HUD-approved PHA Plan which includes the project budget. A PHA shall not incur any cost on behalf of any development that is not covered by its current approved 5-Year Action Plan. Also, according to 24 CFR part 58 (and additional HUD Notices), an environmental review must be completed for any project or activities before a PHA may acquire, rehabilitate, convert, lease, repair or construct property, or commit HUD or local funds at an assisted or to-be-assisted site. Neither a recipient nor any participant in the project, including public or private nonprofit or for-profit entities, or any of their contractors, may commit funds until environmental clearance is obtained.

Effect: As the projects was not pre-approved by HUD, the Housing Authority was not reimbursed for the costs of the project which meant that the Housing Authority had to use their own reserves which greatly reduced the Housing Authority's net position and overall financial health.

Cause: It appeared that the Executive Director did not fully communicate the facts to the Board of Commissioners that the projects were pre-approved by HUD for the Board to approve the project.

Auditors' Recommendations: The Housing Authority should implement another level of an administrative quality control review of capital fund projects to ensure all of the pre-approval process steps have been completed before presenting to the Board for final approval to begin the projects.

Agency's Response: NRHA is acknowledges the errant operations that lead to this deficiency and have made the following steps to remedy the situation.

- 1.) NRHA has hired a new Executive Director for the Agency
- 2.) The new Executive Director is set to complete Certified Procurement Training this fall
- 3.) NRHA will implement a new administrative procedure where all agency CFP procurements over \$5,000 will be reviewed by both the Executive Director and the Finance Manager (who is currently a Certified Procurement Officer), before submitting the required documentation to HUD for approval and again before the initiation of the CFP projects commence.
- 4.) Moving forward, NRHA will follow 24 CFR 905.200 part 58 and all PIH Notices governing the required documentation necessary for HUD to approved CFP Projects including the Environmental reviews as detailed therein.

Additionally, the new (Acting) Executive Director has been working closely with HUD, MFA and a third-party contractor to assist and provide guidance on the process for properly requesting and documenting CFP procurement procedures and document retention.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

2018-002 Noncompliance with Low Rent Tenant Files - (Material Weakness) (Repeat finding FA 2017-002)

Condition: During our audit of Public and Indian Housing, the following documentation was found to be missing from tenant files:

- In 6 out of 21 files tested (1 from Taos, 5 from Grants), the tenant file did not have signed consent forms for all tenants over the age of 18.
- In 5 out of 21 files tested (1 from Taos, 5 from Grants), the tenant file did not contain documentation of the tenant being added to the waiting list.
- In 9 out of 21 files tested (1 from Peñasco, 4 from Taos, 4 from Grants), the annual reexamination had not been performed or scheduled as necessary. As a result, rent payments were not recalculated. It is undeterminable how rent payments would have changed as a result of reexamination.
- In 5 out of 21 files tested (1 from Taos, 5 from Grants), the tenant file did not contain documentation of the tenant being selected from the waiting list on a first-in-first-out basis.
- In 10 out of 21 files tested (1 from Peñasco, 4 from Taos, 5 from Grants), the tenant did not receive the annual reexamination letter 120 days in advance.

As of June 30, 2018, the Housing Authority continues to attempt to update the Low Rent tenant files.

Criteria: Per 24 CFR 960.259(b)(1), the Authority shall require the family head to execute a consent form as a condition of admission to or continued assistance under the Public and Indian Housing program. Per 24 CFR 960.206 and .208, the Authority shall use a waiting list to manage admissions to the program. Per 24 CFR 960.257(a), the Authority must conduct a reexamination of family income and composition (or only family composition, for families paying flat rents) at least annually and must make appropriate adjustments in the rent after consultation with the family and upon verification of the information. Per 24 CFR 960.259(c), the Authority must obtain and document in the family file third-party verification of income, assets, expenses related to deductions from annual income, and other factors that affect the determination of adjusted income or income-based rent. The Authority's policies and procedures require that the Authority retain the signed application; select from the waiting list on the first-in-first-out basis; retain the HUD-50058 in the file; send the annual reexamination letter 120 days in advance of the reexamination date; and ensure that the rent payment matches the entry in the rent roll for the tenant.

Effect: The Authority is not in compliance with federal regulations within the Public and Indian Housing Program or its own policies and procedures for tenant selection and reexamination.

Cause: Authority staff have been prioritizing reducing vacancy rates in the program over compliance items as listed above. In addition, the Housing Authority has taken over other troubled agencies that did not have adequate documentation in the tenant files, which have accounted for about half of the exceptions noted above.

Auditors' Recommendation: Authority staff should focus on gathering and completing required documentation of tenant files for proper documentation and begin the process of annual reexamination of tenant eligibility. A checklist for items to be retained in each file should be included in each file and completed at each reexamination.

Agency's Response: NRHA has an established tenant file document processing and retention procedure that includes a standard file format, with checklist for each individual section within the tenant file. We are also looking to update and implement a new Admissions and Continued Occupancy Plan (ACOP) for the Agency to ensure all current regulations and HUD Public and Indian Housing Notice (PIH) updates are included in our processes moving forward.

NRHA has also hired a new Public Housing Manager. This individual received their initial Public Housing Certification last year, (6/2017); but at that time served the Agency in another capacity. The Agency is therefore, planning on her completing a refresher course within the next few months.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

2018-002 Noncompliance with Low Rent Tenant Files - (Material Weakness) (Repeat finding FA 2017-002) (continued)

Additionally, the Agency is implementing additional Quality Assurance tenant file reviews by the Executive Director. These spot file reviews should help identify weaknesses in the document processing and retention procedures and also ensure adherence to the programs regulations is being maintained

And Finally, NRHA recognizes this issue was partly caused by the former Executive Director failing to implement a thorough review of the oncoming Agency's files and financial operations before final takeover. Moving forward part of the MOU will include a full file review, financial review and full assessment of the physical assets with requirements for remedy prior to that agency's full assignment to NRHA. NRHA will submit a full Discretionary report to HUD and the Board during after fore mentioned assessment is completed.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

2018-003 Noncompliance with Internal Control over Tenant Eligibility (Significant Deficiency) (Repeat finding FA-2017-003)

Condition: An employee of the Housing Authority, who is also a tenant of the Housing Authority, did not pay the adjusted amount of rent she was required to pay the Housing Authority starting in fiscal year 2017. The reexamination resulted in an increase in rent of \$385/month occurred at the end of April 2017; the prior rent was \$0. This employee remained at the Housing Authority until February of 2018 when she quit her job at the Housing Authority and moved out of the housing unit and never paid the amount that was owed to the Housing Authority. The total amount due as of June 30, 2018 is \$1,696.50.

As of June 30, 2018, the employee is no longer employed and thus this finding should be resolved as long as no other employees occupy housing units of the Housing Authority.

Criteria: Per 24 CFR 960.257 (a) (1), tenants that pay income-based rent must be subjected to a reexamination of family income and composition at least annually and the PHA must make appropriate adjustments in the rent after consultation with the family and upon verification of the information. It is the Authority's stance that the employee/tenant's approval of the reexamination in the system satisfied "consultation with the family" required; and therefore, that the 30 days before the rent became effective per the Authority's policy expired on Jun 1, 2017.

Effect: The Authority never received payment for rent due and late fees from the former employee/tenant. The Housing Authority lost out on \$1,696.50 in tenant revenue from the abuse of this employee.

Cause: The management in place during her tenure did not enforce the employee to pay the rent that was due to the Housing Authority.

Auditors' Recommendation: The Authority should enforce all tenants to pay their rent payments timely.

Agency's Response: NRHA has changed internal controls and support operations so that processes and procedure's pertinent to the collection of rents and other financial obligations are managed by the Finance Department. This procedural change has already begun to reduce the Agency's outstanding debt. NRHA would also like to assert that the Agency response to all matters of non-compliance, specifically with individuals that are both employees and program participants are being addressed timely and in coherence with all program participants so that in full transparency, the Agency is not showing preference to these individuals.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION III - FEDERAL AWARD FINDINGS

2018-004 Noncompliance with Eligibility Requirements (Material Weakness and Material Noncompliance)

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development

Award Year: July 1, 2017 to June 30, 2018

Title: Section 8 Housing Choice Voucher Program

CFDA Number: 14.871

Compliance Requirement: Eligibility

Condition: During our audit, we noted that there were 4 out of 36 tenant files tested that were not re-examined for income and composition annually to ensure that they were still eligible to be receiving Section 8 assistance.

Criteria: The Housing Authority must to do the following:

- As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR sections 5.230, 5.609, and 982.516).
- For both family income examinations and reexaminations, obtain and document in the family file third-party verification of (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR section 982.516).
- Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification (24 CFR section 982.516).

Effect: The Housing Authority could lose future funding from HUD if they continue to not reexamine the tenants every year to ensure that they are eligible to receive Section 8 benefits.

Questioned Costs: Undeterminable

Cause: There has been some backlog with the reexaminations at the different housing locations and some of the tenants were not given an annual reexamination in the current year. In addition, the Housing Authority has taken over other troubled agencies that did not have adequate documentation in the tenant files.

Auditors' Recommendation: We recommend that the Housing Authority develop a proper internal control structure to create a formal process that ensures all tenants are reexamined annually as well as implementing a process where another employee performs spot checks (monitoring of internal controls) of files to ensure that all tenant files are being reexamined.

Agency's Response: NRHA acknowledges the issue and have been working to mitigate the number of Late Recertifications for this program. Our current status is partially the result of imprudent directives given by the former Executive Director as a plan to address other needs within the Agency. Those directives included having the Program Manager not process recertifications for a period so they could focus their efforts elsewhere. Additionally, NRHA lost our former Public Housing Manager unexpectedly in early February, the process of rehiring for the position and then assisting the new hire get a hold of where the overall program's processes where when prior employee left has been difficult. However, NRHA is working to complete the Late Recertifications and also to establish and implement a Quality Assurance file review to ensure program compliance for the timeliness of the required Annual Rectifications as required.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION III - FEDERAL AWARD FINDINGS (continued)

2018-005 Noncompliance with Special Tests and Provisions HQS Enforcement (Significant Deficiency)

Federal Program Information:

Funding Agency: U.S. Department of Housing and Urban Development

Award Year: July 1, 2017 to June 30, 2018

Title: Section 8 Housing Choice Voucher Program

CFDA Number: 14.871

Compliance Requirement: Special Tests of Provisions

Condition: During our audit, we noted the following:

- There were two out of six tenant files tested that did not have a correction of a non-life threatening HQS deficiency within the 30-day period as required.
- One out of six tenant files tested never received a correction of a HQS deficiency.

Criteria: According to 24 CFR sections 982.158(d) and 982.404), the Housing Authority must “verify that the files document that the PHA required correction of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection or within a PHA approved extension”.

Effect: The Housing Authority was not in compliance with the HQS enforcement requirements for the current year.

Questioned Costs: None

Cause: The Housing Authority did not follow up on some HQS deficiencies in a timely matter on tenants HQS inspections.

Auditors' Recommendation: We recommend that the Housing Authority implement a process to ensure that all HQS deficiencies are followed up on within the 30-day period and all appropriate failed inspections are remediated.

Agency's Response: NRHA acknowledges this deficiency and will work to ensure these follow-up Housing Quality Standards (HQS) inspections, specific to those which “Failed” their annual HQS Inspections, will be monitored for compliance. NHRA is also having the Housing Choice Voucher (HCV) Program Manager complete their HQS Inspection trainings so that additional support for this action is available to ensure all necessary HQS inspections are completed timely and recorded to file.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION III – SECTION 12-6-5 NMSA FINDINGS

2018-006 Lack of Evidence of Payroll Review (Findings that do not rise to the level of significant deficiency)

Condition: During our audit over the payroll transaction cycle, we found one pay period out of ten tested during the year did not have any evidence that the payroll packet was reviewed by the Executive Director. The payroll was in September 2017.

Criteria: The Housing Authority's internal controls over payroll requires that the Executive Director is to review the payroll packet and sign that it is reviewed prior to the payroll being processed.

Effect: Without the signature by the Executive Director, there was no evidence that the payroll packet was reviewed before the payroll was completed.

Cause: The former Executive Director either reviewed the payroll packet and never signed it for this pay period tested or it was never reviewed.

Auditors' Recommendations: We recommend that the Housing Authority's Executive Director always review the payroll packets and sign (key internal control) that they were reviewed for every pay period before payroll is completed.

Agency's Response: NRHA acknowledges the discrepancy and will monitor this procedure for completeness moving forward. The former Executive Director failed to properly review and verify his signature on the report in question. The current Executive Director is committed to a close and thorough review of all employee time sheets and compliance to the payroll process and procedures as our budget is streamlined and all expenditures must be monitored to ensure the streamlined budget is maintained.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION III – SECTION 12-6-5 NMSA FINDINGS (continued)

2018-007 Personnel Evaluations (NM 2017-001 Findings that do not rise to the level of significant deficiency)

Condition: The Housing Authority did not perform all annual personnel evaluations during the fiscal year.

As of June 30, 2018, the Housing Authority has made slight progress in implementing its corrective action plan by formalizing a form and have began to schedule the evaluations.

Criteria: The Housing Authority's policies and procedures require that the all regular full-time and regular part-time employees will receive an Employee Evaluation on an annual basis. Evaluations will be reviewed with the employee by the employee's Supervisor and the Executive Director. The evaluations will be signed and dated by the employee's Supervisor, Executive Director and the employee.

Effect: Because not all personnel are receiving their annual evaluations, they do not know where they stand on job performance and management cannot address areas of concerns timely and effectively.

Cause: The turnover in management during the fiscal year hindered some of the functions that should be done annually for the Housing Authority.

Auditors' Recommendation: Management should ensure that all personnel evaluations are performed according to NRHA policies and procedures for fiscal year ended June 30, 2019.

Agency's Response: NRHA acknowledges the deficiency. The former Executive Director failed to complete these evaluations and when asked if he needed assistance; insisted on completing the evaluations for himself. The current Executive Director has established a numerical grading process and has already begun the employee evaluation process. The entire staff will have their evaluations completed by the end of October 2018.

Additionally, the new Executive Director is initiating procedures to have all employees next Annual Evaluation completed again in April 2019. This 2019 Annual Evaluation is scheduled for April to allow any proposed changes in employee compensations to be included in the proposed budget for the next fiscal year.

STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Schedule V

SECTION III – SECTION 12-6-5 NMSA FINDINGS (continued)

2018-008 Miscommunication of Resolution No. 2016-110 - Plan to convert 525 Ranchitos Rd Unit 936 to a Community Resource Building (NM 2017-003) Findings that do not rise to the level of significant deficiency

Condition: There is no evidence of approval from HUD for the former NRHA Director to utilize the unit mentioned in their Community Resource Plan for housing while on site. The language in the Community Resource Plan reads “[the] NRHA director also wishes to utilize one room for use while on-site and for current and future anti-crime initiatives at the site.”

As of June 30, 2018, the Director is no longer employed and the Authority does not have any plans to use this building for any other service other than resident services, resident organization offices, or related activities, thus this finding should be resolved.

Criteria: 24 CFR 990.145, Dwelling Units with Approved Vacancies, allows a PHA to receive operating subsidy for a Special Use Unit, defined as a unit approved and used for resident services, resident organization offices, and related activities, such as self-sufficiency and anti-crime initiatives.

Effect: It is unclear if HUD has approved the use of the unit as housing for the former NRHA director.

Cause: Northern Regional Housing Authority believed that board approval to utilize the unit as defined in the Community Resource Plan was sufficient approval for the NRHA director to live in the unit while on site.

Auditors’ Recommendation: NRHA should obtain express written consent from HUD that the utilizing the dwelling as housing by any NRHA directors in the future is allowed under 24 CFR 990.145.

Agency’s Response: NRHA acknowledges the discrepancy and certifies that the use of any contracted unit will be not be allowed in the future without prior Board acknowledgment and approval. This finding is the result of the singular action of the former Executive Director who was advised by the Finance Department and Deputy Director that this was a possible violation of the regulations. At the current time, there are no plans for the use any contracted unit by any NRHA employee for any reason.

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Schedule V

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FS-2017-001 – Governing Body Oversight-Significant Deficiency-Resolved

FS 2017-002 – Design Deficiencies in Internal Controls over Capital Assets-Material Weakness-Resolved

FA 2017-001 – Deficiency in Internal Controls over Compliance and over Financial Statements - Significant Deficiency-Resolved

FA 2017-002 – Operating Deficiencies in Internal Controls over Compliance - Significant Deficiency and Noncompliance-Repeated and modified (2018-002)

FA 2017-003 – Noncompliance with Internal Control over Tenant Eligibility – Noncompliance-Repeated (2018-003)

NM 2017-001– Personnel Evaluations - Finding that does not rise to Significant Deficiency-Repeated (2018-007)

NM 2017-002 – Public Housing Authority 5-year and 1-year late submittals - Finding that does not rise to Significant Deficiency-Resolved

NM 2017-003 – Miscommunication of Resolution No. 2016-110 - Plan to convert 525 Ranchitos Rd Unit 936 to a Community Resource Building - Finding that does not rise to Significant Deficiency Repeated (2018-008)



Corrective Action Plan

October 1, 2018

Cordova CPAs LLC
Bobby Cordova, CPA Principal
Rufino Rodriguez, CPA Senior Manager
P.O. Box 10800
Albuquerque, NM 87107

Dear Mr. Cordova,

NRHA is in receipt of the Audit Draft citing the preliminary Findings as identified by your audit and want to extend our appreciation of the audit and diligent efforts by your staff to help us identify the deficiencies within our operations. Please note that NRHA takes these matters seriously and will immediately begin reviewing our overall processes and procedures to make operations better. In regards to the specific Findings, please find our responses below:

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 Capital Fund Projects Initiated and Started Without Approval from Federal Oversight and Before any Environmental Reviews Were Completed and Approved (Material Weakness)

Agency's Response:

NRHA acknowledges the errant operations that lead to this deficiency and have made the following steps to remedy the situation.

- 1.) NRHA has hired a new Executive Director for the Agency
- 2.) The new Executive Director is set to complete Certified Procurement Training this fall
- 3.) NRHA will implement a new administrative procedure where all agency CFP procurements over \$5000 will be reviewed by both the Executive Director and the Finance Manager (who is currently a Certified Procurement Officer), before submitting the required documentation to HUD for approval and again before the initiation of the CFP projects commence.
- 4.) Moving forward, NRHA will follow 24 CFR 905.200 part 58 and all PIH Notices governing the required documentation necessary for HUD to approved CFP Projects including the Environmentals as detailed therein.

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Additionally, the new (Acting) Executive Director has been working closely with HUD, MFA and a third-party contractor to assist and provide guidance on the process for properly requesting and documenting CFP procurement procedures and document retention.

2018-002 Noncompliance with Low Rent Tenant Files - (Material Weakness) **(Repeat finding FA 2017-002)**

Agency's Response:

NRHA has an established tenant file document processing and retention procedure that includes a standard file format, with checklist for each individual section within the tenant file. We are also looking to update and implement a new Admissions and Continued Occupancy Plan (ACOP) for the Agency to ensure all current regulations and HUD Public and Indian Housing Notice (PIH) updates are included in our processes moving forward.

NRHA has also hired a new Public Housing Manager. This individual received their initial Public Housing Certification last year, (6/2017); but at that time served the Agency in another capacity. The Agency is therefore, planning on her complete a refresher course within the next few months.

Additionally, the Agency is implementing additional Quality Assurance tenant file reviews by the Executive Director. These spot file reviews should help identify weaknesses in the document processing and retention procedures and also ensure adherence to the programs regulations is being maintained

And Finally, NRHA recognizes this issue was partly caused by the former Executive Director failing to implement a thorough review of the oncoming Agency's files and financial operations before final takeover. Moving forward part of the MOU will include a full file review, financial review and full assessment of the physical assets with requirements for remedy prior to that agency's fill assignment to NRHA. NRHA will submit a full Discretionary report to HUD and the Board during after fore mentioned assessment is completed.

2018-003 Noncompliance with Internal Control over Tenant Eligibility **(Significant Deficiency) (Repeat finding FA-2017-003)**

Agency's Response:

NRHA has changed internal controls and support operations so that processes and procedure's pertinent to the collection of rents and other financial obligations are managed by the Finance Department. This procedural change has already begun to reduce the Agency's outstanding debt.

NRHA would also like to assert that the Agency response to all matters of non-compliance, specifically with individuals that are both employees and program participants are being addressed timely and in coherence with all program participants so that in full transparency, the Agency is not showing preference to these individuals

SECTION III - FEDERAL AWARD FINDINGS

2018-004 Noncompliance with Eligibility Requirements (Material Weakness and Material Noncompliance)

Agency's Response:

NRHA acknowledges the issue and have been working to mitigate the number of Late Recertifications for this program. Our current status is partially the result of imprudent directives given by the former Executive Director as a plan to address other needs within the Agency. Those directives included having the Program Manager not process Recertifications for a period so they could focus their efforts elsewhere. Additionally, NRHA lost our former Public Housing Manager unexpectedly in early February, the process of rehiring for the position and then assisting the new hire get a hold of where the overall program's processes where when prior employee left has been difficult. However, NRHA is working to complete the Late Recertifications and also to establish and implement a Quality Assurance file review to ensure program compliance for the timeliness of the required Annual Rectifications as required.

2018-005 Noncompliance with Special Tests and Provisions HQS Enforcement (Significant Deficiency)

Agency's Response:

NRHA acknowledges this deficiency and will work to ensure these follow-up Housing Quality Standards (HQS) inspections, specific to those which "Failed" their annual HQS Inspections, will be monitored for compliance. NHRA is also having the Housing Choice Voucher (HCV) Program Manager complete their HQS Inspection trainings so that additional support for this action is available to ensure all necessary HQS inspections are completed timely and recorded to file.

SECTION III – SECTION 12-6-5 NMSA FINDINGS

2018-006 Lack of Evidence of Payroll Review (Findings that do not rise to the level of significant deficiency)

Agency's Response:

NRHA acknowledges the discrepancy will monitor this procedure for completeness moving forward. The former Executive Director failed to properly review and verify his signature on the report in question. The current Executive Director is committed to a close and thorough review of all employee time sheets and compliance to the payroll process and procedures as our budget is streamlined and all expenditures must be monitored to ensure the streamlined budget is maintained.

2018-007 Personnel Evaluations (NM 2017-001 Findings that do not rise to the level of significant deficiency)

Agency's Response:

NRHA acknowledges the deficiency. The former Executive Director failed to complete these evaluations and when asked if he needed assistance; insisted on completing the evaluations for himself. The current Executive Director has established a numerical grading process and has already begun the employee evaluation process. The entire staff will have their evaluations completed by the end of October 2018.

Additionally, the new Executive Director is initiating procedures to have all employees next Annual Evaluation completed again in April 2019. This 2019 Annual Evaluation is scheduled for April to allow any proposed changes in employee compensations to be included in the proposed budget for the next fiscal year.

2018-008 Miscommunication of Resolution No. 2016-110 - Plan to convert 525 Ranchitos Rd Unit 936 to a Community Resource Building (NM 2017-003) Findings that do not rise to the level of significant deficiency)

Agency's Response:

NRHA acknowledges the discrepancy and certifies that the use of any contracted unit will be not be allowed in the future without prior Board acknowledgment and approval. This findings is the result of the singular action of the former Executive Director who was advised by the Finance Department and Deputy Director that this was a possible violation of the regulations. At the current time, there are no plans for the use any contracted unit by any NRHA employee for any reason.



NRHA appreciates Cordova CPAs LLC for your assistance with evaluating our operations in efforts to improve our operations. NRHA looks forward to working with you in the future.

Sincerely

Michael A. Cabral
NRHA Acting Executive Director
575-758-2460-x203

**STATE OF NEW MEXICO
NORTHERN REGIONAL HOUSING AUTHORITY
OTHER DISCLOSURES
JUNE 30, 2018**

OTHER DISCLOSURES

Exit Conference

An exit conference was held on September 28, 2018. In attendance were the following:

Representing Northern Regional Housing Authority:

Santiago Chavez – Board President
Michael Cabral – Acting Executive Director

Representing Cordova CPAs LLC:

Robert Cordova, CPA – Principal
Rufino Rodriguez, CPA – Senior Manager

Auditor Prepared Financial Statements

Cordova CPAs LLC prepared the GAAP-basis financial statements and footnotes of Northern Regional Housing Authority from the original books and records asserted by management of Northern Regional Housing Authority. The responsibility for the financial statements remains with Northern Regional Housing Authority.