OFFICE OF THE STATE AUDITOR
Hector H. Balderas

STATE OF NEW MEXICO

REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

FINANCIAL STATEMENTS
Fiscal Years Ended December 31, 2005, 2006 and 2007

(With Independent Auditor's Report Thereon)

STATE OF NEW MEXICO

REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

FINANCIAL STATEMENTS
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STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

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December 31, 2005, 2006 and 2007

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

OFFICIAL ROSTER
December 31, 2005, 2006 and 2007

Region III Housing Authority

Board of Directors	Position
Filo M. Sedillo	Chairman
Dan Rudolph	Vice Chairman
Ross Aranda	Secretary/Treasurer
Eugene Hurtado*	Member
J. Morrow Hall	Member
Delores Molina	Member
Ronnie Wallace	Member

Administrative Staff	
Vincent "Smiley" Gallegos*	Executive Director
Dennis Kennedy, CPA*	Chief Financial Officer
James Raia**	Fiscal Manager

*Resigned in 2006.

**Resigned in 2007.

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

OFFICIAL ROSTER
December 31, 2005, 2006 and 2007

Housing Enterprises, Inc.*

Board of Directors	Position
J. Morrow Hall	Chairman
Eugene Hurtado	Vice Chairman
Dolores Molina	Secretary/Treasurer
Nina Altimirano	Member
Charlie Esparza	Member
Marjorie Gogolya	Member
Johnny Chavez	Member

Administrative Staff	
Vincent "Smiley" Gallegos	Executive Director
Dennis Kennedy, CPA	Chief Financial Officer
James Raia	Fiscal Manager

*Dissolved in October 2007.

OFFICE OF THE STATE AUDITOR

Hector H. Balderas

INDEPENDENT AUDITOR'S REPORT

Executive Director and Board of Directors
Region III Housing Authority, New Mexico, Inc.
809 Copper Ave.
Albuquerque, New Mexico 87102

We were engaged to audit the accompanying financial statements of the business-type activities of Region III Housing Authority, New Mexico, Inc. (Region III) as of and for the fiscal years ended December 31, 2005, 2006 and 2007 which collectively comprise Region III's basic financial statements as listed in the table of contents. The financial statements are the responsibility of Region III's management.

The scope of our audit of Region III was severely limited due to the lack of numerous accounting records for the fiscal years ended December 31, 2005, 2006 and 2007. The supporting documentation for expenditures was missing. Also, the personnel files, payroll records, several months of bank statements, and some of the minutes of the meetings of the board were missing.

Because of the significance of the matters discussed in the preceding paragraph, we are unable to express, and do not express an opinion on the financial statements referred to in the first paragraph.

The accompanying basic financial statements referred to above have been prepared assuming Region III will continue as a going-concern. As further discussed in Note IV.I to the financial statements, for the fiscal years ended December 31, 2005, 2006 and 2007, Region III incurred an operating loss of $1,934,155, $519,747, and $42,268, respectively. As of December 31, 2005, 2006 and 2007, Region III had a deficit net asset balance of $2,423,969, $2,946,115 and $3,261,318, respectively. In August 2006, the Mid-Region Council of Governments took over Region III's operations after Region III defaulted on its payment obligations on a Series 2003 Bond. These conditions raise substantial doubt about Region III's ability to continue as a going-concern for a reasonable period of time. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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To emphasize a matter, Region III made significant transactions with related parties that are highly questionable. Region III sold two properties to Region III employees. Also, Region III sold one property to a member of HEI's Board of Directors.

Region III has not presented the Management's Discussion and Analysis required by *GASB Statement No. 34* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008 on our consideration of Region III's internal control over financial reporting and 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 on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considering assessing the results of our audits.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR
December 19, 2008

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Net Assets
Enterprise Funds
For the Years Ended December 31, 2005, 2006 and 2007

	2005		
	HOUSING AUTHORITY	COMPONENT UNIT	TOTAL
ASSETS			
Current Assets:			
Cash	$ 89,066	$ 165,546	$ 254,611
Accounts Receivable	-	-	-
Note Receivable	13,772	250,000	263,772
Due from other Regions	625,165	-	625,165
Housing Inventories	5,469,273	1,279,989	6,749,263
Total Current Assets	6,197,276	1,695,535	7,892,811
Noncurrent Assets:			
Capital Assets	337,469	65,993	403,462
Less Accumulated Depreciation	(39,495)	(15,595)	(55,090)
Notes Receivable	16,347	-	16,347
Total Noncurrent Assets	314,321	50,398	364,719
Total Assets	6,511,597	1,745,933	8,257,530
LIABILITIES			
Current Liabilities:			
Accounts Payable	-	-	-
Interest Payable	612,336	-	612,336
Current Portion of Long-Term Debt	62,819	-	62,819
Total Current Liabilities	675,155	-	675,155
Noncurrent Liabilities:			
Lease Purchase Payable	4,671,866	-	4,671,866
Notes Payable	332,878		332,878
Bonds Payable	5,000,000	-	5,000,000
Tenant Deposit	600	1,000	1,600
Due to Region I	-	-	-
Total Noncurrent liabilities	10,005,344	1,000	10,006,344
Total Liabilities	10,680,499	1,000	10,681,499
NET ASSETS:			
Invested in capital assets, net of related debt	297,974	50,398	348,372
Unrestricted (Deficit)	(4,466,876)	1,694,535	(2,772,341)
Total Net Assets	$ (4,168,902)	$ 1,744,933	$ (2,423,969)

The notes to the financial statements are an integral part of these statements.

Exhibit I-2

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Net Assets
Enterprise Funds
For the Years Ended December 31, 2005, 2006 and 2007

	2006		
	HOUSING AUTHORITY	COMPONENT UNIT	TOTAL
ASSETS			
Current Assets:			
Cash	$ 11,941	$ 11,799	$ 23,740
Accounts Receivable	9,181	-	9,181
Note Receivable	15,034	-	15,034
Due from other Regions	1,002,175	-	1,002,175
Housing Inventories	4,489,494	977,568	5,467,062
Total Current Assets	5,527,825	989,367	6,517,192
Noncurrent Assets:			
Capital Assets	337,468	65,993	403,461
Less Accumulated Depreciation	(52,469)	(28,794)	(81,263)
Notes Receivable	15,086	-	15,086
Total Noncurrent Assets	300,085	37,199	337,284
Total Assets	5,827,910	1,026,566	6,854,476
LIABILITIES			
Current Liabilities:			
Accounts Payable	-	-	-
Interest Payable	612,651	-	612,651
Current Portion of Long-Term Debt	53,622	-	53,622
Total Current Liabilities	666,273	-	666,273
Noncurrent Liabilities:			
Lease Purchase Payable	3,729,626	-	3,729,626
Notes Payable	325,000	-	325,000
Bonds Payable	5,000,000	-	5,000,000
Tenant Deposit	600	1,000	1,600
Due to Region I	-	78,092	78,092
Total Non-current liabilities	9,055,226	79,092	9,134,318
Total Liabilities	9,721,499	79,092	9,800,591
NET ASSETS:			
Invested in capital assets, net of related debt	284,999	37,199	322,198
Unrestricted (Deficit)	(4,178,588)	910,275	(3,268,313)
Total Net Assets	$ (3,893,589)	$ 947,474	$ (2,946,115)

The notes to the financial statements are an integral part of these statements.

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Net Assets
Enterprise Funds
For the Years Ended December 31, 2005, 2006 and 2007

Exhibit 1-3

	2007		
	HOUSING AUTHORITY	COMPONENT UNIT	TOTAL
ASSETS			
Current Assets:			
Cash	$ 8,993	$ 169	$ 9,162
Accounts Receivable	18,225	-	18,225
Note Receivable	-	-	-
Due from other Regions	1,002,175	-	1,002,175
Housing Inventories	4,235,759	12,000	4,247,759
Total Current Assets	5,265,152	12,169	5,277,321
Noncurrent Assets			
Capital Assets	13,404	-	13,404
Less Accumulated Depreciation	(8,042)	-	(8,042)
Notes Receivable	-	-	-
Total Noncurrent Assets	5,362	-	5,362
Total Assets	5,270,514	12,169	5,282,683
LIABILITIES			
Current Liabilities:			
Accounts Payable	8,920	-	8,920
Interest Payable	580,347	-	580,347
Current Portion of Long-Term Debt	53,815	-	53,815
Total Current Liabilities	643,082	-	643,082
Noncurrent Liabilities:			
Lease Purchase Payable	3,485,327	-	3,485,327
Notes Payable	-	-	-
Bond Payable	4,337,500	-	4,337,500
Tenant Deposit	-	-	-
Due to Region I	-	78,092	78,092
Total Noncurrent liabilities	7,822,827	78,092	7,900,919
Total Liabilities	8,465,909	78,092	8,544,001
NET ASSETS:			
Invested in capital assets, net of related debt	5,362	-	5,362
Unrestricted (Deficit)	(3,200,757)	(65,923)	(3,266,680)
Total Net Assets	$ (3,195,395)	$ (65,923)	$ (3,261,318)

The notes to the financial statements are an integral part of these statements.

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Years Ended December 31, 2005, 2006 and 2007

Exhibit II-1

	2005		
	HOUSING AUTHORITY	COMPONENT UNIT	TOTAL
Operating Revenues:			
Charges for services	$ 172,651	$ -	$ 172,651
Real Estate Sales	31,844	144,446	176,290
DFA: Grant Income	-	-	-
Rent/Lease Income	3,241	-	3,241
Contribution Income: Unrestricted	160,587	31,181	191,768
Monthly Issuer Fee	255	-	255
Commission Earned	2,531	7,968	10,499
Reimbursed Expenses (Income)	72,715	1,220	73,935
Villa Hermosa Income	14,566	-	14,566
Total Operating Revenues	458,390	184,815	643,205
Operating Expenses:			
General and administrative	2,065,557	486,583	2,552,140
Depreciation	12,975	12,245	25,220
Total Operating Expenses	2,078,532	498,828	2,577,360
Operating (Loss)	(1,620,142)	(314,013)	(1,934,155)
Non-Operating Revenues (Expenses)			
Interest Income	3,260	-	3,260
Miscellaneous Income	24	-	24
Interest Expense	-	-	-
Miscellaneous Expense	-	-	-
Gain on Transfer of Property to SIO	-	-	-
Gain on Sale of Vehicles	-	-	-
Gain on Sale of Property	209,604	-	209,604
Gain on Sale of Inventory	-	-	-
Gain on Sale of Capital Assets	-	-	-
Loss on Sale of Inventory	-	-	-
Loss on Sale of Property	(7,240)	-	(7,240)
Total Non-Operating Revenue (Expenses)	205,648	-	205,648
Income(loss) before contributions and transfers	(1,414,494)	(314,013)	(1,728,507)
Transfers In	1,231,220	-	1,231,220
Transfers Out	(918,106)	(313,114)	(1,231,220)
Change in Net Assets	(1,101,380)	(627,127)	(1,728,507)
Total Net Assets - Beginning	(3,067,522)	2,372,060	(695,462)
Total Net Assets - Ending	$ (4,168,902)	$ 1,744,933	$ (2,423,969)

The notes to the financial statements are an integral part of these statements.

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2005, 2006 and 2007

	2006 HOUSING AUTHORITY	2006 COMPONENT UNIT	TOTAL
Operating Revenues:			
Charges for services	$ 199,943	$ -	$ 199,943
Real Estate Sales	132,987	250,257	383,244
DFA: Grant Income	-	-	-
Rent/Lease Income	23,076	-	23,076
Contribution Income: Unrestricted	-	-	-
Monthly Issuer Fee	-	-	-
Commission Earned	-	829	829
Reimbursed Expenses (Income)	-	5,124	5,124
Villa Hermosa Income	14,429	-	14,429
Total Operating Revenues	370,435	256,210	626,645
Operating Expenses:			
General and administrative	630,409	489,810	1,120,219
Depreciation Expenses	12,975	13,198	26,173
Total Operating Expenses	643,384	503,008	1,146,392
Operating Income (Loss)	(272,949)	(246,798)	(519,747)
Non-Operating Revenues (Expenses)			
Interest Income	-	25,646	25,646
Miscellaneous Income	-	299	299
Interest Expense	-	-	-
Miscellaneous Expense	-	-	-
Gain on Transfer of Property to SIO	-	-	-
Gain on Sale of Vehicles	-	-	-
Gain on Sale of Property	50,708	-	50,708
Gain on Sale of Inventory	-	-	-
Gain on Sale of Capital Assets	-	-	-
Loss on Sale of Inventory	-	-	-
Loss on Sale of Property	(79,052)	-	(79,052)
Total Non-Operating Revenue (Expenses)	(28,344)	25,945	(2,399)
Income(loss) before contributions and transfers	(301,293)	(220,853)	(522,146)
Transfers In	924,640	-	924,640
Transfers Out	(348,034)	(576,606)	(924,640)
Change in Net Assets	275,313	(797,459)	(522,146)
Total Net Assets - Beginning	(4,168,902)	1,744,933	(2,423,969)
Total Net Assets - Ending	$ (3,893,589)	$ 947,474	$ (2,946,115)

The notes to the financial statements are an integral part of these statements.

Exhibit II-3

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2005, 2006 and 2007

	2007 HOUSING AUTHORITY	2007 COMPONENT UNIT	TOTAL
Operating Revenues:			
Charges for service	$ 86,641	$ -	$ 86,641
Real Estate Sales	-	13,484	13,484
Rent/Lease Income	8,838	-	8,838
DFA: Grant Income	25,000	-	25,000
Contribution Income: Unrestricted	-	-	-
Monthly Issuer Fee	-	-	-
Commission Earned	-	-	-
Reimbursed Expenses (Income)	-	-	-
Villa Hermosa Income	42,386	-	42,386
Total Operating Revenues	162,865	13,484	176,349
Operating Expenses:			
General and administrative	184,173	18,338	202,511
Depreciation	9,507	6,599	16,106
Total Operating Expenses	193,680	24,937	218,617
Operating Income (Loss)	(30,815)	(11,453)	(42,268)
Non-Operating Revenues (Expenses)			
Interest Income	-	-	-
Miscellaneous Income	4,603	67	4,670
Interest Expense	-	-	-
Miscellaneous Expense	-	-	-
Gain on Transfer of Property to SIO	50,802	-	50,802
Gain on Sale of Vehicles	2,183	-	2,183
Gain on Sale of Property	52,469	-	52,469
Gain on Sale of Inventory	82,918	1,000	83,918
Gain on Sale of Capital Assets	-	-	-
Loss on Sale of Inventory	(49,562)	-	(49,562)
Loss on Sale of Property	(4,301)	(413,114)	(417,415)
Total Non-Operating Revenue (Expenses)	139,112	(412,047)	(272,935)
Income(loss) before contributions and transfers	108,297	(423,499)	(315,203)
Transfers In	-	-	-
Transfers Out	589,897	(589,897)	-
Change in Net Assets	698,194	(1,013,397)	(315,202)
Total Net Assets - Beginning	(3,893,589)	947,474	(2,946,115)
			-
Total Net Assets - Ending	$ (3,195,395)	$ (65,923)	$ (3,261,318)

The notes to the financial statements are an integral part of these statements.

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2005, 2006 and 2007

Exhibit III-1

	2005 HOUSING AUTHORITY	2005 COMPONENT UNIT	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales or services	$ 802,401	$ 29,888	$ 832,289
Payments to suppliers and on behalf of employees	(1,468,853)	(484,515)	(1,953,368)
Net Cash (Used) By Operating Activities	(666,452)	(454,627)	(1,121,079)
CASH FLOWS FROM NON-OPERATING ACTIVITIES			
Payments on long-term debt	(20,000)	-	(20,000)
Proceeds from long-term debt	20,000	-	20,000
Transfers from other funds	1,079,405	-	1,079,405
Transfers to other funds	(761,661)	-	(761,661)
Net Cash Provided by Non-Operating Activities	317,744	-	317,744
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	-	-	-
Sales of properties	-	1,883,587	1,883,587
Payments out for improvements on properties		(610,690)	(610,690)
Purchase of properties		(699,475)	(699,475)
Net Cash Provided By Non-Operating Activities	-	573,422	573,422
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	-	-	-
Purchase of capital assets	(8,082)	(32,482)	(40,564)
Capital Contributions	-	-	-
Net Cash (Used) by Capital and Related Financing Activities	(8,082)	(32,482)	(40,564)
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfer of funds	-	(470,248)	(470,248)
Notes Receivable	-	(250,000)	(250,000)
Notes Payable	-	300,000	300,000
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(420,248)	(420,248)
Net (Decrease) in Cash and Cash Equivalents	(356,790)	(333,935)	(690,725)
Balances - beginning of the year	445,856	499,481	945,337
Balances - end of the year	$ 89,066	$ 165,546	$ 254,612
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating (Loss)	$ (1,620,142)	$ (314,013)	$ (1,934,155)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	12,975	12,245	25,220
Change in Assets and Liabilities:			
Receivable, Net	368,530	(154,926)	213,604
Housing Inventories	(381,912)	-	(381,912)
Note Receivable	13,772	-	13,772
Accounts Payable and other payables	940,325	2,067	942,392
Due from other regions	-	-	-
Net Cash Provided (Used) by Operating Activities	$ (666,452)	$ (454,627)	$ (1,121,079)

The notes to the financial statements are an integral part of these statements.

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2005, 2006 and 2007

Exhibit III-2

	2006		
	HOUSING AUTHORITY	COMPONENT UNIT	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales or services	$ 362,184	$ 222,342	$ 584,526
Payments to suppliers and on behalf of employees	(631,668)	(491,476)	(1,123,144)
Net Cash (Used) By Operating Activities	(269,484)	(269,134)	(538,618)
CASH FLOWS FROM NON-OPERATING ACTIVITIES			
Payments on long-term debt	(9,197)	-	(9,197)
Proceeds from long-term debt	-	-	-
Transfers from other funds	926,088	-	926,088
Transfers to other funds	(724,532)	-	(724,532)
Net Cash Provided by Non-Operating Activities	192,359	-	192,359
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	-	-	-
Sales of properties	-	618,350	618,350
Payments out for improvements on properties	-	(233,208)	(233,208)
Purchase of properties	-	-	-
Net Cash Provided by Non-Operating Activities	-	385,141	385,141
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	-	-	-
Purchase of capital assets	-	-	-
Capital Contributions	-	-	-
Net Cash (Used) by Capital and Related Financing Activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfer of funds	-	(545,400)	(545,400)
Notes Receivable	-	275,646	275,646
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(269,754)	(269,754)
Net (Decrease) in Cash and Cash Equivalents	(77,125)	(153,747)	(230,872)
Balances - beginning of the year	89,066	165,546	254,612
Balances - end of the year	$ 11,941	$ 11,799	$ 23,740
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating (Loss)	$ (272,949)	$ (246,798)	$ (519,747)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	12,975	13,198	26,173
Change in Assets and Liabilities:			
Receivable, Net	9,181	(33,868)	(24,687)
Housing Inventories	(60,063)	-	(60,063)
Note Receivablet	15,034		15,034
Accounts Payable and other payables	26,338	(1,666)	24,672
Due from other regions	-	-	-
Net Cash Provided (Used) by Operating Activities	$ (269,484)	$ (269,134)	$ (538,618)

The notes to the financial statements are an integral part of these statements.

Exhibit III-3

State of New Mexico
Region III Housing Authority, New Mexico, Inc.
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2005, 2006 and 2007

	2007 HOUSING AUTHORITY	2007 COMPONENT UNIT	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from sales or services	$ 158,582	$ 67	$ 158,649
Payments to suppliers and on behalf of employees	(149,930)	(18,368)	(168,298)
Net Cash (Used) By Operating Activities	8,652	(18,301)	(9,649)
CASH FLOWS FROM NON-OPERATING ACTIVITIES			
Payments on long-term debt	-	-	-
Proceeds from long-term debt	-	-	-
Transfers from other funds	71,885	-	71,885
Transfers to other funds	(83,485)	-	(83,485)
Net Cash Provided by Non-Operating Activities	(11,600)	-	(11,600)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers to other funds	-	-	-
Sales of properties	-	-	-
Payments out for improvements on properties	-	(4,929)	(4,929)
Purchase of properties	-	-	-
Net Cash Provided By Non-Operating Activities	-	(4,929)	(4,929)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital debt	-	-	-
Purchase of capital assets	-	-	-
Capital Contributions	-	-	-
Net Cash (Used) by Capital and Related Financing Activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Transfer of funds	-	11,600	11,600
Notes Receivable	-	-	-
Net Cash (Used) by Capital and Related Financing Activities	-	11,600	11,600
Net Increase(Decrease) in Cash and Cash Equivalents	(2,948)	(11,630)	(21,249)
Balances - beginning of the year	11,941	11,799	23,559
Balances - end of the year	$ 8,993	$ 169	$ 9,162
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating (Loss)	$ (30,815)	$ (11,453)	$ (42,268)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	9,507	6,599	16,106
Change in Assets and Liabilities:			
Receivable, Net	18,225	(13,447)	4,778
Housing Inventories	-	-	-
Accounts Payable and other payables	11,735	-	11,735
Due from other regions	-	-	-
Net Cash Provided (Used) by Operating Activities	$ 8,652	$ (18,301)	$ (9,649)

The notes to the financial statements are an integral part of these statements.

I. Summary of Significant Accounting Policies

A. General

The Region III Housing Authority, New Mexico, Inc. (Region III) was created pursuant to the Regional Housing Law, Chapter 11, Article 3A NMSA 1978. The law created seven regional housing authorities throughout New Mexico to provide decent, safe and sanitary housing for low-income residents. Region III consists of Sandoval, Bernalillo, Valencia and Torrance Counties. Region III also assists other organizations and units of local government to operate, manage and administer housing programs and projects that achieve this objective. Region III commenced operations as a New Mexico non-profit corporation on October 1, 2001. Region III was incorporated September 12, 2001. In August 2006 the Mid-Region Council of Governments (MRCOG) took over Region III's operations after Region III defaulted on its payment obligations on a Series 2003 Bond.

The following are descriptions of Region III's programs:

- Acquisition and Rehabiliation

  Funded by bond issue fees and notes from various lenders, Region III purchases and refurbishes homes listed by HUD for resale to qualified low-income buyers.

- Lease-Purchase

  Funded by bond issue fees, this program allows qualified low-income families to lease a home for a three-year period, during which credit counseling is provided. If the family has adequately remedied their credit situation at the end of the three-year period, they are then allowed to purchase the property and retain the equity accumulated during the lease period.

- Home Ownership Counseling

  Funded by bond issue fees, this program provides credit and home ownership counseling to qualified low-income families and individuals.

B. Financial Reporting Entity

Region III's balance sheet includes the accounts of all Region III operations. The criteria for including organizations as component units within Region III's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting, include whether:

- The organization is legally separate (can sue and be sued in their own name);
- Region III holds the corporate powers of the organization;
- Region III appoints a voting majority of the organization's board;
- Region III is able to impose its will on the organization;
- The organization has the potential to impose financial benefit or burden on Region III; and
- There is a fiscal dependency by the organization on Region III.

Based on the aforementioned criteria, Region III determined that Housing Enterprises, Inc. (HEI) is a blended component unit of Region III; however, HEI was discreetly presented.

HEI was a New Mexico non-profit corporation set up by Region III. HEI incorporated and started operations on July 30, 2003. The Articles of Incorporation for HEI state that the purpose of HEI is to support, and act on behalf of, Region III. HEI served regional housing authorities throughout New Mexico and was governed by an executive board comprised of seven members. Members of HEI's board also served on Region III's board and the boards of other New Mexico regional housing authorities, including Regions I, IV and VII. HEI was involved in the acquisition and rehabilitation of properties to be sold to regional housing authorities throughout New Mexico for use in their programs. HEI is reported as an enterprise fund in the financial statements. Although HEI's Articles of Incorporation state that HEI intended to be tax-exempt under Section 501(c)(3) of the Internal Revenue Code, such status was never granted to HEI by the Internal Revenue Service. HEI's non-profit corporation license was revoked on March 28, 2008.

C. Basis of Presentation and Reporting Format

The financial statements of Region III have been prepared on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Region III utilizes an enterprise fund to account for its operations as it is the intent of the governing body that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Region III does not utilize encumbrance accounting. Region III applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Statements

The statement of net assets and statement of revenues, expenses and changes in fund net assets display information about the primary government (Region III) and its component unit (HEI). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-accounting of internal activities. These internal activities include accounts receivable and accounts payable transactions between Region III and its component unit.

Region III does not have fiduciary funds.

Region III net assets consist of invested in capital assets, net of related debt and unrestricted net assets/(deficit). Invested in capital assets consists of net of related debt, which is the cost of capital assets, net of accumulated depreciation, unrestricted net assets, and restricted net assets - wherein the constrains placed on net assets are either by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Enterprise 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 enterprise fund's principal ongoing operations. The principal operating revenues of Region III are Bond Inducement Fees and Credit Report Fees. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is Region III's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Assets and Liabilities

1. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

State statutes authorize the government to invest in interest bearing accounts with local financial institutions, direct obligations of the U.S. Treasury or New Mexico political subdivisions, and the State treasurer's investment pool.

New Mexico statute, Section 6-10-17 NMSA 1978, requires that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50 percent of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by Region III (HEI). The pledged securities remain in the name of the financial institution.

2. Accounts Receivable and Accounts Payable

Accounts receivable consist of $9,044 and $18,225 for bonds issuer's fee as of December 31, 2006 and 2007 respectively.

Region III's accounts payable represent routine monthly bills for services rendered and products purchased which are paid for in the following month. In June 2007, Region III entered into a professional services agreement with the Mid-Region Council of Governments (MRCOG) for "professional operational and financial management and legal services to Region III to assist Region III to carry out its powers and duties under the Regional Housing Law and the Nonprofit Corporation Act . . ." MRCOG charged Region III $35,000 for its services under the contract. In lieu of payment to MRCOG, Region III sold three vehicles to MRCOG for $26,080, leaving an unpaid balance of $8,920. Therefore, as of December 31, 2007, Region III accounts payable consists of $8,920 due to MRCOG.

Due to lack of documentation accounts payable are unable to be determined for fiscal years ending December 31, 2005, 2006, and 2007. There was no record of invoices, vouchers, or any other supporting documentation for these years. The documentation consisted of travel and per diem reimbursement vouchers along with several invoices for legal fees along with a small number of immaterial invoices. Not all of the invoices had the proof of payment (check stub) attached.

3. Capital Assets

All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	30 years
Equipment & Vehicles	5 years

Capital assets with a value or cost greater than $1,000 are accounted for as capital assets. For assets acquired after June 17, 2005, the capitalization limit was raised to $5,000. Older capital assets that were capitalized under previous capitalization thresholds were not removed from the capital asset list during the implementation of the latest capitalization threshold.

4. Compensated Absences

Region III does not have any supporting documentation regarding compensated absences for the fiscal years ending December 31, 2005, 2006 and 2007. Therefore, a liability for compensated absences is not reported in the financial statements.

Vested or accumulated leave with pay is reported as expenditure and a fund liability of the enterprise funds.

Employees accrue annual leave with pay based upon years of service as follows:

Over 6 months up to 1 year	10 days
Over 1 year up to 3 years	13 days
Over 3 years up to 5 years	15 days
Over 5 years up to 7 years	17 days
Over 7 years up to 10 years	20 years
Over 10 years up to 15 years	25 years
Over 15 years	30 days

Employees receive their allotment of annual leave with pay at their anniversary date to be used during the following year. Employees must use the allotment by the following anniversary date; otherwise, it is lost. Upon termination, employees are paid at their current rate for any remaining accrued leave.

Also, due to the lack of documentation, any payroll liabilities for Region III were unable to be determined for fiscal years ending December 31, 2005, 2006 and 2007.

5. Housing Inventory

Housing inventory is valued at cost and represents homes purchased under the Acquisition, Rehabiliation and Lease-Purchase programs.

6. Cash Flows

For the purpose of the statement of cash flows, Region III considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

7. Revenues

Operating revenues are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Operating revenues include fees, fines and charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including interest and contributions, are presented as non-operating revenues.

8. Net Assets

The difference between Region III's assets and liabilities is its net assets. Region III's net assets consist of three components: (1) invested in capital assets, which is the cost of capital assets, net of accumulated depreciation; (2) restricted net assets, which are liquid assets and have third-party (statutory, bond covenant or granting agency) limitations on their use; and (3) unrestricted net assets. Region III currently has no restricted net assets at each fiscal year end.

Region III had deficit net asset balances of $2,423,969, $2,946,115, and $3,261,318 respectively for the fiscal years ended December 31, 2005, 2006 and 2007.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

No formal approved budgets were prepared by Region III or HEI's management for the fiscal years ended December 31 2005, 2006 and 2007.

III. Detailed Notes on all Funds

A. Cash

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Region III does not have a deposit policy for custodial credit risk beyond that disclosed in Note 1.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005, 2006 and 2007

As of fiscal year ended December 31, 2005, Region III had a carrying amount of deposits of $89,066. The difference between the carrying amount and the bank balance of deposits was due to outstanding checks of $18,756. The bank balance consisted of:

First Community Bank

Demand deposits	$ 88,065
Less: FDIC coverage	$ (88,065)
Amount Uninsured	$ -0-

Compass Bank – Payroll Account

Demand deposits	$ 19,757
Less: FDIC coverage	$ (19,757)
Amount Uninsured	$ -0-

As of fiscal year ended December 31, 2006, Region III had a carrying amount of deposits of $11,941. The difference between the carrying amount and the bank balance of deposits was due to outstanding checks of $28,912. The bank balance consisted of:

First Community Bank

Demand deposits	$ 37,242
Less: FDIC coverage	$ (37,242)
Amount Uninsured	$ -0-

Compass Bank – Payroll Account

Demand deposits	$ 3,611
Less: FDIC coverage	$ (3,611)
Amount Uninsured	$ -0-

As of fiscal year ended December 31, 2007, Region III had a carrying amount of deposits of $8,993. The difference between the carrying amount and the bank balance of deposits was due to outstanding checks of $825. The bank balance consisted of:

First Community Bank

Demand deposits	$ 8,998
Less: FDIC coverage	$ (8,998)

Amount Uninsured	$ -0-

Compass Bank – Payroll Account

Demand deposits	$ 820
Less: FDIC coverage	$ (820)
Amount Uninsured	$ -0-

HEI does not have a deposit policy for custodial credit risk beyond that disclosed in Note 1. As of December 31, 2005, HEI had a carrying amount of deposits of $165,546. The difference between the carrying amount and the bank balance of deposits was due to outstanding checks of $14,218. The bank balance consisted of:

First Community Bank

Demand deposits	$ 159,280
Less: FDIC coverage	$ (100,000)
Amount Uninsured	$ 59,280

50% collateralization requirement	$ 29,640
Pledged collateral	$ 496,130
Amount Uninsured	$ 466,490

CUSIP#	Type	Fair Market Value	Par Value	Maturity Date
3133MTQB7	FHLB	$146,625	$150,000	11/15/07
313921FQ6	FNR	$151,679	$150,000	11/25/16
31394YP24	FHR	$197,826	$200,000	07/23/15
		$496,130	$500,000	

Collateral pledged is held in safekeeping by Federal Home Loan Bank in Dallas, Texas with safekeeping receipts held by Region III (HEI) and the pledged securities remain in the name of the financial institution.

Compass Bank – Payroll Account

Demand deposits	$ 20,484
Less: FDIC coverage	$ (20,484)
Amount Uninsured	$ -0-

As of fiscal year ended December 31, 2006, HEI had a carrying amount of deposits of $11,799. The difference between the carrying amount and the bank balance of deposits was due to outstanding checks of $21,971. The bank balance consisted of:

First Community Bank

Demand deposits	$ 30,471
Less: FDIC coverage	$ (30,471)
Amount Uninsured	$ -0-

Compass Bank – Payroll Account

Demand deposits	$ 3,299
Less: FDIC coverage	$ (3,299)
Amount Uninsured	$ -0-

As of fiscal year ended December 31, 2007, HEI had a carrying amount of deposits of $169. The difference between the carrying amount and the bank balance of deposits was due to outstanding checks of $99. The bank balance consisted of:

First Community Bank

Demand deposits	$ 268
Less: FDIC coverage	$ (268)
Amount Uninsured	$ -0-

B. Accounts Receivable

Region III received an Issuer's Fee for the issuance of multifamily housing revenue bonds. As Trustee for Issuer's Fee payments to Region III, the Trust Department of Regions Bank pays the Issuer's Fee from the revenue bonds annually. The Trustee owes $9,181 and $9,044 for 2006 and 2007 respectively. Therefore, the total amount in accounts receivable is $18,225 at December 31, 2007.

C. Notes Receivable

Region III holds a note receivable from a local non-profit organization pursuant to a lease agreement dated February 1, 2003. The note bears interest of 10 percent and is due in monthly installments of $1,323. Upon expiration of the lease term on January 31, 2008, the property deed and title will transfer to the lessee free and clear of monetary liens and encumbrances.

The balance of the note as of fiscal year ended December 31, 2005 was $30,119. Future maturities of amounts due are as follows:

Year Ending December 31	Principal	Interest	Total
2006	$ 13,772	$ 2,104	$ 15,876
2007	15,034	842	15,876
2008	1,313	-	1,313
	$ 30,119	$ 2,946	$ 33,065

The balance of the note as of fiscal year ended December 31, 2006 was $16,347. Future maturities of amounts due are as follows:

Year Ending December 31	Principal	Interest	Total
2007	$ 15,034	$ 842	$ 15,876
2008	1,313	-	1,313
	$ 16,347	$ 842	$ 17,189

The balance of the note as of December 31, 2007 was $1,313. Future maturities of amounts due are as follows:

Year Ending December 31	Principal	Interest	Total
2008	$ 1,313	$ -	$ 1,313
	$ 1,313	$ -	$ 1,313

D. Capital Assets

Capital asset activity for the fiscal years ended December 31, 2005, 2006 and 2007 were as follows:

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REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

NOTES TO THE FINANCIAL STATEMENTS
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Region III Housing Authority – FY2005

Description	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Business-Type Activities:				
Land	$ 85,000	$ -	$ -	$ 85,000
Depreciable capital assets				
Equipment	28,971	-	-	28,971
Building	215,416	8,082	-	223,498
Total depreciable capital assets	244,387	8,082	-	252,469
Less: accumulated depreciation				
Equipment	(14,990)	(7,181)	-	(22,171)
Building	(11,530)	(5,794)	-	(17,324)
Total accumulated depreciation	(26,520)	(12,975)	-	(39,495)
Net depreciable capital assets	217,867	(4,893)	-	212,974
Capital assets, net	$ 302,867	$ (4,893)	$ -	$ 297,974

Region III Housing Authority – FY2006

Description	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Business Type-Activities:				
Land	$ 85,000	$ -	$ -	$ 85,000
Depreciable Capital Assets				
Equipment	28,971	-	-	28,971
Building	223,498	-	-	223,498
Total depreciable capital assets	252,469	-	-	252,469
Less: accumulated depreciation				
Equipment	(18,711)	(7,180)	-	(25,891)
Building	(20,784)	(5,794)	-	(26,578)
Total accumulated depreciation	(39,495)	(12,974)	-	(52,469)
Net depreciable capital assets	212,974	(12,974)	-	200,000
Capital assets, net	$ 297,974	$ (12,974)	$ -	$ 285,000

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005, 2006 and 2007

Region III Housing Authority – FY2007

Description	Balance 12/31/06	Additions	Deletions	Balance 12/31/07
Business Type-Activities:				
Land	$ 85,000	$ -	$ (85,000)	$ -
Depreciable capital assets				
Equipment	28,971	-	(28,971)	-
Vehicle	-	13,404	-	13,404
Building	223,498	-	(223,498)	-
Total depreciable capital assets	252,469	13,404	(252,469)	13,404
Less: accumulated depreciation				
Equipment	(25,891)	(3,080)	28,971	-
Vehicle	-	(8,042)	-	(8,042)
Building	(26,578)	(4,787)	31,365	-
Total accumulated depreciation	(52,469)	(15,909)	60,336	(8,042)
Net depreciable capital assets	200,000	(15,909)	(192,133)	5,362
Capital assets, net	$ 285,000	$ (2,505)	$ (277,133)	$ 5,362

Housing Enterprises, Inc. – FY2005

Description	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Business Type-Activities:				
Vehicles	33,511	32,482	-	65,993
Total capital assets	33,511	32,482	-	65,993
Less: accumulated depreciation				
Vehicles	(3,351)	(12,244)	-	(15,595)
Total accumulated depreciation	(3,351)	(12,244)	-	(15,595)
Net capital assets	$ 30,160	$ 20,238	$ -	$ 50,398

Housing Enterprises, Inc. – FY2006

Description	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Business Type-Activities:				
Vehicles	$ 65,993	$ -	$ -	$ 65,993
Total capital assets	65,993	-	-	65,993
Less: accumulated depreciation				
Vehicles	(15,596)	(13,198)	-	(28,794)
Total accumulated depreciation	(15,596)	(13,198)	-	(28,794)
Net capital assets	$ 50,397	$ (13,198)	$ -	$ 37,199

Housing Enterprises, Inc. – FY2007

Description	Balance 12/31/06	Additions	Deletions	Balance 12/31/07
Business Type-Activities:				
Depreciable Capital Assets				
Vehicles	$ 65,993	$ -	$ (65,993)	$ -
Totals-depreciable capital assets	65,993	-	(65,993)	-
Less: Accumulated depreciation				
Vehicles	(28,794)	(13,198)	41,992	-
Total accumulated depreciation	(28,794)	(13,198)	41,992	-
Net depreciable capital assets	37,199	(13,198)	(65,993)	-
Net capital assets	$ 37,199	$ (13,198)	$ (24,001)	$ -

E. Due To/Due From

During the fiscal years ended December 31, 2005, 2006 and 2007, Region III either advanced funds to the regional housing authorities of Region I, IV, and VII or paid expenditures on their behalf. The following is a schedule of the due to and due from balances for the three fiscal years:

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REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

NOTES TO THE FINANCIAL STATEMENTS
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Due from Region I, IV and VII:
For Fiscal Years Ending 2005, 2006, and 2007

Due From Region I	12/31/2005	12/31/2006	12/31/2007
Beginning Balance	$ 11,280	$ 161,690	$ 346,457
Audit Fees	-	8,540	-
Advertising	124	-	-
Cash Advance	146,000	174,501	-
Deposit	-	(936)	-
Misc Expense	538	-	-
Payroll Expense	955	-	-
Per Diem	2,363	-	-
Retirement	231	1,603	-
Telephone Service	-	132	-
Training	199	927	-
Total Due from Region I	$ 161,690	$346,457	$ 346,457

Due From Region IV:	12/31/2005	12/31/2006	12/31/2007
Beginning Balance	$ -	$ 12,200	$ 95,258
			-
Accounting Fees	4,655	6,441	-
Advertising	-	243	-
Cash Advance	-	10,000	-
Filing Fees	100	-	-
Legal Fees	5,795	30,728	-
Misc Expense	312	136	-
Payroll Expense	-	17,347	-
Per Diem Expense	1,338	11,888	-
Postage	-	144	-
Retirement	-	5,822	-
Training	-	309	-
Total Due from Region IV	$ 12,200	$ 95,258	$ 95,258

Due From Region VII:	12/31/2005	12/31/2006	12/31/2007
Beginning Balance	$ 248,796	$ 451,275	$ 560,460
Advertising	859	-	-
Cash Advance	194,466	100,557	-
Legal Fees	-	2,743	-

Misc Expense	213	75	-
Payroll Expense	3,800	-	-
Per Diem	3,141	1,851	-
Retirement	-	1,603	-
Supplies	-	1,000	-
Training	-	1,356	-
Total Due from Region VII	$ 451,275	$ 560,460	$ 560,460

Region III transferred funds to Region I, IV and VII as follows:

During Fiscal Year:	Region I	Region IV	Region VII	Total
2005	$161,690	$12,200	$451,275	$625,165
2006	184,767	83,058	109,185	377,010
2007	-0-	-0-	-0-	-0-
Totals	$346,457	$95,258	$560,460	$1,002,175

As of December 31, 2007, the following regional housing authorities owe the following amounts to Region III: Region I owes $346,457, Region IV owes $95,258, and Region VII owes $560,460. Documentation was not found that demonstrates that the amounts loaned to other regional housing authorities by Region III were formally authorized by Region III's Board of Director's (Board). Documentation also was not found that demonstrates that the Board delegated the authority to Region III management to make loans to other regional housing authorities on behalf of Region III. In addition, it appears that there were no signed documents by Regions I, IV, and VII for the repayment of these loans.

Region III entered into certain agreements for professional services with other regions; however, documentation could not be located that supported the advance of funds, payment of expenditures or indicated that these transactions were formally authorized by the Board. For example, Regions I and VII did not have operating revenue. Region III either advanced funds to Regions I and VII or paid expenditures on behalf of Regions I and VII to cover their operating expenses. Region III did enter into a professional services agreement with Region VII on June 11, 2003 "to provide housing services for Region VII Housing Authority." Under the agreement, Region III also agreed "to provide fiscal services by issuing payment to . . . [entities] which are directly associated with the Region VII Housing Authority undertakings and/or goals."

Region I entered into a professional services agreement with HEI on January 21, 2005. Under that agreement, Region I retained the services of HEI "to provide technical support to Region I." Regarding the loans made to Region I by Region III, the minutes of Region I's Board of Commissioners from August 29, 2006 state that "there are no signed documents by Region I on the loan and how it was to be paid back, it was all verbal." The minutes also state that Region I owes Region III for operating expenses.

Additionally, Region III entered into a professional services agreement with Region IV. Pursuant to its agreement with Region IV, entered into on June 21, 2004, Region III agreed to provide "housing services for Region IV" and "to provide fiscal services by issuing payment to . . . [entities] which are directly associated with the Region IV Housing Authority undertakings and/or goals." The agreement also provided that Region IV and Region III "shall collaborate and leverage funds to deliver affordable housing to low and moderate-income households." For its services under the agreement, Region III was to submit monthly invoices to Region IV.

Region III's management advised Region IV's management to become an independent regional housing authority and to continue operations as a stand alone entity. At that time, Region IV was a blended component unit of Eastern Plains Council of Governments. The monetary assistance Region III provided to Region IV included legal fees totaling $36,523.

The checks from Region III were typically signed by the Executive Director and a board member of Region III; however, the was no other documentation supporting authorization of the advances of funds by Region III to other regional housing authorities or the payments for goods and services on behalf of other regional housing authorities.

F. Operating Transfers

The composition of the interfund balances for fiscal years ended December 31, 2005, 2006 and 2007 is as follows:

Transfer of Funds for 2005	
Region III Housing Authority	$ 313,114
Housing Enterprise Inc.	(313,114)
	$ -0-
Transfer of Funds for 2006	
Region III Housing Authority	$ 576,606
Housing Enterprise Inc.	(576,606)
	$ -0-
Transfer of Funds for 2007	
Region III Housing Authority	$ 589,897
Housing Enterprise Inc.	(589,897)
	$ -0-

G. Long-Term Debt

Region III had several notes payable with a variety of lenders. As of December 31, 2005, Region III had the following outstanding notes payable: Capital Concepts #1 in the amount of $73,612; Neighborhood Housing Services of Albuquerque (NHS) in the amount of $67,500; and Sunwest Trust in the amount of $117,414.

In addition, in the fiscal year ended December 31, 2005, Region III acquired two new notes payable from Capital Concepts #2 in the amount of $75,000 and Capital Concepts #3 in the amount of $20,000. The minutes for Region III's Board did not indicate that the Board formally approved these loans in 2005.

As of December 31, 2006, Region III had the following outstanding notes payable balances: Capital Concepts #1 in the amount of $73,612; Capital Concepts #2 in the amount of $75,000; NHS in the amount of $67,500; and Sunwest Trust in the amount of $109,297.

During the fiscal year ended December 31, 2007, Region III paid off all its notes payable by selling its office building and equipment.

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REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005, 2006 and 2007

Region III Housing Authority – FY2005, 2006 and 2007.

Notes Payable	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due within 1 year
Capital Concepts #1	$ 73,612	$ -	$ -	$ 73,612	$ -
Neighborhood - Bonnie Ln	67,500	-	-	67,500	-
Sunwest Trust-REC Payable	123,643	-	(6,837)	116,806	8,117
Capital Concepts #2	-	75,000	-	75,000	-
Capital Concepts #3	-	20,000	(20,000)	-	
Total Notes Payable	$ 264,755	$ 95,000	$ (26,837)	$ 332,918	$ 8,117

Notes Payable	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Due within 1 year
Capital Concepts #1	$ 73,612	$ -	$ -	$ 73,612	$ -
Neighborhood - Bonnie Ln	67,500	-	-	67,500	-
Sunwest Trust-REC Payable	116,806	-	(8,117)	108,689	108,690
Capital Concepts #2	75,000	-	-	75,000	-
Total Notes Payable	$ 332,918	$ -	$ (8,117)	$ 324,801	$ 108,690

Notes Payable	Balance 12/31/06	Additions	Deletions	Balance 12/31/07	Due within 1 year
Capital Concepts #1	$ 73,612	$ -	$ (73,612)	$ -	$ -
Neighborhood - Bonnie Ln	67,500	-	(67,500)	-	-
Sunwest Trust-REC Payable	108,689	-	(108,689)	-	-
Capital Concepts #2	75,000	-	(75,000)	-	-
Total Notes Payable	$ 324,801	$ -	$ (324,801)	$ -	$ -

Region III Housing Authority – FY2005, 2006 and 2007

	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due within 1 year
Series A & Series B					
Bond Payable	$ 4,060,174	$ 1,066,826	$ (127,000)	$ 5,000,000	$ 5,000
Total Bonds Payable	$ 4,060,174	$ 1,066,826	$ (127,000)	$ 5,000,000	$ 5,000

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Due within 1 year
Series A & Series B					
Bonds Payable	$ 5,000,000	$ -	$ -	$5,000,000	$ -
Total Bonds Payable	$ 5,000,000	$ -	$ -	$5,000,000	$ -

	Balance 12/31/06	Additions	Deletions	Balance 12/31/07	Due within 1 year
Series A & Series B					
Bonds Payable	$ 5,000,000	$ -	$ (662,500)	$ 4,337,500	$ -
Total Bonds Payable	$ 5,000,000	$ -	$ (662,500)	$ 4,337,500	$ -

H. Lease-Purchase Program Series 2003 A Bonds

On February 1, 2003, pursuant to a trust agreement by and between Region III (Issuer) and Financial Institution (Trustee), a $27,625,000 Region III Housing Authority New Mexico, Inc. Variable Lease Revenue Bonds (Lease-Purchase Program) Series 2003 A (Bonds) were issued. The Bonds do not constitute indebtedness or a loan to Region III. The proceeds of the Bonds were used by the Trustee to purchase mortgage loans. The mortgage loans provide funds for Region III's acquisition of homes which are selected by participants enrolled in the lease-purchase program.

I. Bonds Payable – Series 2003A and Series 2004 A

In 2003 and 2004, the New Mexico State Investment Office (SIO) purchased two separate bonds issued by Region III, Inc. for $2,500,000 each. The bonds were authorized by Region III and issued to finance the acquisition and rehabilitation of single family residences for sale to persons of low income. The first bond, issued on July 1, 2003, was a $2,500,000 Series 2003 Bond under an Indenture of Trust (Indenture) dated July 1, 2003. On April 4, 2004, a First Supplemental Trust Indenture (Supplemental Indenture) was executed which amended the original indenture and issued a second $2,500,000 Series 2004 Bond. The Supplemental Indenture secured both the Series 2003 and Series 2004 Bonds which matured on June 1, 2006 and June 1, 2007, respectively.

The Supplemental Indenture provided that a Trustee bank would hold the proceeds of the bond issues with $4,404,000 available for acquisition and rehabilitation. The Supplemental Indenture also allocated $500,000 to a reserve fund for payment of interest on the Bonds and $96,000 to the costs of issuing the bonds. Section 3.11 of the Indenture required Region III to "upon receipt, pay to the Trustee bank, all proceeds of the sales of single family residences acquired by Region III, pursuant to the Indenture." The net profits were to be deposited into a reserve account by the Trustee and used later to buy more property.

In May 2006, Region III informed the SIO that it could not repay the Series 2003 Bond and requested an extension of the maturity date. The extension was not granted and Region III defaulted on the bonds.

It appears that Region III paid on a few of the bond requisitions; however, it also appears that the Trustee, the Bank of Albuquerque, allocated the money paid by Region III towards the semi-interest expense due from Region III for the outstanding bond balance. Therefore, because the Trustee used the money to pay interest payments and not to pay back the bond requisition, there is a discrepancy in the outstanding bond balance. Region III shows an outstanding bond balance of $4,337,500 for bonds payable, whereas the Bank of Albuquerque shows an outstanding balance of $5,000,000. The $5,000,000 balance amounts to $4,404,000 for acquisition and rehabilitation, $96,000 for the cost of issuance account, and $500,000 for the reserve fund.

J. Changes in Long-Term Debt

The various notes held by financial institutions under Region III's lease-purchase program mature at various dates and are secured by housing property held in inventory.

The following is a schedule of the changes in long-term debt for the years ended December 31, 2005, 2006 and 2007:

Description	Balance 12/31/04	Additions	Deletions	Balance 12/31/05	Due Within 1 Year
Lease Purchase Notes Payable	$ 2,931,618	$ 1,970,966	$ (167,898)	$ 4,734,686	$ 62,819
Total	$ 2,931,618	$ 1,970,966	$ (167,898)	$ 4,734,686	$ 62,819

Description	Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Due Within 1 Year
Lease Purchase Notes Payable	$ 4,734,686	$ -	$ (951,438)	$ 3,783,248	$ 53,622
Total	$ 4,734,686	$ -	$ (951,438)	$ 3,783,248	$ 53,622

Description	Balance 12/31/06	Additions	Deletions	Balance 12/31/07	Due Within 1 Year
Lease Purchase Notes Payable	$ 3,783,248	$ -	$ (244,107)	$ 3,539,141	$ 53,815
Total	$ 3,783,248	$ -	$ (244,107)	$ 3,539,141	$ 53,815

The following schedule represents the minimum payments due over the life of these loans:

Notes Payable ending December 31, 2005

Due in Fiscal Year Ending	Principal	Interest	Total
2006	$ 62,819	$ 277,642	$ 340,461
2007	66,280	278,747	345,027
2008	70,344	274,562	344,906
2009	74,680	264,227	338,907
2010	79,318	265,624	344,942
2011-2015	476,019	1,248,514	1,724,533
2016-2020	641,969	1,082,564	1,724,533
2021-2025	865,811	858,687	1,724,498
2026-2030	1,165,086	558,954	1,724,040
2031-2040	1,232,359	160,718	1,393,077
	$ 4,734,685	$ 5,270,239	$ 10,004,924

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005, 2006 and 2007

Notes Payable ending December 31, 2006

Due in Fiscal Year Ending	Principal	Interest	Total
2007	53,622	224,721	278,343
2008	56,785	221,437	278,222
2009	60,269	217,953	278,222
2010	63,968	214,254	278,222
2011	67,806	210,416	278,222
2012-2016	379,931	946,902	1,326,833
2017-2021	511,724	821,764	1,333,488
2022-2026	689,242	653,212	1,342,454
2027-2031	925,705	428,229	1,353,934
2032-2040	974,196	106,617	1,080,813
	$ 3,783,248	$ 4,045,505	$ 7,828,753

Notes Payable ending December 31, 2007

Due in Fiscal Year Ending	Principal	Interest	Total
2008	$ 53,815	$ 210,077	$ 263,892
2009	57,117	206,775	263,892
2010	60,621	203,271	263,892
2011	64,258	199,634	263,892
2012	68,114	195,778	263,892
2013-2017	354,942	841,095	1,196,037
2018-2022	478,029	730,114	1,208,143
2023-2027	643,806	580,643	1,224,449
2028-2032	864,475	381,246	1,245,721
2033-2040	893,964	79,367	973,331
	$ 3,539,141	$ 3,628,000	$ 7,167,141

K. Schedule of Properties for which Region III Obtained Duplicate Financing - Bond Proceeds and Mortgages

It appears that Region III over-borrowed on several properties. In certain cases, Region III drew bond proceeds to purchase a property for which it had already obtained a mortgage. In other cases, Region III obtained a mortgage on a property it had already purchased with bond proceeds. The indentures for the Series 2003A and Series 2004A Bonds did not require that liens/first mortgages be filed for any property purchased with bond proceeds.

In fiscal year ended December 31, 2005, Region III had 14 properties that had both bonds payable and mortgages payable on them. The 14 properties had a total historical cost of $1,289,633, total bonds payable of $1,260,226 and total mortgages payable of $1,364,121. This creates negative equity of ($1,334,714) on these properties.

In fiscal year ended December 31, 2006, Region III had 12 properties that had both bonds payables and mortgages payables on them. The 12 properties had a total historical cost of $1,158,988, a total bonds payable of $1,132,026 and total mortgages payables of $1,188,384. This creates negative equity of ($1,161,422) on these properties.

In fiscal year ended December 31, 2007, Region III had 11 properties that had both bonds payable and a mortgages payable on them. The 11 properties had a total historical cost of $1,040,572, a total bonds payable of $1,020,254 and total mortgages payable of $1,064,523. This creates negative equity of ($1,044,205) on these properties.

The following table shows negative equities for fiscal years ending December 31, 2005, 2006 and 2007.

	Year	Property Value	Bonds Payable	Mortgage Payable	Deficit
Properties with double financing -14	12/31/2005	$1,289,633	$(1,260,226)	$(1,364,121)	$(1,334,714)
Properties with double financing -12	12/31/2006	$1,158,988	$(1,132,026)	$(1,188,384)	$(1,161,422)
Properties with double financing -11	12/31/2007	$1,040,572	$(1,020,254)	$(1,064,523)	$(1,044,205)

L. Rent Income

On February 1, 2001, Region III entered into a lease agreement with Gorman Company, for a five-year lease beginning April 1, 2001 and terminating on March 31, 2006. The lease was for the use of shared office space at Region III's building located at 4605 Fourth Street N.W. in Albuquerque. Total rent collected by Region III during the fiscal year ended December 31, 2005 was $3,241. There were no receipts collected by Region III for fiscal year ended December 31, 2006 and 2007 because the lease was not renewed.

M. Inventory

In August 2006, Region III contracted with MRCOG to review and provide managerial assistance. MRCOG did not receive a capital asset inventory list from Region III for 2005. In addition, an inventory list was not provided for the time period during which MRCOG was contracted to provide financial and operational assistance. Therefore, it appears an annual physical inventory was not conducted for fiscal years ended December 31, 2005, 2006 and 2007.

IV. Other Information

A. Conduit Debt

From time to time, Region III has issued multifamily housing revenue bonds for the purpose of providing funds to private sector entities for the acquisition, construction and rehabilitation of multifamily housing complexes. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the facilities transfers to the private sector entity served by the bond issue. Repayment of the bonds is from the net revenues of the multifamily housing complexes. Region III customarily received an issuer fee. Region III is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. There was no documentation regarding the number of bonds outstanding and the aggregate principal amount payable at December 31, 2005, 2006 and 2007. Rather, the information was obtained by contacting the appropriate trust departments for the bonds.

B. Employee Retirement Benefits

Region III offers a tax-sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b) for all full-time employees. Employees may elect to defer a portion of their wages and Region III has the option to make a discretionary matching contribution. Plan expenses incurred by Region III for the fiscal years ended December 31, 2005, 2006 and 2007 were $57,548, $51,844 and $-0-. Region III's operations were transferred to MRCOG during August and September 2006, and it appears Region III participating employees withdrew all retirement funds in their accounts by August 2006. Therefore, there were no expenses incurred by Region III for the fiscal year ended December 31, 2007.

Region III maintains and administers an eligible deferred compensation plan in accordance with Section 457 of the Internal Revenue Code (IRC). Region III's contributions to the plan equal 15% of gross salaries for qualified employees. The contributions by Region III violated Section 457 of the IRC. Additionally, the contributions possibly violate the anti-donation clause of Article IX, Section 14 of the Constitution of the State of New Mexico. This contribution was $27,819 for the fiscal year ended December 31, 2005 and $19,076 for the fiscal year ended December 31, 2006. There were no contributions made for the fiscal year ended December 31, 2007.

C. Risk Management

Per our review of the general ledger no insurance premiums were paid during this time period.

D. Related Party Transactions

Region III sold two properties to Region III employees. It also sold one property to a member of HEI's Board of Directors. These properties will be sold with the net proceeds to be transferred to the SIO.

E. Schedule of Bond Issuer's Fee Received

Region III allowed use of its powers for ten bond issues for which they will collect 1/8th of 1% of the total outstanding bond amount per year for the life of the bond. The bonds are serviced by various financial institutions and Region III assumes no obligation thereof. Expected total revenues are as follows:

For Fiscal Year Ended December 31, 2005:

Bonds issued in 2003 or prior	Annual Amount	Remaining Bond Life	Total Expected Revenues
El Paseo Phase II (2002)	$ 9,371	40 years	$340,000
El Paseo Phase II (2003A)	12,613	30 years	$243,750
Arbor Apartments (2003A-1)	12,375	27 years	$324,844

Brentwood Gardens (2001A)	6,493	27 years	$170,437
Villa Del Oso (2003-A)	16,744	32 years	$499,000
Vista Grande (2003)	5,238	38 years	$205,438
Total for 2003/Prior Issuance	$ 62,834		$1,783,469
Bonds issued in 2004			
Enchanted Vista (2004A)	$ 1,019	39 years	$390,000
El Pueblo / Madiera (2004A)	-0-	37 years	$60,125
Total for 2004 Issuance	$ 1,019		$450,125
Bonds issued in 2005			
La Resolana (2005)	$ 9,250	27 years	$249,750
Ladera (2005)	6,250	37 years	$323,750
Total for 2004 Issuance	$ 15,500		$573,500
Grand Total	$ 79,353		$2,807,094

For Fiscal Year Ended December 31, 2006:

Bonds issued in 2003 or prior	Annual Amount	Remaining Bond Life	Total Expected Revenues
El Paseo Phase II (2002)	$ 9,351	39 years	$331,500
El Paseo Phase II (2003A)	-0-	29 years	235,625
Arbor Apartments (2003A-1)	19,242	26 years	312,813
Brentwood Gardens (2001A)	6,365	26 years	164,125
Villa Del Oso (2003-A)	16,566	31 years	483,406
Vista Grande (2003)	5,193	37 years	200,031
Total for 2003/Prior Issuance	$ 56,717		$1,727,500
Bonds issued in 2004			
Enchanted Vista (2004A)	$ 10,938	38 years	$380,000
El Pueblo / Madiera (2004A)	-0-	36 years	58,500
Total for 2004 Issuance	$ 10,938		$ 438,500
Bonds issued in 2005			
La Resolana (2005)	$ 9,043	27 years	$240,500

Grand Total	$ 76,698	$2,406,500

For Fiscal Year Ended December 31, 2007:

Bonds issued in 2003 or prior	Annual Amount	Remaining Bond Life	Total Expected Revenues
El Paseo Phase II (2002)	$ 9,242	38 years	$323,000
El Paseo Phase II (2003A)	8,125	28 years	227,500
Brentwood Gardens (2001A)	6,228	25 years	157,813
Villa Del Oso (2003-A)	13,661	30 years	467,813
Vista Grande (2003)	5,153	36 years	194,625
Total for 2003/Prior Issuance	$ 42,409		$1,370,751
Bonds issued in 2004			
Enchanted Vista (2004A)	$ 10,934	37 years	$ 350,000
El Pueblo / Madiera (2004A)	1,500	35 years	42,250
Total for 2004 Issuance	$ 12,434		$ 392,250
Bonds issued in 2005			
La Resolana (2005)	$ 8,894	26 years	$ 240,500
Grand Total	$ 63,737		$ 2,003,501

F. Commitment and Contingencies

Region III was a defendant in a lawsuit brought by Capital Concepts which was dismissed by the courts. Region III hired Wiggins, Williams & Wiggins, P.C. as its legal representation. There were unpaid fees in the amount of $2,609 (billed and unbilled) to Wiggins, Williams & Wiggins, P.C. as of December 31, 2007 for services rendered.

G. Subsequent Events

Region III sold nine of the lease-purchase properties to the tenants that were living in the homes at that time.

Also, the Trustee, Bank of Albuquerque, transferred to SIO the bond accounts with the remaining balance from the reserve fund of $137,036 on February 11, 2008.

H. Deficit Net Assets

Region III and HEI had a net asset deficit balance of ($2,423,969), ($2,946,115) and ($3,261,318) for the respective fiscal years ended December 31, 2005, 2006 and 2007.

I. Going Concern

Region III and HEI incurred operating losses of $1,934,155, $519,747 and $42,268 for the respective fiscal years ended December 31, 2005, 2006 and 2007.

J. Expenditures

1. Payroll Expenditures

Due to lack of documentation payroll was not able to be tested.

2. Travel and Per Diem Expenditures

Between January 15, 2006 and February 21, 2006, the Executive Director of Region III and HEI was paid per diem by Region III at a daily rate of $114 per day for a total of 37 days totaling $4,218. It appears that the payments were made for the Executive Director's overnight per diem expenses in Santa Fe, presumably for the legislative session. However, there is no supporting documentation verifying that he stayed in Santa Fe for 37 days straight. Also, the Executive Director did not obtain appropriate approval from Region III for his travel and per diem requests.

Furthermore, the Executive Director also requested and received per diem from HEI for the same trip. The Executive Director used the same Travel/Per Diem Request Forms, except for the title of the reimbursing entity, for both overnight per diem requests from Region III and HEI. Equal to his request for Region III, there was no supporting documentation that verified he stayed in Santa Fe for 37 days straight. Therefore, the Executive Director was reimbursed twice for one trip, amounting to a total of $8,436.

The total travel and per diem expenses incurred by Region III for the fiscal years ended December 31, 2005, 2006 and 2007 amounted to $139,390, $76,838 and $1,966, respectively.

K. Personal Loan with Promissory Note

In 2005, HEI made a personal loan to VSG, Inc., a company owned by the Executive Director of Region III and HEI. On January 10, 2005, HEI paid U.S. Title Co. in the amount of $300,000. One day after the payment was made to U.S. Title on behalf of the Executive Director, HEI's Board approved the loan on January 11, 2005. The loan appears to have been made for the purpose of purchasing property for the Executive Director.

The promissory note for the loan shows a receivable from the Executive Director and his wife. Accordingly, they were liable to repay the loan to HEI. The first clause of the promissory note states the sum of $30,000 is due upon execution of the note, which was January 14, 2005.

Repayment of the loan was received in the amount of $30,000 on January 14, 2005, $15,000 on August 11, 2005, and $5,000 on August 16, 2005. Also, the amount of $275,646, which consisted of remaining principal $250,000 and interest $25,646, was received on July 31, 2006 to complete the repayment of the promissory note.

Shortly following his repayment of the loan, the Executive Director received severance pay on August 9, 2006 in the amount of $11,538. The Executive Director resigned from Region III and HEI effective August 16, 2006. It appears the Executive Director repaid the loan money so that it could be available for his severance pay.

Given certain transactions that occurred prior to and on January 10, 2005, bond money may have been used for the personal loan. On December 22, 2004, Region III drew bond proceeds in the amount of $300,000. Region III wrote a check to HEI in the amount of $300,000 on January 10, 2005 for the purpose of purchasing properties in Las Cruces. That same day, HEI paid U.S. Title Co. $300,000, which represented the personal loan to VSG, Inc. The use of bond money would be in violation of state law, which provides it is unlawful to divert, use or expend any money received from the issuance of bonds for any purpose other than the purpose for which the bonds were issued.

L. GASB Statements Implementations

In May 2007, the GASB issued GASB Statement No. 50, Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27, which is effective for periods beginning after June 15, 2007. The Statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statements No. 43, Financial Reporting for Post employment Benefits Plans Other Than Pensions Plans, and No. 45, Accounting Financial Reporting by Employers for Post employment Benefits Other Than Pensions. Region III is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements of the upcoming year.

M. Schedules of Operating Expenses, Region III Housing Authority

	2005	2006	2007
Operating Expenses			
Personnel Salaries	$ 355,523	$ 272,347	$ 84,573
Travel & Per Diem	83,839	42,114	1,399
Professional Services: Accounting	1,499	5,268	-
Professional Services: Auditing	21,000	14,574	-
Professional Services: Legal	25,283	74,445	67
Bond Interest Expense	312,500	-	-
MRCOG Admin Fee	-	-	35,000
Employee Advances	19,699	3,154	-
Office Supplies	14,636	4,218	1,659
Building Maintenance/Repairs	1,807	1,569	813
Utilities	6,763	7,272	5,908
Employee Benefits	146,878	106,478	11,425
Housing Costs	13,302	21,680	6,427
Credit Report Expense	5,201	2,455	818
Interest Expense	17,245	33,801	-
Insurance	465	3,810	-
Lease-Purchase Repairs	6,279	13,121	11,065
Bank of Albuquerque	983,629	-	-
Mortgage Expenses	12,962	9,933	10,835
Loan Payment	5,719	-	5,625
Other Expenses: Phone	10,621	8,865	5,488
Other Expenses: Postage	2,798	2,065	585
Other Expenses: Subscriptions/dues	418	265	-
Depreciation Expense	12,975	12,975	9,507
Reimbursements	9,689	-	-
Real Estate Expense	245	-	887
Miscellaneous Expense	4,948	1,735	1,547
Advertising	2,609	1,240	52
Total Operating Expenses	$ 2,078,532	$ 643,384	$ 193,680

N. Schedules of Operating Expenses, Housing Enterprises, Inc.

	2005	2006	2007
Operating Expenses			
Personnel Salaries	$ 283,263	$ 225,124	$ 16,171
Professional Services: Contract	8,711	1,358	-
Professional Services: Legal	6,461	22,777	-
Excise Tax	402	-	-
Property Taxes	1,382	-	-
Training	631	349	-
Maintenance Service & Supplies	2,611	2,807	-
Licenses & Permits	3,510	2,416	123
Dues and subscriptions	109	1,481	-
Furnitures & Fixtures	326	-	-
Miscellaneous	200	1,330	9
Computer Services/Supplies	7,867	2,689	-
Computers/Peripherals	6,151	-	-
Contractual Services	80,918	163,158	450
Travel & Per Diem	-	34,724	-
Utilities	4,149	10,993	488
Office Supplies	7,588	3,407	-
Building Repairs	173	518	-
Lease-Purchase Repairs	-	3,130	-
Equipment Repairs	21	-	-
Telephone	6,859	3,199	124
Other Expenses: Postage	871	421	-
Travel and Per Diem	55,551	-	567
Depreciation Expense	12,245	13,198	6,599
Purchase Property	6,073	9,000	-
Vehicle Expense	1,104	929	406
Advertising	1,652	-	-
Total Operating Expenses	$ 498,828	$ 503,008	$ 24,937

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity ability to initiate, authorize, record, process, or report financial date reliably in accordance with genially accepted accounting principles such that there is more than a remote likelihood that a misstatement of Region III's financial statements that is more than inconsequential will not be prevented or detected by Region III's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: items 05-02, 05-03, 05-04, 05-05, 05-06, 05-07, 05-08, 05-09, 05-10, 05-11, 06-01, 07-01 and 07-02.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Region III's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 05-02, 05-03, 05-04, 05-05, 05-07, 05-08, 05-09, 05-10, 05-11, 06-01, 07-01 and 07-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Region III'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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 04-01, 05-01, 05-02, 05-03, 05-04, 05-06, 05-08 and 07-03.

Region III's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Region III's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Region III's management, the Board of Directors, the New Mexico Office of the State Auditor, the New Mexico Department of Finance and Administration, the New Mexico State Legislature, and

OFFICE OF THE STATE AUDITOR

Hector H. Balderas

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*

Executive Director and Board of Directors
Region III Housing Authority, New Mexico, Inc.
809 Copper Ave.
Albuquerque, New Mexico 87102

We were engaged to audit the financial statements of the business-type activities of the Region III Housing Authority, New Mexico, Inc. (Region III) as of and for the years ended December 31, 2005, 2006 and 2007 and have issued our report thereon dated December 19, 2008. We issued a disclaimer of opinion on the basic financial statements for the fiscal years ended December 31, 2005, 2006 and 2007 because of inadequate accounting records. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Region III's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Region III's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Region III's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the proceeding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Office of the State Auditor

OFFICE OF THE STATE AUDITOR
December 19, 2008

SCHEDULE OF FINDINGS AND AUDIT RESPONSES
DECEMBER 31, 2005, 2006 AND 2007

STATUS OF PRIOR YEAR AUDIT FINDINGS

04-1. FILING OF AUDIT REPORTS – Repeated & Modified.

CURRENT YEAR AUDIT FINDINGS

04-1. Late Audit Reports for Fiscal Years 2005, 2006 and 2007

Condition
Region III did not file its December 31, 2005, 2006 and 2007 audit reports with the Office of the State Auditor by the required deadlines. The report was submitted on December 19, 2008.

Criteria
Section 2.2.2.9.A.(g) NMAC requires the filing of audit reports within 5 months after the fiscal year end.

Cause
Region III did not contract with an auditor until after deadline.

Effect
Financial information is not available for decision making purposes.

Recommendation
Region III should complete preparations for the audit and have the audit fieldwork conducted at an earlier date than in the current year to ensure the auditors have sufficient time to complete the audit report by the specified date.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's Office. Current management requested in September 2006 that the audit firm of Meyners + Co. complete the 2005 audit but the firm withdrew from the audit contract. This concern was brought to the attention of Department of Finance and Administration and Office of the Attorney General. Without the completion of the 2005 audit, the 2006 and 2007 audits could not be completed.

05-01. Disposition of Capital Assets

Condition
During our test work of capital assets, we found Region III had sold their office building, the land that the building is on, and the office equipment in the building. This amount totaled $337,469. However, Region III did not notify the Office of the State Auditor (OSA) of the disposition of its property.

Criteria
Sections 13-6-1 and 13-6-2 NMSA 1978, govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state education institutions. At least thirty days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of Region III approving the action must be sent to the OSA.

Effect
Region III is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978.

Cause
Due to the turnover in management staff, Region III was not aware they had to report to the OSA for any disposal of capital assets.

Recommendation
We recommend Region III notify the OSA of any dispositions of capital assets before disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible personal property (1) designate a committee of at least three officials of the governing authority to approve and oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of Region III approving the action.

Management's Response
During the sale of office building, the office furniture, computers and other furnishing were negotiated as part of the sale.

05-02. No Physical Inventory of Capital Assets

Condition
During our test work of capital assets, we found Region III was not conducting a physical inventory of movable chattels and equipment.

Criteria
Section 12-6-10 NMSA 1978 requires that each agency conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of fiscal year. The agency shall certify the corrections of the inventory after the physical inventory. This certification should be provided to the agency's auditors.

Cause
Due to the turnover in management staff, Region III was unable to locate a physical inventory list or Region III did not conduct an annual physical inventory.

Effect
Region III is in violation of Section 12-6-10 NMSA 1978.

Recommendation
Region III should conduct a physical inventory list each fiscal year end in accordance with Section 12-6-10 NMSA 1978.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-03. Lack of Proper Approval for Long-Term Debt

Condition
During our audit test work of long-term debt (notes payable), we did not find documentation demonstrating that Region III's Board of Directors (Board) formally authorized the acquisition of new loans for Region III. We also did not find documentation demonstrating that the Board delegated the authority to Region III management to acquire new loans for Region III. Total long-term debt amount was $332,878.

Criteria
The acquisition of new loans is an exercise of power by Region III that requires formal authorization by the Board pursuant to the Regional Housing Law, Chapter 11, Article 3A.

Effect
Region III did not comply with the provisions of the Regional Housing Law.

Cause
Management of Region III either disregarded the prerequisite of Board authorization for the acquisition of new loans or the management of Region III was not aware of the requirement.

Recommendation
We recommend that the acquisition of new loans for Region III be formally authorized by the Board.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-04. Due To/Due From Other Regional Housing Authorities was not Formally Authorized

Condition
During our audit of Region III, we did not find documentation demonstrating that the amounts loaned to other regional housing authorities by Region III were formally authorized by Region III's Board of Director's (Board). We also did not find documentation demonstrating that the Board delegated the authority to Region III management to make loans to other regional housing authorities on behalf of Region III. In addition, it appears that there were no signed documents by Regions I, IV, and VII for the repayment of these loans. As of December 31, 2007, Regions I, IV and VII owe Region III $346,457, $95,258 and $560,460 respectively.

Criteria
The lending of money to other regional housing authorities is an exercise of power by Region III that requires formal authorization by the Board pursuant to the Regional Housing Law, Chapter 11, Article 3A.

Effect
Region III did not comply with the provisions of the Regional Housing Law. Without promissory notes or other documentation stipulating repayment, Region III may not be able to recover the loans. Finally, it appears that Region III advanced money to other regional housing authorities using restricted funds.

Cause
Management of Region III either disregarded the prerequisite of Board authorization for lending money or the management of Region III was not aware of the requirement.

Recommendation
We recommend that the lending of money to other regional housing authorities by Region III be formally authorized by the Board. In addition, when making loans, Region III should execute a promissory note or maintain other documentation that stipulates repayment of the loans.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-05. Unauthorized Approval of Expenditures and Missing Payment Vouchers

Condition
During review of the Due to/Due From analysis for fiscal years ended December 31, 2005, 2006 and 2007, we were unable test two of three disbursement items made by Region III on behalf of the Region IV Housing Authority (Region IV) in the amount of $9,617 and $46,554 for fiscal years ended December 31, 2005 and 2006 respectively. We were also unable to determine who at Region III authorized the payments for goods and services made on behalf of Region IV. Proper file maintenance was not ensured to adequately document repayment of amounts due from Region IV.

Criteria
Good accounting practices require Region III to properly maintain accurate books and records of Due To/Due From amounts for timely collection of outstanding balances.

Cause
Due to multiple staff changes, Region III management did not provide adequate file maintenance and implement proper internal control procedures to oversee the repayment schedule for Region IV.

Effect
The ability of Region III's management to monitor and collect amounts due from Region IV is diminished without access to accurate and complete financial information regarding Due To/Due From.

Recommendation
Region III should maintain roper documentation and complete files for all Due To/Due From for receipt of monies and disbursements of monies on behalf of Region IV.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-06. Bond Interest Payments were Not Paid in a Timely Manner

Condition
During our audit test work of bonds payable, we found that Region III was not paying its interest payments for outstanding bond balances to the trustee in the amount of $612,336.

Criteria
The trust indentures for the Series 2003 and Series 2004 bonds required that Region III's interest payment for each outstanding bond balance should be paid on June 1 and December 1, commencing December 1, 2004.

Effect
Region III is not complying with the terms of the trust indentures for the bonds.

Cause
Due to the change in management of Region III, we were unable to inquire with old management about the reason for the bond interest payments not being paid on time. In addition, in fiscal year ended December 31, 2007, Region III did not have the funds to pay the semi-annual interest payments.

Recommendation
We recommend Region III properly follow all the bond indenture covenants for their Series 2003 bond and their Series 2004.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-07. Lack of Supporting Documentation for Payroll

Condition
Out of twenty-six payroll documents tested, twenty-six instances of missing time sheets were documented. Also, twenty-six instances of missing pay stubs were documented for a total gross pay of $44,721.

Criteria
Good accounting practices require proper documentation retention for payroll transactions and establishes requirements and procedures for reporting and certification of employee hours worked.

Effect
Region III may have underpaid or overpaid its employees.

Cause
Region III either did not maintain payroll records or the records were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation
Region III should ensure that all payroll expenditures are accurately prepared, properly documented and maintained for auditing purposes. Region III should also ensure that all required supporting documentation be attached before payment is made.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding. With a change in staff, the location of the original records was difficult to identify.

05-08. Lack of Proper Authorization of Travel Expenses

Condition
Based on our test work of Region III and HEI, we found that reimbursements for travel expenses were lacking proper authorization when an employee requested travel reimbursements. Based on our test work, employees were signing off on their own travel and per diem request forms. During fiscal years ended December 31, 2005, 2006 and 2007, travel expenses incurred totaled $139,390, $76,838 and $1,966 respectively.

Criteria
Good accounting practices and Section 2.42.2 NMAC, promulgated pursuant to the Per Diem and Mileage Act, Chapter 10, Article 8 NMSA 1978, requires the correct approval of all per diem requests.

Effect
Not having the correct authorization of per diem request could result in the over/under payment of travel reimbursements and expenses.

Cause
It appears that Region III either disregarded or was not aware of the requirements of the Per Diem and Mileage Act and the Act's accompanying administrative rules.

Recommendation
We recommend that travel per diem request forms have proper approval before payments for travel and per diem are made to employees. Region III should follow the requirements of the Per Diem and Mileage Act and the Act's accompanying administrative rules.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

05-09. Lack of Supporting Documentation for Expenditures

Condition
Out of the seventy-one purchase documents tested for fiscal year 2005 in the amount of \$60,129, we found only twenty-one purchase documents (i.e. invoices, vouchers) or any other supporting documents to document board approval. Out of sixty-two purchase documents tested in fiscal year 2006 in the amount of \$109,887, we found only sixteen purchase documents (i.e. invoices, vouchers) or any other supporting documents to document board approval. Out of the seven purchase documents tested in fiscal year 2007 in the amount of \$607, we found only one purchase document (i.e. invoice, vouchers) or other supporting document to document board approval.

Criteria
Good accounting practices and the Procurement Code, Chapter 13, Article 1 NMSA 1978 requires all commitments to purchase goods or services must be documented by a properly completed purchase document.

Effect
Not having the supporting documentation may result in payments being made for goods or services that were not received.

Cause
Region III either did not maintain the documents or the documents were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation
We recommend that all purchase documents are approved, have attached invoices, and/or other appropriate supporting documentation and certify that goods/services were received before payment is made.

Management's Response
Because so many agencies were involved in reviewing Region III's records it was difficult to maintain adequate control of documents.

05-10. No Cash Reconciliations and Missing Bank Statements

Condition
During our audit test work of the cash audit program, we found Region III and HEI were not properly maintaining bank reconciliations for each of its depository accounts. For numerous months, Region III and HEI were missing original bank statements to support the bank balances and book balances for each account. Therefore, there was no verifiable way to see if reconciliations were performed.

Criteria
Good accounting practice and internal controls require Region III and HEI to properly maintain accurate books and records of cash balances on a day-to-day basis and requires timely reconciliation of all cash bank accounts.

Cause
The accounting staff failed to properly maintain the books and records for the cash reconciliation process. Also, Region III and HEI did not file and maintain the proper supporting documentation for cash reconciliations. Without the proper supporting documents, we could not trace the bank balances and review the deposits in transit as well as the outstanding checks.

Effect
This caused a delay in the audit test work for the cash audit program because we were required to request the bank statements from each applicable financial institution to prepare proof of cash reconciliations for each account.

Recommendation
We recommend Region III and HEI prepare cash reconciliations for each depository account to reflect the cash transactions to its financial statements. Region III and HEI should maintain and file proper supporting documentation for its cash balances at the opening and closing of each period.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding. Changes in staff made locating original documents difficult.

05-11. Debt Amounts Exceed Property Costs

Condition

During our audit of Region III we noted that several properties had two types of debt outstanding on them: notes and bond proceeds. In 2005, Region III had 14 properties that had both bonds payable and a notes payable on them. These 14 properties had a historical cost of $1,289,633, total bonds payable of $1,260,226 and total notes payable of $1,364,121 which resulted in excess debt over property value of $1,334,714. In 2006, Region III still had 12 properties that had both bonds payables and notes payable on them. These 12 properties had a historical cost of $1,158,988, total bonds payable of $1,132,026 and total notes payable of $1,188,384 which resulted in excess debt over property value of $1,161,422 on the properties. In 2007, Region III still had 11 properties that had both bonds payable and a notes payable on them. These 11 properties had a historical cost of $1,040,572 and a total bonds payable of $1,020,254 and total notes payable of $1,064,523 which resulted in excess debt over property value of $1,044,209. It appears that Region III was using the double loan funds to fund other activities other than the purchase and rehab of the properties.

Criteria

Region III did not comply with the terms of the bond indenture. Properties should not have more liens on the properties than the actual property is worth.

Effect

Region III is over extending itself on loans and has created a deficit in its property value due to the double loans on several properties.

Cause

There was a lack of oversight related to Region III's drawing of bonds on properties. Additionally, the bond indenture had no provision to secure a lien interest in any property purchased with bond proceeds.

Recommendation

Region III should implement policies and procedures that require that Region III only obtain one payable per property to avoid negative equity on the properties.

Management's Response

Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

06-01. Missing Documentation for Payroll

Condition
Out of twenty-one payroll documents tested, all test items were missing time sheets. Also, there were twenty-one instances of missing pay stubs for a total gross pay of $50,963.

Criteria
Good accounting practices require proper documentation retention for payroll transactions and establishes requirements and procedures for reporting and certification of employee hours worked.

Effect
Region III may have underpaid or overpaid its employees.

Cause
Region III either did not maintain the documents or the documents were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation
Region III should ensure that all payroll expenditures are accurately prepared, properly documented and maintained for auditing purposes. Region III should also ensure that all required supporting documentation be attached before payment is made.

Management's Response
Because so many agencies were involved in reviewing Region III's records it was difficult to maintain adequate control of documents.

07-01. Missing Documentation for Payroll

Condition
Out of seven payroll documents tested, seven instances of missing time sheets were documented. Also, seven instances of missing pay stubs were documented for a total gross pay of $11,480.

Criteria
Good accounting practices require proper documentation retention for payroll transactions and establishes requirements and procedures for reporting and certification of employee hours worked.

Effect
Region III may have underpaid or overpaid its employees.

Cause
Region III either did not maintain payroll records or the records were misplaced or not transferred correctly when Region III's accounting records were transferred to the Mid-Region Council of Governments (MRCOG). Region III sold its building and was relocated to the MRCOG building during the latter part of fiscal year 2007. Also, certain Region III documents may be in the possession of the Attorney General's Office.

Recommendation
Region III should ensure that all payroll expenditures are accurately prepared, properly documented and maintained for auditing purposes. Region III should also ensure that all required supporting documentation be attached before payment is made.

Management's Response
Because so many agencies were involved in reviewing Region III's records it was difficult to maintain adequate control of documents.

07-02. Improper Recording of Lease-Purchase Notes Payable

Condition
During our analytical review of the general ledger, we noted that the notes payable balances for the lease-purchase properties were not being reduced by the principal payments received. Region III does not receive the payment directly. Rather, Region III uses an outside service that receives the payments and sends them to the mortgager.

Criteria
Generally accepted accounting principles require the accurate recording of all transactions in the general ledger.

Cause
There was a lack of oversight of Region III's (HEI) lease-purchase notes payable.

Effect
Not posting payments makes it difficult to accurately account for the notes payable balances on the related properties. Notes payable for the lease-purchase properties were overstated because the principal payments were not recorded.

Recommendation
Region III should ensure that all payments are properly recorded in the general ledger.

Management's Response
Even though the current management was not involved with the operations, we concur with the State Auditor's finding.

07-03. Disposition of Capital Assets

Condition
During our test work of capital assets, we found Region III had sold three vehicles in the total amount of $26,080. However, Region III did not notify the Office of the State Auditor (OSA) of the disposition of its property.

Criteria
Sections 13-6-1 and 13-6-2 NMSA 1978, govern the disposition of obsolete, worn-out or unusable tangible personal property owned by state agencies, local public bodies, school districts, and state education institutions. At least thirty days prior to any such disposition of property, written notification of the official finding and proposed disposition duly sworn and subscribed under oath by each member of Region III approving the action must be sent to the OSA.

Effect
Region III is in violation of Sections 13-6-1 and 13-6-2 NMSA 1978.

Cause
Due to the turnover in management staff, Region III was not aware they had to report to the OSA for any disposal of capital assets.

Recommendation
We recommend Region III notify the OSA of any dispositions of capital assets before disposal. In accordance with Section 13-6-1 NMSA 1978, the governing authority shall, as a prerequisite to the disposition of any items of tangible personal property (1) designate a committee of at least three officials of the governing authority to approve and

oversee the disposition; and (2) give notification at least thirty days prior to its action making the deletion by sending a copy of its official finding and the proposed disposition of the property to the State Auditor and the appropriate approval authority designated in Section 13-6-2 NMSA 1978, duly sworn and subscribed under oath by each member of Region III approving the action.

Management's Response
During the sale of three vehicles due to the turnover in management staff Region III was not aware they had to report to the SAO for disposal of capital assets.

STATE OF NEW MEXICO
REGION III HOUSING AUTHORITY, NEW MEXICO, INC.

EXIT CONFERENCE
DECEMBER 31, 2005, 2006 AND 2007

Financial Statement Preparation

The accompanying financial statements were prepared by the Office of the State Auditor (OSA). However, the contents remain the responsibility of Region III.

Exit Conference

On December 19, 2008 an exit conference was held at Region III's Office with Mr. Dewey Cave, Director of Planning and General Services of the Mid-Region Council of Governments. Representing the Office of the State Auditor was Chan Kim, CPA, Audit Manager. The results of the audit and the contents of this report were discussed.