

STATE OF NEW MEXICO  
REGION III  
HOUSING AUTHORITY,  
NEW MEXICO, INC.  
Financial Statements  
for the Year Ended  
December 31, 2003  
and Independent  
Auditors' Report

10.5.2004

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State of New Mexico  
**OFFICE OF THE STATE AUDITOR**

Carl M. Baldwin, CPA, CFE  
Deputy State Auditor

Domingo P. Martinez, CGFM  
State Auditor

October 5, 2004

SAO Ref. No. 9003

Vincent "Smiley" Gallegos, Executive Director  
and  
Members of the Board of Directors  
Region III Housing Authority  
2118 Central Ave, SE PMB:33  
Albuquerque, NM 87106-


SUBJECT: Audit Report—Region III Housing Authority—2002-2003 Fiscal Year--Prepared by  
Meyners & Company, LLC

Your agency audit report was received by the Office of the State Auditor (Office) on August 18, 2004. The State Auditor examination of the audit report required by Section 12-6-14 (D), NMSA 1978, has been completed. This letter is the authorization to make the final payment to the independent public accountant (IPA) who contracted to perform the agency's financial and compliance audit. In accordance with the Section 2 (B) of the audit contract, the IPA will deliver the specified number of copies of the audit to the agency.

Per Section 12-6-5 (A), NMSA 1978, the audit report does not become public record until ten days after the date of this letter. Once the ten day waiting period has passed the audit report shall be:

- released by the Office of the State Auditor to the Legislative Finance Committee, the Department of Finance and Administration, and the State Treasurer; and
- presented by the agency to a quorum of the agency's governing authority at a public meeting, for approval, per Section 2.2.2.10 K. (3) (d) of 2.2.2 NMAC *Requirements for Contracting and Conducting Audits of Agencies*.

The independent public accountant's findings and comments are included in the audit report on pages 34 - 36. *It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments.*

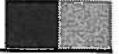
  
DOMINGO P. MARTINEZ, CGFM  
STATE AUDITOR

cc: Legislative Finance Committee  
Department of Finance and Administration-  
Local Government Division  
Meyners & Company, LLC

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

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

Official Roster

Region III Housing Authority, New Mexico, Inc.  
December 31, 2003

Board of Directors - Appointed by the Governor of New Mexico

	<u>Title</u>
Dan Rudolph	Chairman
Ross Aranda	Vice Chairman
Filo M. Sedillo	Secretary/Treasurer
Eugene Hurtado	Member
Morrow Hall	Member
Delores Molina	Member
Ronnie Wallace	Member
<u>Administrative Staff</u>	
Vincent "Smiley" Gallegos	Executive Director
James Raia	Fiscal Manager

Housing Enterprises, Inc.  
December 31, 2003

Board of Directors

	<u>Title</u>
Morrow Hall	Chairman
Eugene Hurtado	Vice Chairman
Dolores Molina	Secretary/Treasurer
Dan Rudolph	Member
Charlie Esparza	Member
Pat Ralston	Member
Johnny Chavez	Member

Administrative Staff

Vincent "Smiley" Gallegos	Executive Director
James Raia	Fiscal Manager

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

**Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003**

**Unaudited**

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The Region III Housing Authority, New Mexico, Inc.'s Management's Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues, provide an overview of the Housing Authority's financial activity, identify changes in the Authority's financial position, and identify any financial issues or concerns. The MD&A is designed to focus on the past year's activities and financial changes.

As management of the Authority, we offer readers this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2003.

### **Authority Overview**

The Authority is one of seven Regional Housing Authorities within the State of New Mexico. The Authority's mission is to facilitate the creation of affordable housing opportunities for persons of lower, low and moderate income that is safe, decent and meets or exceeds Housing Qualities Standards; retention and expansion of jobs; and to increase investment through public/private partnerships to establish a stable diverse economy in an effort to improve the quality of life for New Mexicans.

To achieve our mission, the Authority provides leadership and technical assistance to communities, businesses, and other regional housing authorities and non-profit organizations. This is done to empower both the public and private sectors to facilitate economic growth and improve housing conditions throughout New Mexico. Our emphasis is on the creation of safe, decent and affordable housing.

### **Financial Highlights**

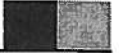
#### Overview of the Financial Statements:

- In the fiscal year ended December 31, 2003, the total liabilities of the Authority exceeded total assets by \$206,862.
- The Authority had acquired \$315,473 in total capital assets.
- Of the \$1,199,028 in total current assets, nearly 85 percent was in the form of housing inventory.
- The total cost of Authority programs was \$189,203, whereas the total Authority revenue was \$338,966.

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

Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003

Unaudited



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**Authority Highlights**

During the 2003 fiscal year, the Authority had many accomplishments in housing activities.

- ***Multi-family Bond Program***

Fiscal year 2003 saw the creation of 1,729 affordable housing units throughout Region III's district. The program was also responsible for the creation of more than 1,600 construction jobs averaging \$25,000 in salaries for the year 2003. The total economic impact of the Authority was \$98,310,000 in direct cash to local businesses and the work force.

- ***Acquisition Rehab***

Funded by bond issues and various lenders, Acquisition and Rehab helped the Authority to purchase homes and refurbish them to meet or exceed the housing quality standards established by HUD. Region III Housing Authority allows this fund to be utilized by several of the other Regional Housing Authorities.

- ***Lease Purchase***

Funded by bond issues, the Lease Purchase Plus Program allows persons or families with credit issues and low FICO scores to partner with the Region III Housing Authority to purchase and lease a home while they repair their credit. The program provides credit counseling, finance counseling and home ownership counseling during the duration of the lease period, which is thirty-nine months. After the mortgage is assumed, the family earns the accrued equity to that point. The Region III Housing Authority also allows this fund to be utilized by several of the other Regional Housing Authorities.

- ***Home Ownership Counseling***

Funded through Bond fees, this program provides an extensive counseling program, which includes Home Ownership Counseling, Credit Counseling, and Finance Counseling to qualified low income families and individuals.

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

Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003

Unaudited

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**Overview of the Financial Statement**

- ***Enterprise Funds***

Enterprise funds are used to account for its operations. It is the intent of the governing body that the cost of providing goods and services to the 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.

The Authority adopts an annual non-appropriated board approved budget for all of its operational activities.

- ***Other Information***

Individual schedules of operating expenses for Region III Housing Authority and Housing Enterprises Inc. can be found on pages 22 and 23 of this report.

**Business-type Activities**

Business-type activities decreased the Authority's net assets by \$328,422.

***Financial Analysis of the Enterprise Funds***

The focus of the Authority's Enterprise funds is to provide information on all inflows, outflows, and balances of all resources. Such information is useful in assessing the Authority's financial requirements.

As of the end of the 2002 fiscal year, the Authority's enterprise funds reported combined ending net assets of \$121,560. During the 2003 fiscal year, the net assets of the Authority's enterprise fund decreased by \$328,422. The key factor in this was the increase in housing inventories and the cost of maintaining operations during the start up phase of the programs.

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

Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003

Unaudited

**Business-type Activities - continued**

***Financial Analysis of the Authority as a Whole***

Net Assets: Table A-1 summarizes the Authority's net assets for the fiscal year ended December 31, 2003. Net assets for Enterprise Activities were \$(206,862).

**Table A-1**

<b>YEARS ENDED DECEMBER 31,</b>	<b>2003</b>	<b>2002</b>
<b>ASSETS:</b>		
Current and other assets	\$ 1,199,028	230,852
Capital and non-current assets	<u>342,939</u>	<u>291,583</u>
<b>TOTAL ASSETS</b>	<b>1,541,967</b>	<b>522,435</b>
<b>LIABILITIES:</b>		
Current liabilities	1,526,238	266,370
Long-term liabilities	<u>222,591</u>	<u>134,505</u>
<b>TOTAL LIABILITIES</b>	<b>1,748,829</b>	<b>400,875</b>
<b>NET ASSETS:</b>		
Invested in capital assets net of related debt	(206,862)	121,560
Restricted	<u>-</u>	<u>-</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>(206,862)</u></b>	<b><u>121,560</u></b>

The Authority's current assets increased from the prior year, due mostly to the acquisition of eleven housing inventory properties and additions made to three existing housing inventory units. These units are purchased, refurbished and sold through the Authority's Acquisition and Rehab program. Capital and non-current assets increased as a result of purchases of equipment and vehicles during the year and the existence of a note receivable from a local non-profit organization. Liabilities increased from the prior year, also as a result of the acquisition of new housing inventory units, which were financed through various notes payable. These notes are repaid as the respective housing units are sold.

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

Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003  
Unaudited

**Business-type Activities - continued**

***Financial Analysis of the Authority as a Whole - continued***

Changes in net assets: The Authority's change in net assets for fiscal year 2003 was \$(328,422) (Statement of Activities). Ninety-eight percent of the Authority's revenue comes from sales and charges to the general public.

**Table A-2**

<b>YEARS ENDED JUNE 30,</b>	<b>2003</b>	<b>2002</b>
<b>GENERAL REVENUE:</b>		
Sales and Charges	\$ 300,622	316,807
Others	<u>38,344</u>	<u>216,282</u>
<b>TOTAL GENERAL REVENUE</b>	<b>338,966</b>	<b>533,089</b>
<b>EXPENSES:</b>		
General	383,206	-
Program	<u>290,093</u>	<u>387,364</u>
<b>TOTAL EXPENSES</b>	<u><b>673,299</b></u>	<u><b>387,364</b></u>
<b>OTHER REVENUE</b>	<u><b>5,911</b></u>	<u><b>-</b></u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(328,422)</b>	<b>145,725</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u><b>121,560</b></u>	<u><b>(24,165)</b></u>
<b>NET ASSETS, END OF YEAR</b>	\$ <u><u><b>(206,862)</b></u></u>	<u><u><b>121,560</b></u></u>

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

Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003

Unaudited

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**Business-type Activities - continued**

***Financial Analysis of the Authority as a Whole - continued***

The Authority's general revenues decreased as a result of lower real estate sales compared to the prior year. Also, in the prior year the Authority received \$215,000 of appropriations from the State of New Mexico. No such appropriations were made in the current year.

The Authority's total expenses increased from the prior year due to the establishment of Housing Enterprises, Inc. (blended component unit), which accounted for approximately \$163,000 of expenses in the current year. Other expenses increased as a result of growth and increased activity. For example, salaries increased approximately \$77,000 due to the increase in staff size, bond issue fees expense increased \$13,500 as a result of the issuance of more bonds in the current year, and professional fees expense increased \$23,000 due to the need for increased legal consultation relating to the bond issuances.

***Capital Assets and Debt Administration***

The Authority's investment in capital assets for its governmental activities amounts to \$300,204 (net of accumulated depreciation). This investment in capital assets includes building and furnishings. Additional information on the Authority's capital assets can be found in the notes to this report.

The Authority's total debt increased \$1,347,954 over the previous fiscal year. The key factor in this increase was the change in housing inventory.

***Original and Final Budget***

There were no significant variations between the original and final budget.

***Currently Known Facts, Decisions, or Conditions Expected to Have an Effect on Operations***

On January 1, 2004, the Region III Housing Authority took a lead role to form an association of the Regional Housing Authorities throughout the state. The activities of the authorities were to identify the housing needs of the regions and to collaborate with each other to pool resources and to provide the technical assistance to accomplish the identified tasks. As a result of these efforts, the authorities have developed partnerships with cities, counties, schools, colleges and other state agencies to enhance the delivery of affordable housing.

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

Management's Discussion and Analysis  
For the fiscal year ended December 31, 2003  
Unaudited

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**Business-type Activities - continued**

***Requests for Information***

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Region III Housing Authority, New Mexico, Inc.



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## INDEPENDENT AUDITORS' REPORT

Domingo P. Martinez, CGFM  
New Mexico State Auditor  
and  
Board of Directors  
State of New Mexico  
Region III Housing Authority, New Mexico, Inc.  
Albuquerque, New Mexico

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State of New Mexico Region III Housing Authority, New Mexico, Inc. (the Authority) as of and for the year-ended December 31, 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the State of New Mexico Region III Housing Authority, New Mexico, Inc. as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Domingo P. Martinez, CGFM  
New Mexico State Auditor  
and  
Board of Directors  
State of New Mexico  
Region III Housing Authority, New Mexico, Inc.

In accordance with Government Auditing Standards, we have also issued our report dated June 11, 2004 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of December 31, 2003.

The management's discussion and analysis are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming and opinions on the financial statements that collectively comprise the State of New Mexico Region III Housing Authority, New Mexico, Inc.'s basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Meyners + Company, LLC*

June 11, 2004

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

Balance Sheet  
Proprietary Funds

Exhibit 1

AS OF DECEMBER 31, 2003

	Region III Housing Authority, New Mexico Inc.	Housing Enterprises, Inc.	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash (Note 2)	\$ 120,533	17,866	138,399
Accounts receivable, net (Notes 5 & 6)	30,832	4,118	34,950
Escrow	3,426	-	3,426
Housing inventories	<u>368,366</u>	<u>653,887</u>	<u>1,022,253</u>
<b>TOTAL CURRENT ASSETS</b>	<u>523,157</u>	<u>675,871</u>	<u>1,199,028</u>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 3)</b>			
Property, plant and equipment	305,468	10,005	315,473
Less accumulated depreciation	<u>14,602</u>	<u>667</u>	<u>15,269</u>
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	290,866	9,338	300,204
<b>LONG TERM PORTION OF NOTE RECEIVABLE (Note 6)</b>	<u>42,735</u>	<u>-</u>	<u>42,735</u>
<b>TOTAL ASSETS</b>	<u>\$ 856,758</u>	<u>685,209</u>	<u>1,541,967</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 3,426	-	3,426
Interest payable	32,303	-	32,303
Accrued payroll liabilities	16,680	9,972	26,652
Current portion of long-term debt (Note 4)	<u>1,463,857</u>	<u>-</u>	<u>1,463,857</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>1,516,266</u>	<u>9,972</u>	<u>1,526,238</u>
<b>OTHER LIABILITIES:</b>			
Long-term debt (Note 4)	221,991	-	221,991
Tenant Deposit	<u>600</u>	<u>-</u>	<u>600</u>
<b>TOTAL LIABILITIES</b>	<u>1,738,857</u>	<u>9,972</u>	<u>1,748,829</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	162,490	9,338	171,828
Unrestricted	<u>(1,044,589)</u>	<u>665,899</u>	<u>(378,690)</u>
<b>TOTAL NET ASSETS</b>	<u>(882,099)</u>	<u>675,237</u>	<u>(206,862)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 856,758</u>	<u>685,209</u>	<u>1,541,967</u>

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

Exhibit 2

Statement of Activities  
Proprietary Funds

YEAR ENDED DECEMBER 31, 2003

	Region III Housing Authority, New Mexico Inc.	Housing Enterprises, Inc.	Total
<b>OPERATING REVENUES:</b>			
Charges for service	\$ 93,273	22,221	115,494
Real estate sales	77,250	101,000	178,250
Rent income	6,878	-	6,878
Miscellaneous Income	38,344	-	38,344
<b>TOTAL OPERATING REVENUES</b>	<u>215,745</u>	<u>123,221</u>	<u>338,966</u>
<b>OPERATING EXPENSES:</b>			
General and administrative Program	320,812	62,394	383,206
	<u>189,203</u>	<u>100,890</u>	<u>290,093</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>510,015</u>	<u>163,284</u>	<u>673,299</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(294,270)</u>	<u>(40,063)</u>	<u>(334,333)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Contributions	1,500	-	1,500
Interest Income	4,411	-	4,411
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>5,911</u>	<u>-</u>	<u>5,911</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	715,300	715,300
Transfers out	(715,300)	-	(715,300)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(715,300)</u>	<u>715,300</u>	<u>-</u>
<b>CHANGE IN NET ASSETS</b>	(1,003,659)	675,237	(328,422)
<b>TOTAL NET ASSETS - BEGINNING</b>	<u>121,560</u>	<u>-</u>	<u>121,560</u>
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ (882,099)</u>	<u>\$ 675,237</u>	<u>\$ (206,862)</u>

See Notes to Financial Statements.

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

Statement of Cash Flows -  
All Proprietary Fund Types

Exhibit 3

YEAR ENDED DECEMBER 31, 2003

	Region III Housing Authority, New Mexico Inc.	Housing Enterprises, Inc.	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 151,317	\$ 119,103	\$ 270,420
Payments to suppliers and to and on behalf of employees	(658,421)	(806,532)	(1,464,953)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(507,104)</b>	<b>(687,429)</b>	<b>(1,194,533)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Payments on long-term debt	(185,322)	-	(185,322)
Proceeds from long-term debt	1,532,305	-	1,532,305
Transfers from other funds	-	715,300	715,300
Transfers to other funds	(715,300)	-	(715,300)
<b>NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>631,683</b>	<b>715,300</b>	<b>1,346,983</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from capital debt	6,234	-	6,234
Capital contributions	1,500	-	1,500
Purchases of capital assets	(9,468)	(10,005)	(19,473)
Principal paid on capital debt	(11,222)	-	(11,222)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(12,956)</b>	<b>(10,005)</b>	<b>(22,961)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received	4,411	-	4,411
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>4,411</b>	<b>-</b>	<b>4,411</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>116,034</b>	<b>17,866</b>	<b>133,900</b>
<b>CASH BALANCES - BEGINNING OF THE YEAR</b>	<b>4,499</b>	<b>-</b>	<b>4,499</b>
<b>CASH BALANCES - END OF THE YEAR</b>	<b>\$ 120,533</b>	<b>\$ 17,866</b>	<b>\$ 138,399</b>

See Notes to Financial Statements.

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

Statement of Cash Flows - continued  
All Proprietary Fund Types

Exhibit 3 (continued)

**RECONCILIATION OF OPERATING INCOME  
(LOSS) TO NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES:**

	Region III Housing Authority, New Mexico Inc.	Housing Enterprises, Inc.		Total
	<u>                    </u>	<u>                    </u>		<u>                    </u>
<b>OPERATING INCOME (LOSS)</b>	\$ (294,270)	\$ (40,063)	\$	(334,333)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
Depreciation expense	10,185	667		10,852
Change in assets and liabilities:				
Receivables, net	39,168	(4,118)		35,050
Housing Inventories	(213,248)	(653,887)		(867,135)
Escrow	(2,191)	-		(2,191)
Note receivable	(42,735)	-		(42,735)
Accounts payable and other payables	(8,695)	-		(8,695)
Accrued payroll liabilities	4,682	9,972		14,654
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (507,104)</u>	<u>\$ (687,429)</u>	<u>\$</u>	<u>(1,194,533)</u>

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## NATURE OF BUSINESS

Region III Housing Authority, New Mexico, Inc. (the Authority) was created pursuant to the Regional Housing Law of the State of New Mexico and exists to provide decent, safe and sanitary housing for lower income residents of Sandoval, Bernalillo, Valencia and Torrance Counties. The Authority also assists other organizations and units of local government to operate, manage and administer housing programs and projects that achieve this objective. The Authority commenced operations as a New Mexico non-profit corporation on October 1, 2001. The following is a description of the Authority's programs:

◆ *Acquisition and Rehab*

Funded by bond issue fees and notes from various lenders, the Authority 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

◆ *Basis of Presentation and Reporting Format*

The financial statements of the Authority 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. The Authority utilizes an enterprise fund to account for its operations as it is the intent of the governing body that the costs 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 police, management control, accountability, or other purposes. The Authority does not utilize encumbrance accounting. The Authority 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Government-wide Statements**

The balance sheet and statement of activities display information about the primary government (the Authority) and its component units. 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 the Authority and its component units.

◆ **Implementation of New Accounting Principles**

For the fiscal year ended December 31, 2003, the Authority has implemented GASB Statement No. 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38 (GASB 38), *Certain Financial Statement Disclosure*. The implementation of these statements had no effect on the Authority's financial statements.

Additionally, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, was implemented in the current year. See "Financial Reporting Entity" and "Blended Component Unit" below for an explanation of the effect on financial statements.

◆ **Financial Reporting Entity**

The Authority's balance sheet includes the accounts of all Authority operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting*, include whether: (1) the organization is legally separate (can sue and be sued in their own name), (2) the Authority holds the corporate powers of the organization, (3) the Authority appoints a voting majority of the organization's board, (4) the Authority is able to impose its will on the organization, (5) the organization has the potential to impose financial benefit or burden on the Authority, (6) there is a fiscal dependency by the organization on the Authority. Based on the aforementioned criteria, the Authority determined that Housing Enterprises, Inc. is a blended component unit of the Authority.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Blended Component Unit**

Housing Enterprises, Inc. (HEI), started operations on July 30, 2003. It serves housing authorities throughout New Mexico and is governed by a board comprised of the Authority's elected directors and the elected directors of other New Mexico housing authorities. HEI is involved in the acquisition and rehabilitation of properties to be sold to housing authorities throughout New Mexico for use in their programs. HEI is reported as an enterprise fund in the financial statements.

Separate financial statements for HEI can be obtained by writing to: Executive Director, Housing Enterprises, Inc., 4605 4<sup>th</sup> Street NW, Albuquerque, NM 87107.

◆ **Budgets**

Budgets are prepared by Authority management and approved by the Board of Directors. Budgets are not legally required.

◆ **Cash and Investments**

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 of New Mexico political subdivisions, and the State treasurer's investment pool.

New Mexico statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the Authority. The pledged securities remain in the name of the financial institution.

◆ **Capital Assets**

Capital assets are defined by the Authority as assets with an initial cost of \$1,000 or more. These assets are recorded at cost. Depreciation is recorded using the straight-line method based upon the estimated useful life of the asset. The following lives are utilized:

Furniture and equipment	3 - 7 years
Buildings and improvements	30 years

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Compensated Absences**

Vested or accumulated leave with pay is reported as an 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 days
Over 10 years up to 15 years	25 days
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.

As of December 31, 2003 no balance of accrued annual leave with pay existed, therefore no liability has been recorded.

◆ **Housing Inventory**

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

◆ **Cash Flows**

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

◆ **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.

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

Notes to Financial Statements - continued

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

◆ **Accounts Receivable**

Accounts receivable relate to amounts due for service fees and other amounts paid on behalf of other housing authorities. An allowance has been provided for amounts that management deems uncollectible.

◆ **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates

2. **DEPOSITS**

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at fiscal year end. The categories are described as follows:

Category 1 - Insured or collateralized with securities, held by the Authority or by its agent in the Authority's name.

Category 2 - Collateralized with securities held by the pledging institution's trust department or agent in the Authority's name.

Category 3 - Uncollateralized

Deposits, categorized by level of risk, are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
December 31, 2003	\$ 144,441	\$ 100,000	\$ -	\$ 44,441	\$ 137,899

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

Notes to Financial Statements - continued

**3. CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2003 was as follows:

Business-type Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Office equipment	\$ 11,000	9,468	-	20,468
Buildings	200,000	--	-	200,000
Land	85,000	-	-	85,000
<b>Total capital assets</b>	<u>296,000</u>	<u>9,468</u>	<u>-</u>	<u>305,468</u>
Less accumulated depreciation for:				
Office equipment	(2,750)	(3,519)	-	(6,269)
Buildings	(1,667)	(6,666)	-	(8,333)
Land	-	-	-	-
<b>Total accumulated depreciation</b>	<u>(4,417)</u>	<u>(10,185)</u>	<u>-</u>	<u>(14,602)</u>
<b>Capital assets, net</b>	<u>\$ 291,583</u>	<u>(717)</u>	<u>-</u>	<u>290,866</u>

The Authority has no infrastructure as of June 30, 2003.

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

Notes to Financial Statements - continued

**3. CAPITAL ASSETS - continued**

Business-type Activities - Component Unit

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Vehicles	\$ -	10,005	-	10,005
Total capital assets	-	10,005	-	10,005
Less accumulated depreciation for vehicles	-	(667)	-	(667)
Total accumulated depreciation	-	(667)	-	(667)
Capital assets, net	\$ -	9,338	-	9,338

Depreciation expense for business-type activities and business-type activities - component unit was \$10,185 and \$667, respectively.

**4. LONG-TERM DEBT**

A summary of long-term debt activity for the year ended December 31, 2003 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities: Enterprise funds: Notes payable	\$ 343,853	1,538,539	(196,544)	1,685,848	1,463,857

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

Notes to Financial Statements - continued



4. *LONG-TERM DEBT - continued*

Long-term debt at December 31, 2003 consists of:

Note payable to the New Mexico Community Development Fund in monthly installments of \$544, including interest of 8%, secured by mortgages held by the Authority. Matures March 1, 2004.	\$ 54,487
Note payable to Capital Concepts in monthly installments of \$937, including interest of 15%, unsecured. Matures December 23, 2004.	73,613
Note payable to Sunwest Escrow for the Samuel Lee Martinelli Intervivos Trust in monthly installments of \$1,803, including interest of 9%, secured by office building and land. Matures June 20, 2015.	131,618
Note payable to Neighborhood Housing Services in monthly installments of \$285, including interest of 7.0%, secured by housing property held in inventory. Matures September 1, 2004.	43,100
Note payable to First State Bank in monthly installments of \$640, including interest of 6.825%, secured by housing property held in inventory. Matures December 1, 2033.	97,970
Note payable to Neighborhood Housing Services in monthly installments of \$394, including interest of 7.0%, secured by housing property held in inventory. Matures June 1, 2004.	67,500
Note payable to Neighborhood Housing Services in monthly installments of \$394, including interest of 7.0%, secured by housing property held in inventory. Matures June 1, 2004.	67,500
Note payable to First State Bank in monthly installments of \$581, including interest of 6.825%, secured by a lease-to-purchase agreement held by the Authority. Matures December 1, 2004.	6,760

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

Notes to Financial Statements - continued

**4. LONG-TERM DEBT - continued**

Notes payable to the Acquisition and Rehab account of the Single Family Residence Acquisition and Rehabilitation Revenue Bond Series 2003 Program Fund, Bank of Albuquerque, Trustee. Secured by housing properties held in inventory. Principal and accrued interest of 6.0% are due upon sale of the related property.	<u>1,143,300</u>
Total notes payable	1,685,848
Less current portion	<u>(1,463,857)</u>
Long-term notes payable	\$ <u>221,991</u>

The notes payable with maturity dates of one year or less were refinanced after December 31, 2003, with longer payment terms.

Future maturities of long-term debt as of December 31, 2003 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,463,857	55,924	1,519,781
2005	8,506	17,531	26,037
2006	9,280	16,759	26,039
2007	10,123	15,915	26,038
2008	11,044	14,995	26,039
Thereafter	<u>183,038</u>	<u>131,055</u>	<u>314,093</u>
	<u>\$ 1,685,848</u>	<u>252,179</u>	<u>1,938,027</u>

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

Notes to Financial Statements - continued

**5. ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2003 consists of:

Business-type activities:

Trade payables	\$ 26,250
Employee advances	7,843
Amounts due from other housing authorities	11,645
Current portion of note receivable (Note 6)	<u>11,556</u>
	57,294
Less allowance for doubtful accounts	<u>26,462</u>
Accounts receivable, net	\$ <u>30,832</u>

Business-type activities - component unit:

Employee advances	\$ <u>4,118</u>
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**6. NOTE RECEIVABLE**

The Authority 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%, 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 December 31, 2003 was \$54,291. Future maturities of amounts due are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 11,556	\$ 4,320	\$ 15,876
2005	12,616	3,260	15,876
2006	13,772	2,104	15,876
2007	15,034	842	15,876
2008	<u>1,313</u>	<u>10</u>	<u>1,323</u>
	<u>\$ 54,291</u>	<u>\$ 10,536</u>	<u>\$ 64,827</u>

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

Notes to Financial Statements - continued

7. **RENT INCOME**

In October 2002, the Authority purchased an office building, which included the assignment of an existing lease for office space through March 2006. Total rent collected during 2003 was \$6,878. Future minimum receipts are as follows:

Year Ending December 31

2004	\$	7,812
2005		8,043
2006		<u>2,025</u>
	\$	<u><u>17,880</u></u>

8. **CONTINGENT RECEIVABLES**

As of December 31, 2003, the Authority had allowed use of its powers for eight bond issues for which they will collect 1/8<sup>th</sup> of 1% of the total outstanding bond amount per year for the life of the bond, and two variable rate bonds for which they will collect bond issue fees based on related activity for the life of the bonds. Bond issue fees expected for the variable rate bonds has been estimated by management based on anticipated activity. Because these bonds are callable and subject to change, no amount has been accrued as of December 31, 2003. The bonds are serviced by various financial institutions and the Authority assumes no obligation thereof. Expected total revenues are as follows:

<u>Project</u>	<u>Annual Amount</u>	<u>Remaining Bond Life</u>	<u>Total Expected Revenues</u>
El Paseo Phase I	\$ 9,375	29 years	\$ 271,185
El Paseo Phase II	9,375	29 years	271,185
Arbor Apartments	18,750	29 years	543,750
Brentwood Apartments	7,500	29 years	217,500
Villa Del Oso	17,219	29 years	499,351
Enchanted Vista	10,000	30 years	300,000
Vista Grande	5,406	30 years	162,180
Vista Del Rio	5,000	30 years	150,000
Lease Purchase	118,757	7 years	831,300
Acquisition and Rehab	<u>25,000</u>	3 years	<u>75,000</u>
Total	\$ <u><u>226,382</u></u>		\$ <u><u>3,321,451</u></u>

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

Notes to Financial Statements - continued

**9. PROGRAM INFORMATION**

Program financial information for the year ended December 31, 2003 is as follows:

REGION III HOUSING AUTHORITY, NEW MEXICO, INC.	<u>Acquisition And Rehab</u>	<u>Lease Purchase</u>	<u>Home- ownership Counseling</u>	<u>General and Administrative</u>	<u>Total</u>
Operating revenues	\$ -	225	-	215,520	215,745
Operating expenses	88,493	43,691	57,019	320,812	510,015
Operating income (loss)	(88,493)	(43,466)	(57,019)	(105,292)	(294,270)
Net income (loss)	\$ (88,493)	(43,466)	(57,019)	(814,681)	(1,003,659)
HOUSING ENTERPRISES, INC.	<u>Acquisition And Rehab</u>	<u>Lease Purchase</u>	<u>General and Administrative</u>	<u>Total</u>	
Operating revenues	\$ 22,221	101,000	-	123,221	
Operating expenses	89,712	11,178	62,394	163,284	
Operating income (loss)	(67,491)	89,822	(62,394)	(40,063)	
Net income (loss)	\$ (67,491)	89,822	652,906	675,237	

**10. SUBSEQUENT EVENTS**

In February 2004, the Authority entered into a joint operating agreement with the Public Housing Authority of the City of Las Vegas, New Mexico (PHA-LV) to purchase single-family housing units from PHA-LV to be renovated under the Authority's Acquisition and Rehab program. The renovated units will then be sold to qualifying persons and families in Las Vegas, New Mexico. As of June 11, 2004, the Authority had purchased 16 units from PHA-LV at a total cost of \$534,000.

**11. FINANCIAL DATA SCHEDULE**

During 2003, the Authority did not receive any monies from the U.S. Department of Housing and Urban Development (HUD); therefore, is not required to prepare or submit a financial data schedule (FDS) to the HUD Real Estate Assessment Center.

**SUPPLEMENTARY INFORMATION**

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

Schedule A-1

Schedule of Depository Collateral

*AS OF DECEMBER 31, 2003*

	<u>First State Bank</u>
Total deposits (bank balance)	\$ 144,441
Less: FDIC insurance	<u>100,000</u>
Total uninsured public funds	\$ <u>44,441</u>
50% collateralization requirement (Section 6-10-17 NMSA)	22,220
Pledged collateral	
Amount over (under) collateralized	\$ <u>(22,220)</u>

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

Schedule A-2

Schedule of Individual Deposit Accounts and Investments

AS OF DECEMBER 31, 2003

	<u>Type of Account</u>	<u>Bank Balance</u>	<u>Reconciled Balance</u>
First State Bank - Region III Housing Authority, New Mexico, Inc.	Checking	\$ 125,534	\$ 120,533
First State Bank - Housing Enterprises, Inc.	Checking	<u>18,907</u>	<u>17,866</u>
		\$ <u>144,441</u>	\$ <u>138,399</u>
Cash per balance sheet			\$ <u>138,399</u>

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

Schedule A-3

Schedule of Operating Expenses  
Region III Housing Authority, New Mexico, Inc.

YEAR ENDED DECEMBER 31, 2005

	Acquisition and Rehab	Lease Purchase	Home- ownership Counseling	Total Program	General and Administrative	Grand Total
Cost of homes sold	\$ -	4,217	-	4,217	49,439	53,656
Salaries	60,494	36,296	52,428	149,218	60,576	209,794
Payroll taxes	5,297	3,178	4,591	13,066	5,763	18,829
Professional fees	-	-	-	-	38,338	38,338
Office expenses	-	-	-	-	9,704	9,704
Interest expense	3,622	-	-	3,622	67,991	71,613
Other expense	2,870	-	-	2,870	3,151	6,021
Contract labor	3,000	-	-	3,000	700	3,700
Repairs and maintenance	263	-	-	263	1,863	2,126
Depreciation expense	-	-	-	-	10,185	10,185
Telephone	-	-	-	-	6,669	6,669
Insurance	505	-	-	505	4,387	4,892
Utilities	1,264	-	-	1,264	5,584	6,848
Board expense	-	-	-	-	10,378	10,378
Penalties	-	-	-	-	246	246
Bond issue expense	11,178	-	-	11,178	4,000	15,178
Travel and entertainment	-	-	-	-	10,902	10,902
Advertising	-	-	-	-	408	408
Training	-	-	-	-	4,066	4,066
Bad debt expense	-	-	-	-	26,462	26,462
Total operating expenses	\$ 88,493	43,691	57,019	189,203	320,812	510,015

See Notes to Financial Statements.

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

Schedule of Operating Expenses  
Housing Enterprises, Inc.

Schedule A-4

YEAR ENDED DECEMBER 31, 2003

	Acquisition and Rehab	Lease Purchase	Total Program	General and Administrative	Grand Total
Cost of homes sold	\$ 78,174	-	78,174	-	78,174
Salaries	-	-	-	47,843	47,843
Payroll taxes	-	-	-	4,952	4,952
Office expenses	-	-	-	755	755
Other expense	1,395	-	1,395	117	1,512
Contract labor	8,000	11,178	19,178	1,107	20,285
Repairs and maintenance	800	-	800	-	800
Depreciation expense	-	-	-	667	667
Insurance	-	-	-	334	334
Utilities	343	-	343	20	363
Home Bid Cost	1,000	-	1,000	-	1,000
Board expense	-	-	-	4,446	4,446
Training	-	-	-	700	700
Travel and entertainment	-	-	-	1,431	1,431
Advertising	-	-	-	22	22
Total operating expenses	\$ 89,712	11,178	100,890	62,394	163,284

See Notes to Financial Statements.

**REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**



MEYNER'S +
COMPANY, L.L.C.
<i>Certified Public Accountants/ Consultants to Business</i>
500 Marquette NW, Suite 800
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P 505/842-8290
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E <a href="mailto:cpa@meyners.com">cpa@meyners.com</a>

Domingo Martinez, State Auditor  
And  
Board of Directors  
State of New Mexico  
Region III Housing Authority, New Mexico, Inc.  
Albuquerque, NM

We have audited the financial statements of the State of New Mexico Region III Housing Authority, New Mexico, Inc. (the Authority) as of and for the year ended December 31, 2003, and have issued our report thereon dated June 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether State of New Mexico Region III Housing Authority, New Mexico, Inc.'s general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying memorandum on Accounting Procedures and Internal Controls, as findings 03-01 and 03-02.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying memorandum on Accounting Procedures and Internal Controls as finding 03-3.

Domingo Martinez, State Auditor  
And  
Board of Directors  
State of New Mexico  
Region III Housing Authority, New Mexico, Inc.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, the New Mexico State Auditor, 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.

*Mayne + Company, LLC*

June 11, 2004

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

Schedule of Findings and Recommendations

YEAR ENDED DECEMBER 31, 2003

**A. SUMMARY OF AUDIT RESULTS**

1. The independent auditors' report expresses an unqualified opinion on the financial statements of the State of New Mexico Region III Housing Authority, New Mexico, Inc.
2. Three reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. The level of noncompliance was not material to the financial statements of State of New Mexico Region III Housing Authority.

**STATUS OF PRIOR YEAR FINDINGS:**

02-1	Filing of Audit Reports	Repeated and Modified as 03-1
02-2	Recording of Disbursements	Resolved
02-3	Purchasing Violations	Resolved

These financial statements were prepared by Meyners + Company, LLC. However, the contents of the financial statements remain the responsibility of the Authority.

**B. FINDINGS AND RECOMMENDATIONS - FINANCIAL STATEMENT AUDIT**

**03-1 FILING OF AUDIT REPORTS**

*Statement of Condition:* The audit report of the Authority for the fiscal year ending December 31, 2003 was not submitted to the New Mexico State Auditor's Office by the May 31, 2004 deadline.

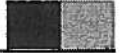
*Criteria:* Section 9.A(g) of NMAC 2.2.2 requires the filing of audit reports within 5 months after the fiscal year end.

*Effect:* Non-compliance with State Auditor Rule NMAC 2.2.2.

*Cause:* Cash flow and staffing issues precluded the Authority from contracting for audits for fiscal years ending December 31, 2003. The auditors were not engaged to complete the audit until May 2004.

STATE OF NEW MEXICO  
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Schedule of Findings and Recommendations - continued



**03-1 FILING OF AUDIT REPORTS - continued**

*Recommendation:* The Authority should complete the RFP process for audit services prior to fiscal year end to ensure that the auditors have sufficient time to complete the audit report by the specified date.

*Management's Response:* Management agrees with the findings and recommendations above.

**03-2 COLLATERALIZATION OF PUBLIC FUNDS**

*Statement of Condition:* Bank deposits in excess of federally insured amounts were not collateralized.

*Criteria:* NMAC 2.60.17.8 requires that deposits of public monies be collateralized at fifty percent.

*Effect:* Bank deposits are under-collateralized by \$22,220.

*Cause:* Bank officials had not properly designated the Authority's accounts as governmental accounts requiring collateralization.

*Recommendation:* Bank officials should be informed that the Authority's accounts require collateralization per State of New Mexico regulations. Collateralization should be reviewed for adequacy on a monthly basis.

*Management's Response:* Management agrees with the findings and recommendations above. As of June 4, 2004, bank officials were informed and have designated the Authority's bank accounts as those subject to collateralization.

**03-3 ACCRUED COMPENSATED ABSENCES**

*Statement of Condition:* The Authority is not tracking or recording accrued annual leave liabilities.

*Criteria:* Sound fiscal and personnel policy requires that all accrued leave liabilities be properly tracked and recorded.

*Effect:* Understatement of accrued liabilities. Exposure to mis-use of annual leave by employees and potential litigation regarding leave balances due to terminated employees.

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

Schedule of Findings and Recommendations - continued

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**03-3 ACCRUED COMPENSATED ABSENCES - continued**

*Cause:* To date only three employees have qualified for annual leave awards. The Authority has allowed the employees to track their own leave use and accrued leave balance.

*Recommendation:* The Authority should track all accrued and used annual leave on a monthly basis using a spreadsheet or other schedule.

*Management's Response:* Management agrees with the findings and recommendations above. The finding was an isolated incident and has been resolved.

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

Exit Conference

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An exit conference was held on Tuesday, July 27, 2004, and attended by the following:

Region III Housing Authority, New Mexico, Inc.

Dan Rudolph	Board Chairman
Filo M. "Bobo" Sedillo	Secretary/Treasurer, Board of Commissioners
Vincent "Smiley" Gallegos	Executive Director
James Raia	Fiscal Manager
Dennis Kennedy, CPA	

Meyners + Company, LLC

Georgie Ortiz, CPA	Senior Audit Manager
Stephanie Yara, CPA	In-Charge Auditor