

LEA COUNTY COMMUNICATIONS AUTHORITY

**FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Year Ended June 30, 2012



JOHNSON, MILLER & CO.

*Certified Public Accountants
A Professional Corporation*

An Independent Member of BDO Seidman Alliance

LEA COUNTY COMMUNICATIONS AUTHORITY

FINANCIAL STATEMENTS
with
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended June 30, 2012

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OFFICIAL ROSTER
June 30, 2012

BOARD MEMBERS

Lorenzo Velazquez	Lea County Communications	President
Manny Gomez	Hobbs Fire Chief	Vice-President
Tom Dunford	Member -At-Large	Member
Mike Gallagher	Lea County Manager	Member
Eric Honeyfield	City of Hobbs Manager	Member
J.D. Sanders	Hobbs Chief of Police	Member
Mark Hargrove	Lea County Sheriff	Member



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Certified Public Accountants

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Hobbs, New Mexico

Midland, Texas

Odessa, Texas

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Mr. Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Communications Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We have audited the accompanying financial statements of the business-type activities and supplemental information of Lea County Communications Authority (the Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. We also audited the budget comparison statement presented as supplemental information for the year ended June 30, 2012. 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 of the Authority, as of June 30, 2012, the respective changes in financial position and its statement of cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedule of Revenues and Expenses - Budget and Actual present fairly, in all material respects, the respective budgetary comparison for the Authority for the year ended June 30, 2012, in conformity with the budgetary basis described in Note A4.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 8 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Johnson, Miller & Co.

Hobbs, New Mexico
November 27, 2012

LEA COUNTY COMMUNICATIONS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial information contained herein is for the Lea County Communications Authority (the Authority). The Authority's discussion and analysis provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Authority's financial statements, which begin on page nine.

The Authority's purpose is to protect the safety, health and welfare of the people of Lea County and the City of Hobbs, New Mexico. The Authority's main sources of revenue are grants and member contributions.

FINANCIAL HIGHLIGHTS

- The Authority's total assets at June 30, 2012 and 2011 were \$8,410,246 and \$1,541,978 respectively.
- The Authority's total liabilities at June 30, 2012 and 2011 were \$590,794 and \$248,444 respectively.
- The Authority's operating expenses for fiscal year ended June 30, 2012 and 2011 totaled \$2,046,176 and \$30,491 respectively.
- As of the close of the fiscal year ended June 30, 2012 and 2011 the Authority reported ending total net assets of \$7,819,452 and \$1,293,534.
- The Authority's revenues totaled \$8,572,094 and \$1,324,025 for the fiscal year ended June 30, 2012 and 2011. Revenues in fiscal year 2012 consisted of \$7,730,794 in member contributions and \$841,300 in intergovernmental state revenues for the current year. Revenues in fiscal year 2011 consisted of member contributions only.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Authority.

The Authority's basic financial statements are comprised of two components: 1) basic financial statements and 2) notes to basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

FINANCIAL STATEMENTS

The financial statements present the financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in fund net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event, giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected invoices and earned but unused vacation leave).

The financial statements reflect that the Authority is principally supported by member contributions that are intended to recover all or a significant portion of the Authority's expenses.

LEA COUNTY COMMUNICATIONS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FUND FINANCIAL STATEMENTS

The Authority's basic services are reported in one unrestricted fund, which focuses on how money flows into and out of the fund and the balance left at year-end that is available for spending. The fund is reported using the accrual basis of accounting. The statements provide a detailed short-term view of the Authority's general operations and the basic services it provides.

NOTES TO BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 12-18 of this report.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of an entity's financial position. The balance of unrestricted funds may be used to meet the Authority's ongoing obligations.

NET ASSETS:

Total net assets for the current year are scheduled below:

	Condensed Statements of Net Assets	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current and other assets	\$ 8,410,246	\$ 1,541,978
Current liabilities	590,794	248,444
Total net assets	\$ 7,819,452	\$ 1,293,534

The increase in total net assets is related to investment in capital assets.

REVENUES AND EXPENSES

Revenues, expenses and changes in net assets are shown in schedule below:

	Condensed Statement of Revenues, Expenses and Changes in Net Assets	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Member contributions	\$ 7,730,794	\$ 1,324,025
Intergovernmental:		
State	841,300	-
Operating expenses	2,046,176	30,491
Change in net assets	6,525,918	1,293,534
Beginning net assets	1,293,534	-
Ending net assets	\$ 7,819,452	\$ 1,293,534

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets provides answers as to the nature and source of these changes.

LEA COUNTY COMMUNICATIONS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The increase in total revenues is related to contributions from Lea County and City of Hobbs, New Mexico. Expenses are related to capital assets and operating activities.

BUDGET ANALYSIS

6/30/2012

There were approved budget revenue and expense increases and decreases after the initial approved budget for 2012. These increases and decreases were recognized throughout the budget year, approved by the board and the Department of Finance and Administration and implemented at various times during the year.

	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES			
Member contributions	\$ 8,454,457	\$ 6,272,997	\$ (2,181,460)
Intergovernmental:			
State	1,257,500	841,300	(416,200)
Total revenues	\$ 9,711,957	\$ 7,114,297	\$ (2,597,660)
EXPENSES			
General government	\$ 2,118,719	\$ 1,987,142	\$ 131,577
Capital outlay	7,314,218	5,558,902	1,755,316
Total expenses	\$ 9,432,937	\$ 7,546,044	\$ 1,886,893
Excess of revenues over expenditures	\$ 279,020	\$ (431,747)	\$ (710,767)

The positive variance of budgeted vs. actual for total revenues is due to expected but not received in total in the current year contributions from members, which are based on expenditures related to the emergency operations center. The positive variance for expenditures is the result of capital projects budgeted but not expended in the current year.

CAPITAL ASSETS:

The Authority has invested and reported capital assets as follows:

	June 30, 2012	June 30, 2012
Buildings	\$ 4,971,989	\$ -
Furniture & Equipment	2,883,036	-
Land	96,191	96,191
Construction in Progress	-	1,245,438
Total capital assets	\$ 7,951,216	\$ 1,341,629

Capital assets are related to the construction of the emergency operations center and acquisition of furniture and equipment.

LEA COUNTY COMMUNICATIONS AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FISCAL YEAR 2013:

The Lea County Communications Authority facility was completed during this fiscal year 2011/2012, along with the E-911 System. Capital costs will be minimal during fiscal year 2012/2013.

SUMMARY:

The above information is a summary of what is supported with the remainder of the financial statements. We hope it is useful with the users' financial overview of our entity. More information may be obtained upon request at:

Finance Department
100 North Main
Lovington, NM 88260

BASIC FINANCIAL STATEMENTS

LEA COUNTY COMMUNICATIONS AUTHORITY

STATEMENT OF NET ASSETS

	<u>June 30, 2012</u>
ASSETS	
Cash	\$ 69
Receivable from related parties	458,961
Capital assets	
Land and improvements	96,191
Buildings	4,971,989
Equipment	2,883,036
Total Capital Assets	<u>7,951,216</u>
TOTAL ASSETS	<u>\$ 8,410,246</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	\$ 220,181
Accrued payroll liabilities	72,873
Payable to related party	<u>297,740</u>
TOTAL LIABILITIES	<u>590,794</u>
NET ASSETS	
Invested in capital assets	7,951,216
Unrestricted	<u>(131,764)</u>
Total net assets	<u>7,819,452</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,410,246</u>

LEA COUNTY COMMUNICATIONS AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Net Assets

	Year Ended June 30, 2012
OPERATING REVENUES	
Member contributions	
Lea County	\$ 4,265,756
City of Hobbs	3,465,038
Intergovernmental	
State	841,300
Total operating revenues	8,572,094
OPERATING EXPENSES	
General government	2,046,176
Total operating expenses	2,046,176
Operating Income	6,525,918
Change in net assets	6,525,918
Net assets - beginning of year	1,293,534
Net assets - end of year	\$ 7,819,452

LEA COUNTY COMMUNICATIONS AUTHORITY

STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>June 30, 2012</u>
OPERATING ACTIVITIES	
Cash received from members	\$ 7,546,113
Cash paid to suppliers	(228,174)
Cash paid to employees	<u>(1,758,968)</u>
Net cash provided by operating activities	<u>5,558,971</u>
INVESTING ACTIVITIES	
Cash paid for capital assets	<u>(5,558,902)</u>
Net cash used by investing activities	<u>(5,558,902)</u>
FINANCING ACTIVITIES	
Net increase (decrease) in cash	<u>69</u>
Cash - beginning of year	<u>-</u>
Cash - end of year	<u>\$ 69</u>
Reconciliation of operating income to net cash provided by operating activities	
Change in net assets	\$ 6,525,918
Non-cash donated fixed assets	(841,300)
Change in assets and liabilities	
Accounts payable	5,667
Due from related party	(281,121)
Accrued liabilities	53,367
Due to related party	<u>96,440</u>
Net cash provided by operating activities	<u>\$ 5,558,971</u>

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ORGANIZATION

Lea County Communications Authority (the Authority) was established on January 4, 2010 under a joint powers agreement entered into by and between the County of Lea and the City of Hobbs. It was the desire of the parties to form a communications authority in order to collectively address the immediate and future safety, health and welfare needs of the citizens of Lea County and Hobbs, New Mexico. The joint powers agreement established Lea County as the fiscal agent of the Authority.

2. REPORTING ENTITY

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. Organizations that are legally separate, tax-exempt entities and that meet *all* of the following criteria should be discretely presented as component units. These criteria are:

- a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- c. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Based upon the application of these criteria, there are no potential component units included in the Authority's reporting entity, and the Authority is not a component unit of any other entity.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Authority has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with Governmental Accounting Standards Board (GASB) pronouncements. The Authority has elected not to apply FASB pronouncements issued after the applicable date.

Measurement Focus:

The unrestricted funds (enterprise funds) are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period they are earned. Expenditures generally are recorded when a fund liability is incurred.

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

Fund Accounting:

The accounts of the Authority are organized on the basis of fund type, of which there is only one fund which is considered an enterprise fund.

Enterprise Funds: (Unrestricted Funds)

Unrestricted funds are used to account for construction, operating and administrative costs of the Authority that are financed and operated in a manner similar to private business enterprises where the intent is that the operational and administrative costs of providing goods and services to the general public on a continuing basis, be financed or recovered primarily through member contributions and grants.

4. BUDGET

The annual budget is adopted based on the cash basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America.

Annual budgets of the Authority are prepared prior to June 1 and must be approved by the resolution of the Board. The proposed budget is then submitted by June 1 to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a preliminary budget by July 1 with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding.

Increases or decreases in the budget of a fund or transfers of appropriations between funds must be presented to the County Commission for approval by resolution and must subsequently have DFA approval. Amendments made to the original budget are included in the budgetary comparison statements of this report, which reflect actual to budget. Budgets and amendments to the budgets for all funds are adopted in a legally permissible manner. The legal level of budgetary control is the fund level.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts on demand deposits which are held by the Authority's fiscal agent, Lea County. These funds are included with those insured, collateralized, and reported in the remaining supplemental information schedules of pledged collateral (2.2.2.10 NMAC) and cash reconciliation(2.2.2.12 NMAC) in the separately issued financial statements of Lea County.

6. REVENUES

Operating revenue includes activities that have the characteristics of an exchange transaction, such as a) contributions from related parties and b) reimbursements for operating or administrative expenses.

Non-operating revenue includes activities that have the characteristics of non-exchange transactions. The Authority does not typically have non-operating revenues.

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. CAPITAL ASSETS

Capital assets such as equipment are defined, per Section 12-6-10 NMSA 1978, as assets with a cost of \$5,000 or more.

Information technology equipment, including software, is capitalized in accordance with NMAC 2.20.1.9 C (5). Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-40
Equipment & Furniture	5-15
Vehicles	5-15
Computer Hardware	5

8. USE OF ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

9. NET ASSETS

Net assets are presented as invested in capital assets, restricted net assets; and unrestricted net assets. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Restricted net assets have constraints placed on net asset use that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. These net assets are either classified as either expendable or nonexpendable. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets."

10. RESTRICTED ASSETS

Restricted assets are assets which have third-party limitations on their use. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE B - RELATED PARTY TRANSACTIONS

The amounts due from members at June 30, 2012 are considered to be fully collectible and are composed of the following:

City of Hobbs	\$	458,961
		<hr/>
Total	\$	458,961

Amount due to members consists of monies which were paid for by Lea County on behalf of the Authority for construction expenses. The Authority expects to repay this amount within the next year.

Lea County	\$	297,740
		<hr/>
Total	\$	297,740

NOTE C - LEGAL COMPLIANCE BUDGET

Annual budgets are adopted by the Authority with final approval by the New Mexico Department of Finance and Administration. The budgets are established under the following procedures:

Prior to June 30, the Authority's Board of Directors approves an operating budget proposed by Lea County for the fiscal year commencing the following July 1. The budget includes proposed expenses and the means for financing the expenses.

If these expenses exceed the revenues anticipated, sufficient cash balances are appropriated to cover the excess. Such occurrences are shown in the financial statements as "prior year cash balances" and/or fund balances designated for subsequent year's expenses. All appropriations lapse at the end of each fiscal year.

The budget is legally enacted by the Authority's Board. The adopted budget is then submitted, as a part of the Lea County budget to the Department of Finance and Administration whose personnel review, adjust, and approve the final budget.

The level at which expenses may not legally exceed the amount appropriated is at the fund level. Lea County, as fiscal agent, is authorized to transfer budgeted amounts between departments within the fund; however, any revisions that alter the total expenses of any fund must be approved by the Department of Finance and Administration.

The budgets are prepared on the cash basis in compliance with the rules and regulations of the Department of Finance and Administration. The budget comparisons presented in the combined financial statements are reported on the cash basis to provide a meaningful comparison of actual results with budgeted amounts. The budgeted amounts reflected in the comparisons are reported as originally adopted or legally amended by the Authority.

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE D - RISK OF LOSS

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the contractor constructing the emergency center facility carries commercial insurance protecting the contractor and the Authority. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2012, the Authority did not have any probable risks of loss.

NOTE E - CAPITAL ASSETS

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Buildings	\$ -	\$ 4,971,989	\$ -	\$ 4,971,989
Equipment & Furniture	-	2,883,036	-	2,883,036
Total depreciable assets	-	7,855,025	-	7,855,025
Less accumulated depreciation:				
Buildings	-	-	-	-
Equipment & Furniture	-	-	-	-
Total accumulated depreciation	-	-	-	-
Net depreciable assets	-	7,855,025	-	7,855,025
Non-depreciable assets				
Land	96,191	-	-	96,191
Construction in Process	1,245,438	-	1,245,438	-
Total non-depreciable assets	1,341,629	-	1,245,438	96,191
Net capital assets	\$ 1,341,629	\$ 7,855,025	\$ 1,245,438	\$ 7,951,216

NOTE F- PERA PENSION PLAN

Plan Description—Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employee Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employee Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing, multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy—Plan members are required to contribute 9.15% of their gross salary, except for sheriff's deputies who are required to contribute 12.35% of their gross salary. The Authority is required to contribute 9.15% for employees other than sheriff's deputies and 18.5% for deputies. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's contributions to PERA for the years ended June 30, 2012 and 2011 were \$140,740 and \$2,077 respectively, which equal the amount of the required contributions for each fiscal year.

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE G – POST EMPLOYMENT BENEFITS

Plan Description—The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouse and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMS 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for the employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy—The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute .917% of their salary. In the fiscal years ending June 30, 2012 and June 30, 2013 the contribution rates for employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

Employers joining the program after January 1, 1998, are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority's contributions to the RHCA for the years June 30, 2012 and 2011 were \$27,084 and \$95 which equal the required contributions for each year.

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE H- SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through November 27, 2012, the date which the financial statements were available to be issued.

LEA COUNTY COMMUNICATIONS AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Net Assets
 Budget (non-GAAP Budgetary Basis) and Actual
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Member contributions	\$ 8,454,457	\$ 8,454,457	\$ 6,272,997	\$ (2,181,460)
Intergovernmental:				
State	1,257,500	1,257,500	841,300	(416,200)
Total Revenues	9,711,957	9,711,957	7,114,297	(2,597,660)
EXPENDITURES				
General government	2,108,819	2,118,719	1,987,142	131,577
Capital outlay	7,314,218	7,314,218	5,558,902	1,755,316
Total Expenditures	9,423,037	9,432,937	7,546,044	1,886,893
expenditures	288,920	279,020	(431,747)	(710,767)
Prior year cash balance				
Net change in fund balances	\$ 288,920	\$ 279,020	(431,747)	
RECONCILIATION TO GAAP BASIS:				
Change in accounts payable			(214,991)	
Change in due from other governments			258,612	
Change in accrued liabilities			(53,367)	
Change in due to other governments			(73,931)	
Change in capital assets			6,609,595	
Net change in fund net assets			\$ 6,525,918	



JOHNSON, MILLER & CO.

Certified Public Accountants

A Professional Corporation

An Independent Member Of BDO Seidman Alliance

Hobbs, New Mexico

Midland, Texas

Odessa, Texas

**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**

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Communications Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

We have audited the financial statements of the business-type activities and the budgetary comparison presented as supplementary information of the Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weakness. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Communications Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

This report is intended solely for the information and use of the Board of Directors, management, others within the agency, the New Mexico State Auditor and the New Mexico Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Miller & Co.

Hobbs, New Mexico
November 27, 2012

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Communications Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

PRIOR YEAR FINDINGS

None

FINANCIAL STATEMENT PRESENTATION

The financial statements were prepared from the original books and records of Lea County Communications Authority as of June 30, 2012 by Johnson, Miller & Co., Certified Public Accountants, A Professional Corporation.

LEA COUNTY COMMUNICATIONS AUTHORITY

OTHER DISCLOSURES **Year Ended June 30, 2012**

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Communications Authority Chairman, Board of Directors and
Citizens of Lea County
Lovington, New Mexico

EXIT CONFERENCE

The contents of this report and its schedules were discussed on November 27, 2012. The following persons were in attendance.

Authority's Officials

Mike Gallagher, Member
Sherri Bunch, Finance Director

Auditors

Mary Hinds, CPA
Carmen Montoya, Senior Auditor

LEA COUNTY COMMUNICATIONS AUTHORITY

Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget and
Lea County Communications Authority Chairman, Board of Directors and
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Lovington, New Mexico

PASSED ADJUSTMENTS

The State Auditor's Rule 2.2.2.10 J (2) states that the auditor must present a list of passed adjustments to the agency management and governing board representatives, and a copy of the list must be attached to the audit report submitted to the State Auditor for review.

The following passed adjustments were identified during the audit for the Lea County Communications Authority for the year ended June 30, 2012.

FULL TIME POSITIONS	54,174	
COMPENSATED ABSENCES		54,174
PERA	7,435	
FICA	4,144	
HEALTH INSURANCE	1,002	
ACCRUED PAYROLL LIABILITIES		12,582