

**LEA COUNTY COMMUNICATIONS AUTHORITY**

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FINANCIAL STATEMENTS  
with  
INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2013

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**JOHNSON, MILLER & CO.**  
*Certified Public Accountants*  
*A Professional Corporation*

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*An Independent Member Of BDO Seidman Alliance*

**LEA COUNTY COMMUNICATIONS AUTHORITY**

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FINANCIAL STATEMENTS  
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Year Ended June 30, 2013

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**OFFICIAL ROSTER**  
**June 30, 2013**

**BOARD MEMBERS**

Lorenzo Velasquez	Lea County Communications	President
Tim Kent	Hobbs Fire Chief	Vice-President
Brian Dunlap	Member –At-Large	Member
Mike Gallagher	Lea County Manager	Member
J.J. Murphy	City of Hobbs Manager	Member
Chris McCall	Hobbs Chief of Police	Member
Mark Hargrove	Lea County Sheriff	Member



## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Lea County Communications Authority (the Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents. We have also audited the budget comparison statement presented as supplemental information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2013, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2013, 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, 2013, in conformity with the budgetary basis described in Note A4.

## Other Matters

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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 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* in considering the Authority's internal control over financial reporting and compliance.



Hobbs, New Mexico  
November 22, 2013

# **LEA COUNTY COMMUNICATIONS AUTHORITY**

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## **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, 2013. 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, 2013 and 2012 were \$7,722,220 and \$8,271,453 (as restated), respectively.
- The Authority's total liabilities at June 30, 2013 and 2012 were \$423,416 and \$590,794 respectively.
- The Authority's operating expenses for fiscal year ended June 30, 2013 and 2012 totaled \$2,561,282 and \$2,184,969 (as restated), respectively.
- As of the close of the fiscal year ended June 30, 2013 and 2012 the Authority reported ending total net position of \$7,172,113 and \$7,680,659 (as restated), respectively.
- The Authority's revenues totaled \$2,040,634 and \$8,572,094 for the fiscal year ended June 30, 2013 and 2012. Revenues in fiscal year 2013 consisted of \$2,034,167 in member contributions and \$6,467 in training reimbursements. In fiscal year 2012, revenues consisted of \$7,730,794 in member contributions and \$841,300 in intergovernmental state revenues for the current year.

### **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 position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position 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 position* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event, giving rise to the change occurs, regardless of the

# LEA COUNTY COMMUNICATIONS AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### FINANCIAL STATEMENTS (continued)

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.

### 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 position 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 POSITION:

Total net position for the June 30, 2013 and 2012 is scheduled below:

	<b>Condensed Statements of Net Position</b>	
	<b><u>June 30, 2013</u></b>	<b><u>June 30, 2012</u></b> <b><u>(as restated)</u></b>
Current and other assets	\$ 7,595,529	\$ 8,271,453
Current and other liabilities	<u>423,416</u>	<u>590,794</u>
<b>Total net position</b>	<b><u>\$ 7,172,113</u></b>	<b><u>\$ 7,680,659</u></b>

The decrease in net position is related to depreciation of capital assets.



# LEA COUNTY COMMUNICATIONS AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### REVENUES AND EXPENSES

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u> <u>(as restated)</u>
Member contributions	\$ 2,034,167	\$ 7,730,794
Miscellaneous	6,467	-
Intergovernmental:		
State	-	841,300
Operating expenses	<u>2,549,180</u>	<u>2,184,969</u>
<b>Change in net position</b>	<b>(508,546)</b>	<b>6,387,125</b>
<b>Beginning net position</b>	<b><u>7,680,659</u></b>	<b><u>1,293,534</u></b>
<b>Ending net position</b>	<b><u>\$ 7,172,113</u></b>	<b><u>\$ 7,680,659</u></b>

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

The decrease in total revenues is related to a decrease in construction expenses required to be reimbursed by Lea County and City of Hobbs, New Mexico. Expenses are related to capital assets and operating activities.

### BUDGET ANALYSIS

6/30/2013

There were approved budget revenue and expense increases and decreases after the initial approved budget for 2013. 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.

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive</u> <u>(Negative)</u>
<b>REVENUES</b>			
Member contributions	\$ 4,812,000	\$ 2,536,555	\$ (2,275,445)
Miscellaneous	-	6,467	(6,467)
<b>Total revenues</b>	<u>\$ 4,812,000</u>	<u>\$ 2,543,022</u>	<u>\$ (2,281,912)</u>
<b>EXPENSES</b>			
General government	\$ 2,240,647	\$ 1,964,118	\$ 276,529
Capital outlay	1,766,000	279,432	1,486,568
<b>Total expenses</b>	<u>\$ 4,006,647</u>	<u>\$ 2,243,550</u>	<u>\$ 1,763,097</u>
<b>Excess of revenues over expenditures</b>	<b><u>\$ 805,353</u></b>	<b><u>\$ 299,472</u></b>	<b><u>\$ (518,815)</u></b>

# LEA COUNTY COMMUNICATIONS AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The negative variance of budgeted vs. actual for total revenues is due to lower than expected reimbursable capital outlays and operating costs. The positive variance for expenditures is the result of lower than expected capital outlays and operating expenditures.

### **CAPITAL ASSETS:**

The Authority has invested and reported capital assets as follows:

	<b><u>June 30, 2013</u></b>	<b><u>June 30, 2012</u></b> <b><u>(as restated)</u></b>
Buildings	\$ 4,989,373	\$ 4,967,337
Furniture & Equipment	2,773,437	2,748,895
Land	96,191	96,191
Construction in Progress	16,207	-
Total capital assets	<u>7,875,208</u>	<u>7,812,423</u>
A/D Buildings	96,959	-
A/D Furniture & Equipment	<u>414,569</u>	-
	511,528	-
Net capital assets	<u><u>\$ 7,363,680</u></u>	<u><u>\$ 7,812,423</u></u>

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

### **FISCAL YEAR 2014:**

The Lea County Communications Authority facility was completed during this fiscal year 2011/2012, along with the E-911 System. Capital costs are planned for new towers during fiscal year 2013/2014.

### **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 POSITION

	<u>June 30, 2013</u>
<b>ASSETS</b>	
Cash	\$ 541
Receivable from related parties	231,308
Capital assets	
Land and improvements	112,398
Buildings	4,989,373
Equipment	2,773,437
Less: Accumulated depreciation	<u>(511,528)</u>
Total Capital Assets	<u>7,363,680</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,595,529</u></b>
 <b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 8,304
Accrued payroll liabilities	141,637
Payable to related party	<u>273,475</u>
<b>TOTAL LIABILITIES</b>	<b><u>423,416</u></b>
 <b>NET POSITION</b>	
Invested in capital assets	7,363,680
Unrestricted	<u>(191,567)</u>
<b>Total net position</b>	<b><u>7,172,113</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 7,595,529</u></b>

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

## LEA COUNTY COMMUNICATIONS AUTHORITY

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### Statement of Revenues, Expenditures and Changes in Fund Net Position

	<b>Year Ended June 30, 2013</b>
<b>OPERATING REVENUES</b>	
Member contributions	
Lea County	\$ 1,020,724
City of Hobbs	1,013,443
Miscellaneous	6,467
	<hr/>
<b>Total operating revenues</b>	<b>2,040,634</b>
	<hr/>
<b>OPERATING EXPENSES</b>	
General government	2,549,180
	<hr/>
<b>Total operating expenses</b>	<b>2,549,180</b>
	<hr/>
<b>Operating Income (Loss)</b>	<b>(508,546)</b>
	<hr/>
<b>Change in net position</b>	<b>(508,546)</b>
<b>Net position - beginning of year</b>	<b>7,819,452</b>
<b>Prior-period adjustment (NOTE H)</b>	<b>(138,793)</b>
	<hr/>
<b>Net position - beginning of year (as restated)</b>	<b>7,680,659</b>
	<hr/>
<b>Net position - end of year</b>	<b>\$ 7,172,113</b>
	<hr/>

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

# LEA COUNTY COMMUNICATIONS AUTHORITY

## STATEMENT OF CASH FLOWS

	<b>Year Ended June 30, 2013</b>
<b>OPERATING ACTIVITIES</b>	
Cash received from members	\$ 2,244,022
Cash paid to suppliers	(331,892)
Cash paid to employees	(1,639,488)
	<u>272,642</u>
<b>Net cash provided by operating activities</b>	<b>272,642</b>
<b>INVESTING ACTIVITIES</b>	
Cash paid for capital assets	(272,170)
	<u>(272,170)</u>
<b>Net cash used by investing activities</b>	<b>(272,170)</b>
<b>FINANCING ACTIVITIES</b>	
<b>Net increase (decrease) in cash</b>	<b>472</b>
<b>Cash - beginning of year</b>	<b>69</b>
<b>Cash - end of year</b>	<b>\$ 541</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Change in net position	\$ (508,546)
Depreciation	511,528
Change in assets and liabilities	
Accounts payable	(2,492)
Due from related party	227,653
Accrued liabilities	68,764
Due to related party	(24,265)
	<u>272,642</u>
<b>Net cash provided by operating activities</b>	<b>\$ 272,642</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

# 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.

##### 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 POSITION

Net position is presented as net invested in capital assets, restricted net assets; and unrestricted net assets. Net invested in capital assets consist of capital assets, net of accumulated depreciation. Restricted net position has constraints placed on net position use that is 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. The net position is classified as either expendable or nonexpendable. Unrestricted net position consists of net position that does 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, 2013 are considered to be fully collectible and are composed of the following:

City of Hobbs	\$	231,308
<b>Total</b>	<b>\$</b>	<b>231,308</b>

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	\$	273,475
<b>Total</b>	<b>\$</b>	<b>273,475</b>

### 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 Authority carries commercial insurance. 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, 2013, the Authority did not have any probable risks of loss.

### NOTE E - CAPITAL ASSETS

	Balance 6/30/12 Restated (Note H)	Additions	Deletions	Balance 6/30/13
<b>Depreciable assets</b>				
Buildings	\$ 4,967,337	\$ 22,036	\$ -	\$ 4,989,373
Furniture & Equipment	2,748,895	24,542	-	2,773,437
<b>Total depreciable assets</b>	<b>7,716,232</b>	<b>46,578</b>	<b>-</b>	<b>7,762,810</b>
Less accumulated depreciation:				
Buildings	-	96,959	-	96,959
Furniture & Equipment	-	414,569	-	414,569
<b>Total accumulated depreciation</b>	<b>-</b>	<b>511,528</b>	<b>-</b>	<b>511,528</b>
<b>Net depreciable assets</b>	<b>7,716,232</b>	<b>(464,950)</b>	<b>-</b>	<b>7,251,282</b>
<b>Non-depreciable assets</b>				
Land	96,191	-	-	96,191
Construction in Process	-	16,207	-	16,207
<b>Total non-depreciable assets</b>	<b>96,191</b>	<b>16,207</b>	<b>-</b>	<b>112,398</b>
<b>Net capital assets</b>	<b>\$ 7,812,423</b>	<b>\$ (448,743)</b>	<b>\$ -</b>	<b>\$ 7,363,680</b>

### 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](http://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.

# LEA COUNTY COMMUNICATIONS AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE F- PERA PENSION PLAN (continued)

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, 2013 and 2012 were \$130,991 and \$144,740 respectively, which equal the amount of the required contributions for each fiscal year.

### 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](http://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, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; each participating employee is required to contribute 1.25% of their salary.

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, 2013 and 2012 were \$25,417 and \$27,084 which equal the required contributions for each year.

# LEA COUNTY COMMUNICATIONS AUTHORITY

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE H- PRIOR PERIOD ADJUSTMENT

Governmental Activities - In fiscal year ended June 30, 2012 Government-wide statements, capital assets were overstated by \$138,793 due to the inclusion in fixed assets of amounts that did not meet LCCA's capitalization criteria. The restatement had a corresponding effect on change in net position.

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
<b>Governmental Activities:</b>			
Net position	\$ 7,819,452	\$ (138,793)	\$ 7,680,659
Change in net position	\$ 6,525,918	\$ (138,793)	\$ 6,387,125

### NOTE I- SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through November 22, 2013, the date which the financial statements were available to be issued.

**SUPPLEMENTAL INFORMATION**

# LEA COUNTY COMMUNICATIONS AUTHORITY

## Statement of Revenues, Expenditures and Changes in Fund Net Position Budget (non-GAAP Budgetary Basis) and Actual For the Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>				
Member contributions	\$ 4,812,000	\$ 4,812,000	\$ 2,536,555	\$ (2,275,445)
Miscellaneous	-	-	6,467	(6,467)
<b>Total Revenues</b>	<b>4,812,000</b>	<b>4,812,000</b>	<b>2,543,022</b>	<b>(2,281,912)</b>
<b>EXPENDITURES</b>				
General government	2,240,647	2,240,647	1,964,118	276,529
Capital outlay	1,766,000	1,766,000	279,432	1,486,568
<b>Total Expenditures</b>	<b>4,006,647</b>	<b>4,006,647</b>	<b>2,243,550</b>	<b>1,763,097</b>
<b>Excess of revenues over expenditures</b>	<b>805,353</b>	<b>805,353</b>	<b>299,472</b>	<b>(518,815)</b>
Prior year cash balance	69	69		
<b>Net change in fund net position</b>	<b>\$ 805,422</b>	<b>\$ 805,422</b>	<b>299,472</b>	
<b>RECONCILIATION TO GAAP BASIS:</b>				
Depreciation			(511,528)	
Change in accounts payable			211,877	
Change in due from other governments			(227,653)	
Change in accrued liabilities			(68,292)	
Change in due to other governments			24,265	
Capital asset additions			62,785	
<b>Net change in net position</b>			<b>\$ (508,546)</b>	





**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**

**Independent Auditor's Report**

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, 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, 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, 2013, and have issued our report thereon dated November 22, 2013.

**Internal Control Over Financial Reporting**

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hobbs, New Mexico  
November 22, 2013

**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, 2013 by Johnson, Miller & Co., Certified Public Accountants, A Professional Corporation.

## **LEA COUNTY COMMUNICATIONS AUTHORITY**

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### **OTHER DISCLOSURES**

**Year Ended June 30, 2013**

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 22, 2013. The following persons were in attendance.

#### Authority's Officials

Lorenzo Velasquez, Chairman  
Sherri Bunch, Finance Director

#### Auditors

Mary Hinds, CPA  
Shellie Davidson, CPA

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

**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.

No passed adjustments were identified during the audit for the Lea County Communications Authority for the year ended June 30, 2013.