

LEA COUNTY COMMUNICATIONS AUTHORITY

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT

Year Ended June 30, 2015

CONTENTS

Official Roster	2
Independent Auditors' Report	3-4
Required Supplementary Information:	
Management's Discussion and Analysis	5-8
<u>Basic Financial Statements:</u>	
Statement of Net Position	9
Statement of Revenues, Expenditures and Changes in Fund Net Position	10
Statement of Cash Flows	11
Notes to the Financial Statements	12-17
<u>Supplemental Information:</u>	
Statement of Revenues, Expenditures and Changes in Net Position – Budget (non-GAAP Budgetary Basis) and Actual	18
Schedule of Vendor Information	19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Schedule of Status of Prior Year Audit Findings	22
Other Disclosures	23

OFFICIAL ROSTER
June 30, 2015

BOARD MEMBERS

Mike Gallagher	Lea County Manager	Chairperson
Chris McCall	Hobbs Chief of Police	Vice-Chairperson
Jeff Walker	Board Appointee	Member
Lorenzo Velasquez	Lea County Communications	Member
J.J. Murphy	City of Hobbs Manager	Member
Eric Enriquez	Hobbs Fire Chief	Member
Steve Ackerman	Lea County Sheriff	Member
Angela Martinez	Lea County Communications	Director



INDEPENDENT AUDITORS' REPORT

Mr. Tim Keller
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, 2015, 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, 2015, 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, 2015, 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, 2015, in conformity with the budgetary basis described in Note A4.

Other Matters

Required Supplemental Information

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 Information

The Statement of Revenues, Expenditures and Changes in Net Position – Budget (non-GAAP Budgetary Basis) and Actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenditures and Changes in Net Position – Budget (non-GAAP Budgetary Basis) and Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015 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 30, 2015

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, 2015. 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, 2015 and 2014 were \$9,925,888 and \$8,554,487, respectively.
- The Authority's total liabilities at June 30, 2015 and 2014 were \$732,386 and \$788,370 (as restated), respectively.
- The Authority's operating expenses for fiscal year ended June 30, 2015 and 2014 totaled \$2,827,601 and \$2,701,645 (as restated), respectively.
- As of the close of the fiscal year ended June 30, 2015 and 2014 the Authority reported ending total net position of \$9,193,502 and \$7,766,117 (as restated), respectively.
- The Authority's revenues totaled \$4,254,986 and \$3,239,604 for the fiscal year ended June 30, 2015 and 2014, respectively. Revenues in fiscal year 2015 consisted of \$4,245,691 in member contributions, \$7,290 from the City of Lovington, and \$2,005 in DFA 911 grant reimbursements. In fiscal year 2014, revenues consisted of \$3,239,299 in member contributions and \$305 in training reimbursements.

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 12-17 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, 2015 and 2014 is scheduled below:

	June 30, 2015	June 30, 2014
		(as restated)
Current and other assets	\$ 9,925,888	\$ 8,554,487
Current and other liabilities	732,386	788,370
Total net position	\$ 9,193,502	\$ 7,766,117

The increase in net position of \$1.4 million is due to the construction of a communications tower in Hobbs and Lovington and costs towards the P25 radio system.

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:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2015	June 30, 2014 (as restated)
Member contributions	\$ 4,245,691	\$ 3,239,299
Miscellaneous	-	305
Other:		
City of Lovington	7,290	-
State	2,005	-
Operating expenses	<u>2,827,601</u>	<u>2,701,645</u>
Change in net position	1,427,385	537,959
Beginning net position	7,702,077	7,172,113
Restatement	64,040	56,045
Beginning net position - restated	<u>7,766,117</u>	<u>7,228,158</u>
Ending net position	<u>\$ 9,193,502</u>	<u>\$ 7,766,117</u>

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 increase in total revenues is related to an increase in construction and equipment costs required to be reimbursed by Lea County and City of Hobbs, New Mexico.

BUDGET ANALYSIS

6/30/2015

There were approved budget revenue and expense increases and decreases after the initial approved budget for 2015. 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	\$ 7,583,219	\$ 4,252,163	\$ (3,331,056)
Total revenues	<u>\$ 7,583,219</u>	<u>\$ 4,252,163</u>	<u>\$ (3,331,056)</u>
EXPENSES			
General government	\$ 2,863,392	\$ 2,288,550	\$ 574,842
Capital outlay	3,663,000	1,964,430	1,698,570
Total expenses	<u>\$ 6,526,392</u>	<u>\$ 4,252,980</u>	<u>\$ 2,273,412</u>
Excess of revenues over expenditures	<u>\$1,056,827</u>	<u>\$ (817)</u>	<u>\$ (1,057,644)</u>

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:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Buildings	\$ 4,989,373	\$ 4,989,373
Furniture & Equipment	4,181,442	3,328,056
Land	96,191	96,191
Construction in Process	<u>1,696,905</u>	<u>532,612</u>
Total capital assets	10,963,911	8,946,232
A/D Buildings	(285,068)	(195,259)
A/D Furniture & Equipment	<u>(1,259,822)</u>	<u>(829,506)</u>
	(1,544,889)	(1,024,765)
Net capital assets	<u>\$ 9,419,022</u>	<u>\$ 7,921,467</u>

The increase in capital assets is related to the construction of towers, located in Lovington and Hobbs and the costs toward the P25 radio system.

FISCAL YEAR 2015:

The communications tower, located at the LCCA site in Hobbs, was completed in FY 2015. The construction of the communications tower, located in Lovington, is a work in progress. LCCA will continue to promote membership in the authority to the municipalities in Lea County.

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, 2015</u>
ASSETS	
Cash	\$ 39
Receivable from related parties	497,532
Due from local governments	7,290
Due from state government	2,005
Capital assets	
Land	96,191
Construction in process	1,696,905
Buildings	4,989,373
Equipment and furniture	4,181,442
Less: Accumulated depreciation	<u>(1,544,889)</u>
Total Capital Assets	<u>9,419,022</u>
TOTAL ASSETS	<u>\$ 9,925,888</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	\$ 91,043
Accrued liabilities	95,165
Payable to related party	<u>546,178</u>
TOTAL LIABILITIES	<u>732,386</u>
NET POSITION	
Invested in capital assets	9,419,022
Unrestricted	<u>(225,520)</u>
Total net position	<u>9,193,502</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 9,925,888</u>

The accompanying notes are an integral part of these statements.

LEA COUNTY COMMUNICATIONS AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION

	Year Ended June 30, 2015
OPERATING REVENUES	
Member contributions	
Lea County	\$ 2,008,253
City of Hobbs	2,237,438
Other	
City of Lovington	7,290
State of New Mexico	2,005
	<hr/>
Total operating revenues	4,254,986
	<hr/>
OPERATING EXPENSES	
General government	2,827,601
	<hr/>
Total operating expenses	2,827,601
	<hr/>
Operating Income (Loss)	1,427,385
	<hr/>
Change in net position	1,427,385
Net position - beginning of year	7,702,077
	<hr/>
Restatement (Note G)	64,040
Net position - beginning of year, restated	7,766,117
	<hr/>
Net position - end of year	\$ 9,193,502
	<hr/>

The accompanying notes are an integral part of these statements.

LEA COUNTY COMMUNICATIONS AUTHORITY

STATEMENT OF CASH FLOWS

	Year Ended June 30, 2015
OPERATING ACTIVITIES	
Cash received from members	\$ 4,252,164
Cash paid to suppliers	<u>(2,235,302)</u>
Net cash provided by operating activities	<u>2,016,862</u>
INVESTING ACTIVITIES	
Cash paid for capital assets	<u>(2,017,679)</u>
Net cash used by investing activities	<u>(2,017,679)</u>
Net increase (decrease) in cash	<u>(817)</u>
Cash - beginning of year	<u>856</u>
Cash - end of year	<u>\$ 39</u>
Reconciliation of operating income to net cash provided by operating activities	
Change in net position	\$ 1,427,385
Depreciation	520,124
Change in assets and liabilities	
Accounts payable	47,726
Due from related party	125,337
Accrued liabilities	24,449
Due to related party	<u>(128,159)</u>
Net cash provided by operating activities	<u>\$ 2,016,862</u>

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.

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.

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, 2015 are considered to be fully collectible and are composed of the following:

City of Hobbs	\$	<u>497,532</u>
Total	\$	<u>497,532</u>

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	\$	<u>546,178</u>
Total	\$	<u>546,178</u>

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, 2015, the Authority did not have any probable risks of loss.

NOTE E - CAPITAL ASSETS

	Balance			Balance		
	June 30, 2014	Additions	Deletions	Transfers	June 30, 2015	
Depreciable assets						
Buildings	\$ 4,989,373	\$ -	\$ -	\$ -	4,989,373	
Equipment & Furniture	3,328,056	45,450	-	807,935	4,181,442	
Total depreciable assets	8,317,429	45,450	-	807,935	9,170,815	
Less accumulated depreciation:						
Buildings	(195,259)	(89,809)	-	-	(285,068)	
Equipment & Furniture	(829,506)	(430,315)	-	-	(1,259,822)	
Total accumulated depreciation	(1,024,765)	(520,124)	-	-	(1,544,889)	
Net depreciable assets	7,292,664	(474,674)	-	807,935	7,625,925	
Non-depreciable assets						
Land	96,191	-	-	-	96,191	
Construction in Process	532,612	1,972,229	-	(807,935)	1,696,905	
Total non-depreciable assets	628,803	1,972,229	-	(807,935)	1,793,096	
Net capital assets	\$ 7,921,467	\$ 1,497,555	\$ -	\$ -	\$ 9,419,022	

Depreciation expense for the year ended June 30, 2015 was \$520,124.

NOTE F- MEMORANDUM OF UNDERSTANDING

During August 2011, the Authority entered into a memorandum of understanding (MOU) with Regional Emergency Dispatch Authority (REDA) for REDA to provide back-up assistance for the Authority during any unexpected future malfunctions of the Authority's system. The initial term of the MOU ends June 30, 2012 unless renewed for additional 1 year terms by written renewal option executed by both parties. There are no costs associated with this MOU.

During September 2013, the Authority entered into a MOU with URENCO, USA to coordinate emergency plans and procedures for assistance during the construction, operation and decommissioning phases of the URENCO, USA facilities in Lea County. The agreement shall be

LEA COUNTY COMMUNICATIONS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE F- MEMORANDUM OF UNDERSTANDING (continued)

reviewed annually. Either party may terminate the agreement with a ninety (90) day written notice to the other party. There are no costs associated with this MOU.

NOTE G- RESTATEMENT OF NET POSITION

The beginning net position increased \$64,040 due to an error in recording compensated absences at June 30, 2014. The Authority's employees are employed and reported as employees of Lea County. The liability for compensated absences is reported under Lea County.

	<u>As Previously Reported</u>	<u>Accrued Liabilities Restatement</u>	<u>As Restated</u>
Net position	\$ 7,702,077	\$ 64,040	\$ 7,766,117

NOTE H- SUBSEQUENT PRONOUNCEMENTS

In March 2015, GASB issued Government Accounting Standards Board Statement No. 72, Fair Value Measurement and Application, to address accounting and financial reporting issues related to fair value measurements. The provisions of the statement are effective for financial statements for periods beginning after June 15, 2015. The standard is expected to have no effect on the Authority in upcoming years.

NOTE I- SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 30, 2015, which is the date on 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, 2015

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Member contributions	\$ 7,583,219	\$ 7,583,219	\$ 4,252,163	\$ (3,331,056)
Total Revenues	7,583,219	7,583,219	4,252,163	(3,331,056)
EXPENDITURES				
General government	2,841,392	2,863,392	2,288,550	574,842
Capital outlay	2,963,000	3,663,000	1,964,430	1,698,570
Total Expenditures	5,804,392	6,526,392	4,252,980	2,273,412
Excess of revenues over expenditures	1,778,827	1,056,827	(817)	(1,057,644)
Prior year cash balance	-	-	-	-
Net change in fund net position	\$ 1,778,827	\$ 1,056,827	(817)	
RECONCILIATION TO GAAP BASIS:				
Depreciation			(520,124)	
Change in accounts payable			(47,726)	
Change in due from other governments			(125,337)	
Change in accrued liabilities			(24,449)	
Change in due to other governments			128,159	
Capital asset additions			2,017,679	
Net change in net position			\$ 1,427,385	



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 Auditors' Report

Tim Keller
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, 2015, and have issued our report thereon dated November 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis to determine our audit procedures that are appropriate for 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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.

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.

Johnson, Miller & Co.

Hobbs, New Mexico
November 30, 2015

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS

Tim Keller
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, 2015 by Johnson, Miller & Co., Certified Public Accountants, A Professional Corporation.

LEA COUNTY COMMUNICATIONS AUTHORITY

OTHER DISCLOSURES

Year Ended June 30, 2015

Tim Keller
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 30, 2015. The following persons were in attendance.

Authority's Officials

Lorenzo Velasquez, Board Member
Angela Martinez, Director
Chip Low, Lea County Finance Director
Tai Etcheverry, Lea County Senior Accountant

Auditors

Mary Hinds, CPA, Director
Tabatha Coffey, CPA, Manager