

**STATE OF NEW MEXICO  
CITY OF LOVINGTON**

**FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
WITH ACCOMPANYING AUDITORS' REPORTS**

**YEAR ENDED JUNE 30, 2009**

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## **INTRODUCTORY SECTION**

**STATE OF NEW MEXICO**

City of Lovington

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**STATE OF NEW MEXICO**

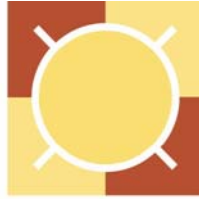
City of Lovington

Official Roster

June 30, 2009

<u>Name</u>		<u>Title</u>
	<b><u>City Council Members</u></b>	
Dixie Drummond		Mayor
Arthur Sanchez		Mayor-Pro Temp
David Trujillo		Commissioner
Neil Granath		Commissioner
Scott Gandy		Commissioner
	<b><u>Administrative Officials</u></b>	
Michael Leighton		City Manager
Rhonda Jones		City Clerk/Treasurer

**FINANCIAL SECTION**



**Accounting & Consulting Group, LLP**

**INDEPENDENT AUDITORS' REPORT**

Hector Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
To the Honorable Mayor and City Councilors  
City of Lovington  
Lovington, New Mexico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the budgetary comparison for the general fund and the aggregate remaining fund information of City of Lovington as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental funds, the internal service funds, the component unit and the budgetary comparisons for the proprietary funds, the component unit, and the remaining nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of City of Lovington's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

We were not able to verify the Utility Solid Waste nor the Utility Water and Waste Water Proprietary funds accounts receivable and the related allowance for doubtful accounts balance at June 30, 2009. We were unable to determine these amounts through the use of alternative procedures and, as such, are unable to express an opinion on the Utility Solid Waste and Utility Water and Waste Water Proprietary funds as of June 30, 2009. The effect on assets, net assets, and expenses of the proprietary activities is not readily determinable.

In our opinion, except for the effects of the lack of evidence verifying the amount of accounts receivables in the Utility Solid Waste and Utility Water and Waste Water Proprietary funds as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business activities of the City of Lovington, New Mexico, as of June 30, 2009, and the changes in financial position and cash flows, where applicable thereof, and the budgetary comparison for the proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Certified Public Accountants*

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**Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock**



In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major governmental fund and the aggregate remaining fund information of the City of Lovington as of June 30, 2009, and the respective changes in financial position thereof and the budgetary comparison for the general fund, and for the year then ended in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund, the internal services funds, the component unit, of the City of Lovington as of June 30, 2009, and the respective changes in financial position thereof and the respective budgetary comparisons for the proprietary funds, the component unit, and the remaining nonmajor governmental funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2009 on our consideration of the City'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.

The *Management's Discussion and Analysis* on pages 10 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying financial information listed as supporting Schedules I through III in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and each of the nonmajor governmental funds financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements and the nonmajor governmental funds financial statements, taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Accounting & Consulting Group, LLP

Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
December 1, 2009

**STATE OF NEW MEXICO**  
City of Lovington  
Management's Discussion and Analysis  
June 30, 2009

As management of the City of Lovington, we offer readers of the City of Lovington financial statements this narrative overview and analysis of the financial activities of the City of Lovington for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the financial statements of the City of Lovington and additional information provided.

### **Financial Highlights**

- The assets of the City of Lovington exceeded its liabilities at the close of the most recent fiscal year by \$37,537,838 (*net assets*). Of this amount, \$3,724,887 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased from \$34,716,309 for the year ending June 30, 2008 to \$37,537,838 for the year ended June 30, 2009. This represents an increase of 8%, or \$2,821,529. The majority of this increase is due to the increase in cash and increases in payables and debt
- As of the close of the current fiscal year, the City of Lovington's governmental funds reported combined ending fund balances of \$2,284,112, an increase of \$116,650 in comparison with the prior year, as adjusted.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$1,937,016 or 19 percent of total general fund expenditures.
- The City of Lovington's total debt increased by \$1,115,204, during the current fiscal year. The key factor in this increase was a new loan with New Mexico Finance Authority for a Drinking Water State Revolving Loan.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Lovington's basic financial statements. The City of Lovington's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lovington's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government'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 taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lovington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lovington include general government, public safety, public works, health and welfare, culture and recreation, and conservation and development. The business-type activities of the City of Lovington include a joint utility (including water, waste water, and garbage removal) and ambulance service.

The government-wide financial statements can be found at exhibits A-1 and A-2 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lovington, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lovington can be divided into two categories: governmental funds and proprietary funds.

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City of Lovington  
Management's Discussion and Analysis  
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**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lovington maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lovington adopts an annual appropriated budget for its general fund and all other governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. In addition, the individual financial statements of the nonmajor governmental fund types include budgetary comparison data.

The basic governmental fund financial statements can be found at exhibits B-1 through C of this report.

**Proprietary funds.** The City of Lovington maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lovington uses enterprise funds to account for its joint utility and ambulance funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the joint utility, considered a major fund, and for the only nonmajor enterprise fund, the ambulance fund.

The basic proprietary fund financial statements can be found at exhibits D-1, D-2 and D-3 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-57 of this report.

**Other information.** The combining and individual fund statements referred to earlier in connection with nonmajor governmental funds, internal service funds, agency funds, and the component unit is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 62-91 of this report.

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**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lovington's, assets exceeded liabilities by \$37,537,838 at the close of the most recent fiscal year.

The largest portion of the City of Lovington's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Lovington uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lovington's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF LOVINGTON'S NET ASSETS\***  
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Current and other assets	\$ 2,661	\$ 3,131	\$ 3,362	\$ 3,847	\$ 6,023	\$ 6,978
Capital assets, net of accumulated depreciation	<u>23,648</u>	<u>21,885</u>	<u>18,823</u>	<u>17,026</u>	<u>42,471</u>	<u>38,911</u>
Total assets	<u>26,309</u>	<u>25,016</u>	<u>22,185</u>	<u>20,873</u>	<u>48,494</u>	<u>45,889</u>
Long-term liabilities outstanding	447	441	9,153	8,197	9,600	8,638
Other liabilities	<u>533</u>	<u>1,063</u>	<u>823</u>	<u>1,471</u>	<u>1,356</u>	<u>2,534</u>
Total liabilities	<u>980</u>	<u>1,504</u>	<u>9,976</u>	<u>9,668</u>	<u>10,956</u>	<u>11,172</u>
Net Assets	<u>25,329</u>	<u>23,512</u>	<u>12,209</u>	<u>11,205</u>	<u>37,538</u>	<u>34,717</u>
Total liabilities and net assets	<u>\$ 26,309</u>	<u>\$ 25,016</u>	<u>\$ 22,185</u>	<u>\$ 20,873</u>	<u>\$ 48,494</u>	<u>\$ 45,889</u>

A portion of the City of Lovington's net assets of \$33,476,864 represents resources that are not available for current obligations representing the net investment in capital assets. There is \$336,087 that is restricted for contractual obligations including debt and other purposes. The remaining balance of *unrestricted net assets* \$3,724,887 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Lovington is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

There was an increase of approximately \$2,668,366 in capital assets reported in connection with the City of Lovington's business-type activities. The majority of this increase resulted from additions the City had for the construction projects that had for the Water Treatment plant.

**Governmental activities.** Governmental activities increased the City of Lovington's net assets by \$1,817,368. Key elements of this increase are as follows:

- An increase in the capital assets because of ongoing projects being completed during the year.

**Business-type activities.** Business-type activities decreased the City of Lovington net assets by \$33,265.

- The decrease was in large part due to the construction during the year for the Water State Revolving Fund.

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City of Lovington  
Management's Discussion and Analysis  
June 30, 2009

**Comparison of Key Elements**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Revenues</b>						
Taxes	\$ 7,483	\$ 6,527	\$ -	\$ -	\$ 7,483	\$ 6,527
Intergovernmental	2,495	3,236	-	847	2,495	4,083
Charges for services	384	30	4,109	2,401	4,493	2,431
Other	507	1,454	57	1,593	564	3,047
	<u>10,869</u>	<u>11,247</u>	<u>4,166</u>	<u>4,841</u>	<u>15,035</u>	<u>16,088</u>
<b>Expenses</b>						
Current:						
General government	2,188	3,172	-	-	2,188	3,172
Public safety	3,544	3,457	-	-	3,544	3,457
Public works	1,527	1,583	-	-	1,527	1,583
Health and welfare	20	25	-	-	20	25
Culture and recreation	1,705	2,869	-	-	1,705	2,869
Conservation and development	68	50	-	-	68	50
Joint Utility	-	-	3,851	4,201	3,851	4,201
Ambulance	-	-	348	360	348	360
	<u>9,052</u>	<u>11,156</u>	<u>4,199</u>	<u>4,561</u>	<u>13,251</u>	<u>15,717</u>
<b>Excess of revenues over expenses</b>	<u>\$ 1,817</u>	<u>\$ 91</u>	<u>\$ (33)</u>	<u>\$ 280</u>	<u>\$ 1,784</u>	<u>\$ 371</u>

**Financial Analysis of the Government's Funds**

As noted earlier, the City of Lovington uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Lovington's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lovington's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Lovington's governmental funds reported combined ending fund balances of \$2,284,112 an increase of \$116,650 in comparison with the prior year. The increase was due to all the expenses that were incurred related to the aquatic center and several other renovations to City buildings. Approximately 100 percent of this total amount, \$2,284,112, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City of Lovington. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,937,016 and represents 19 percent of total general fund expenditures.

The fund balance of the City of Lovington's general fund increased by \$23,114 during the current fiscal year. The majority of the increase is because of the decrease (9%) of the expenses for all the projects going on during the year.

**Proprietary funds.** The City of Lovington's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

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**General Fund Budgetary Highlights**

There were no major differences between the original budget and the final amended budget.

The following table examines the summary budget performance of the major and combined nonmajor funds for the fiscal year ending June 30, 2009. Detailed budget performance is examined through the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual for the general fund found at Exhibit C and the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual for the nonmajor funds found at Statements A-3 through A-11.

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	\$ 1,532,289	\$ 398,406
Nonmajor Governmental Funds	\$ 88,002	\$ (389,902)
	Change in Net Assets	
	Original Budget	Final Budget
Water & Wastewater Fund	\$ (794,483)	\$ (794,473)
Ambulance Fund	\$ (13,436)	\$ (13,436)
Solid Waste fund	\$ 119,127	\$ (18,768)
Internal Service Funds	\$ -	\$ (8,875)

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**Capital Asset and Debt Administration**

**Capital assets.** The City of Lovington's investment in capital assets for its governmental and business type activities as of June 30, 2009, amounts to \$42,472,169 (net of accumulated depreciation). This investment in capital assets includes land, land-right of ways, land improvements, buildings, computers, equipment, furniture and fixtures, vehicles, and infrastructure.

**CITY OF LOVINGTON'S Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Land	\$ 133,319	\$ 52,319	\$ 750	\$ 750	\$ 134,069	\$ 53,069
Construction in process	-	-	-	-	-	-
Infrastructure	17,562,134	16,013,381	-	-	17,562,134	16,013,381
Buildings and Improvement	11,403,894	10,618,830	23,930,466	21,849,740	35,334,360	32,468,570
Machinery and Equipment	4,060,139	3,889,005	3,792,055	3,200,384	7,852,194	7,089,389
Vehicles	2,427,258	1,858,765	876,228	880,259	3,303,486	2,739,024
	<u>35,586,744</u>	<u>32,432,300</u>	<u>28,599,499</u>	<u>25,931,133</u>	<u>64,186,243</u>	<u>58,363,433</u>
Less accumulated depreciation	<u>11,938,106</u>	<u>10,546,565</u>	<u>9,775,968</u>	<u>8,905,577</u>	<u>21,714,074</u>	<u>19,452,142</u>
	<u>\$ 23,648,638</u>	<u>\$ 21,885,735</u>	<u>\$ 18,823,531</u>	<u>\$ 17,025,556</u>	<u>\$ 42,472,169</u>	<u>\$ 38,911,291</u>

Additional information on the City of Lovington's capital assets can be found in Note 6 on pages 49-51 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lovington had total debt from loans and bonds outstanding of \$8,995,305 all of which is secured by pledged gross receipts tax or operating revenues. The City of Lovington also had other long term debt obligations for compensated absences of \$823,862.

	Governmental Activities		Business-type Activities		Total	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Bonds Payable: Water Tower	\$ -	\$ -	\$ -	\$ 331,948	\$ -	\$ 331,948
Notes Payable: Wastewater Facility	-	-	3,505,305	5,160,277	3,505,305	5,160,277
Drinking Water	-	-	5,490,000	2,387,876	5,490,000	2,387,876
Compensated Absences	<u>684,956</u>	<u>629,891</u>	<u>134,446</u>	<u>123,241</u>	<u>819,402</u>	<u>753,132</u>
	<u>\$ 684,956</u>	<u>\$ 629,891</u>	<u>\$ 9,129,751</u>	<u>\$ 8,003,342</u>	<u>\$ 9,814,707</u>	<u>\$ 8,633,233</u>

Additional information on the City of Lovington's long-term debt can be found in Note 7 on pages 52-54 of this report.

**STATE OF NEW MEXICO**  
City of Lovington  
Management's Discussion and Analysis  
June 30, 2009

**Economic Factors and Next Year's Budget**

City of Lovington is located in Lea County. Lea County, like the rest of urban New Mexico, has a strong and balanced economy. Employment in the area has been stable for the past three years.

City of Lovington receives approximately 61% of its annual operating budget for governmental funds from gross receipts taxes.

City of Lovington has not appropriated any of its unreserved fund balance for spending in the 2009 fiscal year budget. However, future increases in the budget may require a portion of the fund balance to be utilized.

**Request for Information**

This financial report is designed to provide a general overview of the City of Lovington's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's business office, at Lovington City Hall, 214 South Love, Lovington, New Mexico 88260.



## **BASIC FINANCIAL STATEMENTS**

**STATE OF NEW MEXICO**

City of Lovington

Statement of Net Assets

June 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,388,428	\$ 2,106,085	\$ 3,494,513	\$ 193,242
Investments	522,319	60,125	582,444	-
Receivables:				
Taxes receivable	821,285	-	821,285	-
Intergovernmental	91,591	157	91,748	-
Other receivables	458	572,643	573,101	923
Prepays	-	-	-	2,630
Inventory	126,586	83,846	210,432	469
Internal balances	(289,591)	289,591	-	-
Total current assets	<u>2,661,076</u>	<u>3,112,447</u>	<u>5,773,523</u>	<u>197,264</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	249,257	249,257	8,300
Capital assets	35,586,744	28,599,498	64,186,242	2,271,022
Less: accumulated depreciation	<u>(11,938,106)</u>	<u>(9,775,967)</u>	<u>(21,714,073)</u>	<u>(1,143,184)</u>
Total noncurrent assets	<u>23,648,638</u>	<u>19,072,788</u>	<u>42,721,426</u>	<u>1,136,138</u>
Total assets	<u>\$ 26,309,714</u>	<u>\$ 22,185,235</u>	<u>\$ 48,494,949</u>	<u>\$ 1,333,402</u>

The accompanying notes are an integral part of these financial statements

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
<b>Liabilities</b>				
Current liabilities				
Accounts payable	\$ 166,897	\$ 253,318	\$ 420,215	\$ 2,222
Accrued payroll expenses	128,526	37,815	166,341	11,464
Accrued interest	-	306,190	306,190	-
Accrued compensated absences	237,990	39,294	277,284	1,134
Deferred revenue	-	-	-	-
Prepaid rent	-	-	-	291
Current portion of bonds and notes payable	-	226,362	226,362	-
Total current liabilities	<u>533,814</u>	<u>862,979</u>	<u>1,396,793</u>	<u>15,111</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	-	-	-	8,300
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,300</u>
Noncurrent liabilities				
Accrued compensated absences	446,966	95,152	542,118	3,212
Customer deposits	-	249,257	249,257	-
Bonds and notes payable	-	8,768,943	8,768,943	-
Total noncurrent liabilities	<u>446,966</u>	<u>9,113,352</u>	<u>9,560,318</u>	<u>3,212</u>
Total liabilities	<u>980,780</u>	<u>9,976,331</u>	<u>10,957,111</u>	<u>26,623</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	23,648,638	9,828,226	33,476,864	1,127,838
Restricted for (Note 18):				
Debt service	-	-	-	-
Other purposes	336,087	-	336,087	-
Unrestricted	<u>1,344,209</u>	<u>2,380,678</u>	<u>3,724,887</u>	<u>170,641</u>
Total net assets	<u>25,328,934</u>	<u>12,208,904</u>	<u>37,537,838</u>	<u>1,306,779</u>
Total liabilities and net assets	<u>\$ 26,309,714</u>	<u>\$ 22,185,235</u>	<u>\$ 48,494,949</u>	<u>\$ 1,333,402</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Activities  
For the Year Ending June 30, 2009

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government</b>				
General government	\$ 2,187,452	\$ 383,267	\$ 2,038,200	\$ -
Public safety	3,544,163	-	101,110	19,880
Public works	1,526,625	-	-	-
Health and welfare	20,376	-	-	-
Culture and recreation	1,705,219	1,343	164,221	171,639
Conservation and development	68,322	-	-	-
<i>Total governmental activities</i>	<u>9,052,157</u>	<u>384,610</u>	<u>2,303,531</u>	<u>191,519</u>
<b>Business-type Activities:</b>				
Capital Projects repair and replace water lines	-	-	-	-
Solid Waste	1,365,363	1,641,765	-	-
Water & Wastewater	2,485,740	1,989,228	-	-
Ambulance	348,475	477,968	-	-
<i>Total business type activities</i>	<u>4,199,578</u>	<u>4,108,961</u>	<u>-</u>	<u>-</u>
<i>Total primary government</i>	<u>\$ 13,251,735</u>	<u>\$ 4,493,571</u>	<u>\$ 2,303,531</u>	<u>\$ 191,519</u>
<b>Component Unit:</b>				
Housing Authority	<u>\$ 333,840</u>	<u>\$ 87,467</u>	<u>\$ 115,623</u>	<u>\$ 154,069</u>

**General Revenues:**

Taxes  
Property taxes  
Gross receipts taxes  
Gasoline and motor vehicle taxes  
Franchise taxes  
Cigarette taxes  
Lodger's taxes  
Other taxes  
Fines, forfeitures, and penalties  
Investment income  
Miscellaneous income  
Gain/(loss) on disposal of capital assets  
Transfers  
Total general revenues and transfers  
Change in net assets  
Net assets, beginning  
Restatement (Note 16)  
Net assets, beginning as restated  
Net assets, ending

The accompanying notes are an integral part of these financial statements

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Housing Authority</u>
\$ 234,015	\$ -	\$ 234,015	\$ -
(3,423,173)	-	(3,423,173)	-
(1,526,625)	-	(1,526,625)	-
(20,376)	-	(20,376)	-
(1,368,016)	-	(1,368,016)	-
(68,322)	-	(68,322)	-
<u>(6,172,497)</u>	<u>-</u>	<u>(6,172,497)</u>	<u>-</u>
-	-	-	-
-	276,402	276,402	-
-	(496,512)	(496,512)	-
-	129,493	129,493	-
<u>-</u>	<u>(90,617)</u>	<u>(90,617)</u>	<u>-</u>
<u>(6,172,497)</u>	<u>(90,617)</u>	<u>(6,263,114)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,319</u>
276,606	-	276,606	-
6,685,214	-	6,685,214	-
163,027	-	163,027	-
220,741	-	220,741	-
31,057	-	31,057	-
56,585	-	56,585	-
49,495	-	49,495	-
230,882	-	230,882	-
9,926	6,851	16,777	982
266,948	50,480	317,428	13,353
(594)	-	(594)	(1,091)
(21)	21	-	-
<u>7,989,866</u>	<u>57,352</u>	<u>8,047,218</u>	<u>13,244</u>
1,817,369	(33,265)	1,784,104	36,563
23,511,565	11,204,743	34,716,308	1,270,216
-	1,037,426	1,037,426	-
<u>23,511,565</u>	<u>12,242,169</u>	<u>35,753,734</u>	<u>1,270,216</u>
<u>\$ 25,328,934</u>	<u>\$ 12,208,904</u>	<u>\$ 37,537,838</u>	<u>\$ 1,306,779</u>

**STATE OF NEW MEXICO**

City of Lovington  
Balance Sheet  
Governmental Funds  
June 30, 2009

	General Fund	Other Governmental Funds	Total
<i>Assets</i>			
Cash and cash equivalents	\$ 1,265,044	\$ 108,111	\$ 1,373,155
Investments	448,890	18,000	466,890
Receivables:			
Taxes	802,928	18,357	821,285
Intergovernmental	47,218	44,373	91,591
Other receivables	458	-	458
Inventory	126,586	-	126,586
Due from other funds	30,908	208,400	239,308
<i>Total assets</i>	2,722,032	397,241	3,119,273
<i>Liabilities</i>			
Accounts payable	153,342	13,555	166,897
Accrued payroll expenses	127,185	1,341	128,526
Deferred revenue	10,438	-	10,438
Due to other funds	494,051	35,249	529,300
<i>Total liabilities</i>	785,016	50,145	835,161
<i>Fund balances</i>			
Reserved for debt service	-	-	-
Unreserved, reported in:			
General fund	1,937,016	-	1,937,016
Special revenue	-	347,096	347,096
<i>Total fund balances</i>	1,937,016	347,096	2,284,112
<i>Total liabilities and fund balances</i>	\$ 2,722,032	\$ 397,241	\$ 3,119,273

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Exhibit B-1

City of Lovington  
Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets  
June 30, 2009

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$	2,284,112
The City uses internal service funds to charge the costs of certain activities such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.		70,702
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		23,648,638
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds: Deferred property taxes		10,438
Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds Accrued compensated absences		<u>(684,956)</u>
Total net assets	\$	<u><u>25,328,934</u></u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ending June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>Revenues</i>			
Taxes:			
Property	\$ 278,021	\$ -	\$ 278,021
Gross receipts	6,685,214	-	6,685,214
Gasoline and motor vehicle	18,300	144,727	163,027
Other	241,420	116,458	357,878
Intergovernmental:			
Federal operating grants	-	7,380	7,380
Federal capital grants	-	16,887	16,887
State operating grants	2,038,200	257,951	2,296,151
State capital grants	15,483	159,149	174,632
Charges for services	108,595	1,343	109,938
Licenses and fees	211,271	63,401	274,672
Fines, forfeitures, and penalties	230,882	-	230,882
Investment income	8,873	249	9,122
Miscellaneous	236,984	28,166	265,150
<i>Total revenues</i>	<u>10,073,243</u>	<u>795,711</u>	<u>10,868,954</u>
<i>Expenditures</i>			
Current:			
General government	2,100,545	33,377	2,133,922
Public safety	3,108,466	123,874	3,232,340
Public works	539,104	90,135	629,239
Health and welfare	-	-	-
Culture and recreation	1,260,889	131,728	1,392,617
Conservation and development	67,133	-	67,133
Capital outlay	3,035,126	261,906	3,297,032
<i>Total expenditures</i>	<u>10,111,263</u>	<u>641,020</u>	<u>10,752,283</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(38,020)</u>	<u>154,691</u>	<u>116,671</u>
<i>Other financing sources (uses)</i>			
Transfers in	153,134	92,000	245,134
Transfers (out)	(92,000)	(153,155)	(245,155)
<i>Total other financing sources (uses)</i>	<u>61,134</u>	<u>(61,155)</u>	<u>(21)</u>
<i>Net change in fund balances</i>	23,114	93,536	116,650
<i>Fund balances - beginning of year</i>	<u>1,913,902</u>	<u>253,560</u>	<u>2,167,462</u>
<i>Fund balances - end of year</i>	<u>\$ 1,937,016</u>	<u>\$ 347,096</u>	<u>\$ 2,284,112</u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**

Exhibit B-2

City of Lovington

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
June 30, 2009

Amounts reported for governmental activities in the statement of activities  
are different because:

Net change in fund balances - total governmental funds	\$	116,650
<p>The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.</p>		
		(5,704)
<p>Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital assets reported as capital outlay expenditures		3,297,032
Depreciation expense		(1,533,535)
(Gain) loss on sale		(594)
<p>In the statement of activities, only the loss on the disposition of fixed assets is reported, whereas in the governmental funds, the proceeds from the disposition increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the fixed assets disposed.</p>		
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:</p>		
Decrease in deferred revenue related to property taxes receivable		(1,416)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds</p>		
Increase in compensated absences		<u>(55,065)</u>
Change in net assets of governmental activities	\$	<u><u>1,817,368</u></u>

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## STATE OF NEW MEXICO

Statement C-1

City of Lovington

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
<i>Revenues</i>				
Taxes:				
Property	\$ 260,072	\$ 260,072	\$ 276,570	\$ 16,498
Gross receipts	6,104,055	6,104,055	6,451,617	347,562
Gasoline and motor vehicle	18,390	18,390	18,300	(90)
Other	471,664	471,664	257,335	(214,329)
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	2,880,302	2,880,302	2,817,929	(62,373)
State capital grants	78,100	78,100	15,483	(62,617)
Charges for services	8,000	8,000	108,595	100,595
Licenses and fees	250,585	250,585	213,683	(36,902)
Fines, forfeitures, and penalties	211,112	211,112	228,639	17,527
Investment income	19,675	19,675	9,057	(10,618)
Miscellaneous	507,836	507,836	225,264	(282,572)
<i>Total revenues</i>	<u>10,809,791</u>	<u>10,809,791</u>	<u>10,622,472</u>	<u>(187,319)</u>
<i>Expenditures</i>				
Current:				
General government	2,412,148	2,366,884	2,353,191	13,693
Public safety	3,193,938	3,323,954	3,323,784	170
Public works	507,437	513,240	513,223	17
Health and welfare	-	-	-	-
Culture and recreation	1,129,098	1,343,823	1,344,001	(178)
Conservation and development	63,902	68,089	66,025	2,064
Capital outlay	2,090,441	2,914,857	2,914,849	8
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>9,396,964</u>	<u>10,530,847</u>	<u>10,515,073</u>	<u>15,774</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>1,412,827</u>	<u>278,944</u>	<u>107,399</u>	<u>(171,545)</u>
<i>Other financing sources (uses)</i>				
Designated cash	1,293,365	159,482	-	159,482
Transfers in	164,462	164,462	153,134	317,596
Transfers out	(45,000)	(45,000)	(92,000)	(47,000)
<i>Total other financing sources (uses)</i>	<u>1,412,827</u>	<u>278,944</u>	<u>61,134</u>	<u>430,078</u>
<i>Net change in fund balances</i>	-	-	168,533	258,533
<i>Fund balances - beginning of year</i>	-	-	1,093,345	1,093,345
<i>Fund balances - restatement</i>	-	-	(11,087)	(11,087)
<i>Fund balances - as restated</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,250,791</u>	<u>\$ 1,340,791</u>
Net change in fund balance (Non-GAAP)				\$ 168,533
Adjustments to revenue for property taxes, gross receipt taxes, state grants, and other revenues				(549,229)
Adjustments to expenditures for general government, public safety, public works, and culture and rec.				403,810
Net change in fund balance (GAAP budgetary basis)				<u>\$ 23,114</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

City of Lovington  
Statement of Net Assets  
Proprietary Funds  
June 30, 2009

	<u>Solid Waste</u>	<u>Water &amp; Wastewater</u>	<u>Non-Major Funds</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 50	\$ 2,106,035	\$ -
Investments	60,125	-	-
Accounts receivable	-	572,800	-
Prepays	-	-	-
Inventory	-	63,168	20,678
Due from other funds	395,717	-	294,055
<i>Total current assets</i>	<u>455,892</u>	<u>2,742,003</u>	<u>314,733</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	249,257	-
Capital assets	168,305	27,947,565	483,628
Accumulated depreciation	(138,811)	(9,352,063)	(285,093)
<i>Total noncurrent assets</i>	<u>29,494</u>	<u>18,844,759</u>	<u>198,535</u>
<i>Total Assets</i>	<u><u>485,386</u></u>	<u><u>21,586,762</u></u>	<u><u>513,268</u></u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	114,815	132,641	5,862
Accrued expenses	489	34,592	2,734
Accrued interest	-	306,190	-
Accrued compensated absences current portion	-	27,506	11,788
Due to other funds	-	400,181	-
Current portion of notes payable	-	226,362	-
<i>Total current liabilities (payable from current assets):</i>	<u>115,304</u>	<u>1,127,472</u>	<u>20,384</u>
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total current liabilities</i>	<u>115,304</u>	<u>1,127,472</u>	<u>20,384</u>
<i>Noncurrent liabilities</i>			
Notes payable	-	8,768,943	-
Accrued compensated absences	-	66,702	28,450
Customer deposits	-	249,257	-
<i>Total noncurrent liabilities</i>	<u>-</u>	<u>9,084,902</u>	<u>28,450</u>
<i>Total liabilities</i>	<u>115,304</u>	<u>10,212,374</u>	<u>48,834</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	29,494	9,600,197	198,535
Restricted net assets	-	-	-
Unrestricted net assets	340,588	1,774,191	265,899
<i>Total net assets</i>	<u>370,082</u>	<u>11,374,388</u>	<u>464,434</u>
<i>Total Liabilities and Net Assets</i>	<u>\$ 485,386</u>	<u>\$ 21,586,762</u>	<u>513,268</u>

The accompanying notes are an integral part of these financial statements

Total	Internal Service funds
\$ 2,106,085	\$ 15,273
60,125	55,429
572,800	-
-	-
83,846	-
689,772	-
<u>3,512,628</u>	<u>70,702</u>
249,257	-
28,599,498	-
(9,775,967)	-
<u>19,072,788</u>	<u>-</u>
<u>22,585,416</u>	<u>70,702</u>
253,318	-
37,815	-
306,190	-
39,294	-
400,181	-
226,362	-
<u>1,263,160</u>	<u>-</u>
-	-
<u>1,263,160</u>	<u>-</u>
8,768,943	-
95,152	-
249,257	-
<u>9,113,352</u>	<u>-</u>
<u>10,376,512</u>	<u>-</u>
9,828,226	-
-	-
2,380,678	70,702
<u>12,208,904</u>	<u>70,702</u>
<u>\$ 22,585,416</u>	<u>\$ 70,702</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2009

	Solid Waste	Water & Wastewater	Non-Major Funds
<i>Operating revenues:</i>			
Charges for services	\$ 1,641,765	\$ 1,989,228	\$ 477,968
<i>Total operating revenues</i>	<u>1,641,765</u>	<u>1,989,228</u>	<u>477,968</u>
<i>Operating expenses:</i>			
Personnel services	69,776	903,641	149,625
Contractual services	1,282,295	26,412	27,229
Supplies	3,354	218,596	38,703
Maintenance and materials	1,939	144,768	24,044
Utilities	751	131,459	-
Depreciation	1,531	828,718	63,441
Miscellaneous	5,717	175,322	45,433
<i>Total operating expenses</i>	<u>1,365,363</u>	<u>2,428,916</u>	<u>348,475</u>
<i>Operating income (loss)</i>	<u>276,402</u>	<u>(439,688)</u>	<u>129,493</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	741	6,110	-
Interest expense	-	(56,824)	-
Gross receipts and other taxes	-	-	-
Miscellaneous	611	49,369	500
<i>Total non-operating revenues (expenses)</i>	<u>1,352</u>	<u>(1,345)</u>	<u>500</u>
Federal capital grants	-	-	-
State capital grants	-	-	-
Gain (loss) on sale of capital assets	-	-	-
Transfers in	-	5,000	21
Transfers out	-	(5,000)	-
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>21</u>
<i>Change in net assets</i>	<u>277,754</u>	<u>(441,033)</u>	<u>130,014</u>
<i>Net assets, beginning of year</i>	92,328	10,777,995	334,420
<i>Restatement</i>	-	1,037,426	-
<i>Net assets beginning as restated</i>	<u>92,328</u>	<u>11,815,421</u>	<u>334,420</u>
<i>Net assets, end of year</i>	<u>\$ 370,082</u>	<u>\$ 11,374,388</u>	<u>\$ 464,434</u>

The accompanying notes are an integral part of these financial statements

<u>Total</u>	<u>Internal Service fund</u>
\$ 4,108,961	\$ -
<u>4,108,961</u>	<u>-</u>
1,123,042	-
1,335,936	-
260,653	-
170,751	-
132,210	-
893,690	-
<u>226,472</u>	<u>8,306</u>
<u>4,142,754</u>	<u>8,306</u>
<u>(33,793)</u>	<u>(8,306)</u>
-	-
-	-
6,851	804
(56,824)	-
-	-
<u>50,480</u>	<u>1,798</u>
<u>507</u>	<u>2,602</u>
-	-
-	-
-	-
5,021	5,000
<u>(5,000)</u>	<u>(5,000)</u>
<u>21</u>	<u>-</u>
<u>(33,265)</u>	<u>(5,704)</u>
11,204,743	76,406
<u>1,037,426</u>	<u>-</u>
<u>12,242,169</u>	<u>76,406</u>
<u>\$ 12,208,904</u>	<u>\$ 70,702</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2009

	<u>Solid Waste</u>	<u>Water &amp; Wastewater</u>	<u>Non-Major Funds</u>
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 1,641,765	\$ 1,818,800	\$ 481,931
Cash payments to employees for services	(83,795)	(790,321)	(133,219)
Cash payments to suppliers for goods and services	(1,298,366)	(1,635,349)	(138,888)
<i>Net cash provided (used) by operating activities</i>	<u>259,604</u>	<u>(606,870)</u>	<u>209,824</u>
<i>Cash flows from noncapital financing activities:</i>			
Miscellaneous income	611	49,369	500
Internal transfers and loans	(241,688)	242,716	(210,324)
<i>Net cash provided (used) by noncapital financing activities:</i>	<u>(241,077)</u>	<u>292,085</u>	<u>(209,824)</u>
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	497,390	-
Acquisition of capital assets	(19,143)	(1,415,554)	-
Principal paid on capital debt	-	(331,948)	-
Proceeds from debt issuance	-	1,447,152	-
Interest paid on capital debt	-	(56,824)	-
<i>Net cash provided (used) by capital and related financing activities:</i>	<u>(19,143)</u>	<u>140,216</u>	<u>-</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	741	6,110	-
<i>Net cash provided by (used) from investing activities</i>	<u>741</u>	<u>6,110</u>	<u>-</u>
<i>Net increase in cash and cash equivalents</i>	125	(168,459)	-
<i>Cash and cash equivalents - beginning of year</i>	<u>60,050</u>	<u>2,523,751</u>	<u>-</u>
<i>Cash and cash equivalents - end of year</i>	<u>60,175</u>	<u>2,355,292</u>	<u>-</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	276,402	(439,688)	129,493
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	1,531	828,718	63,441
Changes in assets and liabilities			
Receivables	-	(220,833)	3,963
Inventory	-	34,472	(8,174)
Prepaid expenses	-	-	-
Accounts payable	(4,310)	(973,264)	4,695
Accrued payroll expenses	(759)	104,744	517
Accrued compensated absences	(13,260)	8,576	15,889
Customer deposits	-	50,405	-
<i>Net cash (used) by operating activities</i>	<u>\$ 259,604</u>	<u>\$ (606,870)</u>	<u>\$ 209,824</u>

The accompanying notes are an integral part of these financial statements



Total	Internal Service funds
\$ 3,942,496	\$ 220
(1,007,335)	(1,670)
(3,072,603)	(8,306)
<u>(137,442)</u>	<u>(9,756)</u>
50,480	1,798
<u>(209,296)</u>	<u>-</u>
	-
<u>(158,816)</u>	<u>1,798</u>
497,390	-
(1,434,697)	-
(331,948)	-
1,447,152	-
<u>(56,824)</u>	<u>804</u>
121,073	804
6,851	-
<u>6,851</u>	<u>-</u>
(168,334)	(7,154)
<u>2,583,801</u>	<u>77,856</u>
<u>2,415,467</u>	<u>70,702</u>
(33,793)	(8,306)
893,690	-
(216,870)	220
26,298	-
-	-
(972,879)	-
104,502	(1,670)
11,205	-
<u>50,405</u>	<u>-</u>
<u>\$ (137,442)</u>	<u>\$ (9,756)</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2009

Exhibit E-1

<i>Current Assets</i>	
Cash and cash equivalents	\$ 64,192
Due from other governmental activities	<u>401</u>
<i>Total assets</i>	<u><u>\$ 64,593</u></u>
<i>Current Liabilities</i>	
Deposits held and due to others	<u>\$ 64,593</u>
<i>Total liabilities</i>	<u><u>\$ 64,593</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Lovington (City) is a municipal corporation operating under the applicable laws and regulations of the State of New Mexico. The City operates under an elected Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, water supply, and general government administrative services.

This summary of significant accounting policies of the City of Lovington is presented to assist in the understanding of City of Lovington's financial statements. The financial statements and notes are the representation of City of Lovington's management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide and business-type activities, subject to the same limitation. The City has elected not to follow subsequent private sector guidance. The more significant of the government's accounting policies are described below.

The more significant of the City's accounting policies are described below.

**A. *Financial Reporting Entity***

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statement No.'s 14 and 39.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**A. *Financial Reporting Entity (continued)***

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City of Lovington and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City of Lovington and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity. The City has one discretely presented component unit, the City of Lovington Housing Authority. This component unit has separate elected and/or appointed boards and provides services to residents, generally within the geographic boundaries of the government. The Agency will be reported as a proprietary type discretely presented component unit.

The Housing Authority issues separately audited financial statements. Additional information regarding the Housing Authority may be obtained directly from their administrative office as follows: City of Lovington Housing Authority, P.O. Box 769, Lovington, NM 88260

**B. *Government-wide and fund financial statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognized all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***B. Government-wide and fund financial statements (continued)***

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***C. Measurement focus, basis of accounting, and financial statement presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, subject to the availability criterion. Sales and use taxes are classified as derived tax revenues and are recognized as revenue when the underlying exchange takes place and the revenues are measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met subject to the availability criterion.

Governmental funds are used to account for the City's general government activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of capital assets and the servicing of general long-term debt.

Under the requirements of GASB No. 34, the City is required to present certain of its governmental funds as major based upon specific criteria.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. *Measurement focus, basis of accounting, and financial statement presentation (continued)***

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are provided through property and other taxes, federal sources, state sources, charges for services, licenses and fees, and other miscellaneous recoveries and revenue. Expenditures include all costs associated with the daily operation of the City except for items included in other funds.

The City reports its two proprietary funds as major funds. Proprietary funds include:

The *Water & Wastewater Fund* accounts for all activities necessary to provide water and sewer services for the residents of the City. (Section 3-27-2 NMSA 1978)

The *Solid Waste Fund* accounts for all activities necessary to provide solid waste refuse collection services provided by the City.

Additionally, the government reports the following fund types:

The *Special Revenue Funds* account for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

The *Debt Service Funds* account for the services of general long-term debt not being financed by proprietary or nonexpendable trust funds.

*Internal Service Funds* account for workers compensation and unemployment insurance services provided to other departments of the government. Services are provided on a cost reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes, because elimination of these charges would distort the direct costs and program revenues reported in the Statement of Activities.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. *Measurement focus, basis of accounting, and financial statement presentation (continued)***

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources such as small cities assistance to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**D. *Assets, Liabilities and Net Assets or Equity***

**Deposits and Investments:** The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in Certificates of Deposit, obligations of the U.S. Government, and the State Treasurer's Investment Pool.

Investments for the City are reported at fair value. The State Treasurer's Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**Receivables and Payables:** Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***D. Assets, Liabilities and Net Assets or Equity (continued)***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded when levied, net of estimated refunds and uncollectible amounts.

Property taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after May 10<sup>th</sup> are considered delinquent and the City may assess penalties and interest. The taxes attach as an enforceable lien on property as of January 1<sup>st</sup>.

**Inventory:** Inventories in governmental funds consist of expendable supplies held for consumption, and are valued at cost using a first-in, first-out (FIFO) method. The City accounts for its inventory using the consumption method for both governmental funds and proprietary funds. Under the consumption method, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories are actually consumed.

**Prepaid Items:** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**Restricted Assets:** Restricted assets consist of those funds expendable for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

**Capital Assets:** Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. State law sets a capitalization threshold of \$5,000 for acquisitions of property and equipment (12-10-10 NMSA 1978). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The City of Lovington was a phase III government for purposes of implementing GASB 34. Therefore, the City was not required to report its infrastructure assets retroactively to June 30, 1980. The City chose not to include those assets retroactively. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.20.1.9 C (5). 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of capital assets used for governmental activities does not include capitalized interest from the construction period. The cost of capital assets used for business-type activities does include capitalized interest from the construction period.



**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***D. Assets, Liabilities and Net Assets or Equity (continued)***

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	40 yrs – 50 yrs
Infrastructure	20 yrs – 30 yrs
Machinery and equipment	5 yrs – 10 yrs
Vehicles	5 yrs – 10 yrs

**Deferred Revenues:** Accounting principles generally accepted in the United States of America require that grant revenue (voluntary nonexchange transactions) be recognized as revenue in the government-wide financial statements when all eligibility requirements have been met and recognized as revenue in the governmental fund financial statements based on the same factors subject to the availability criterion. Amounts received from reimbursement basis grants are recorded as deferred revenue in the governmental fund financial statements when received more than 60 days after year end.

**Compensated Absences:** City employees are entitled to certain compensated absences based on their employment classification and length of employment. With minor exceptions, the City allows 40 hour week employees to accumulate unused sick leave to a maximum of 72 days. Near the end of each calendar year, any employee who accumulates over 60 days of sick leave is paid out for the excess over 60 days. Accumulated unused sick leave is paid upon retirement or upon separation with at least 5 years of service. A large majority of employees either reach or have reached the 5 year service level, therefore the accumulated sick leave is accrued as a liability.

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Accumulated unused vacation up to a maximum of 40 hours is payable upon termination from employment. All vacation pay and applicable accumulated sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Long-term Obligations:** In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. For bonds issued after the City implemented GASB 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**Fund Equity:** In the fund financial statements, governmental funds report reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***D. Assets, Liabilities and Net Assets or Equity (continued)***

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates in the City's financial statements include the allowance for uncollectible accounts in the joint utility fund.

**Reclassifications:** Certain amounts included in the financial statements have been reclassified to conform to the current year presentation.

**Equity Classifications**

*Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt:  
Net assets invested in capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets:  
Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets:  
All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Budgetary Information***

The City Charter establishes the City's fiscal year as the twelve-month period beginning July 1 and ending June 30. Prior to June 30 the City submits to management a proposed operating budget of estimated revenues, expenditures, and transfers for the ensuing fiscal year for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Fund and Enterprise Funds. Management subsequently submits the budget (1) to the New Mexico Department of Finance and Administration for review and approval; and (2) to the City Council for review and enactment of a resolution legally adopting the budget. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Additionally, the New Mexico Department of Finance and Administration must approve any amendments to the budget.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by department and general ledger account. Expenditures are budgeted by department and general ledger account. Expenditures may not exceed appropriations at the fund level. All budget revisions at this level are subject to final review and approval by the City Council and the Department of Finance and Administration. Revisions to the budget were made throughout the year. These budgets are prepared on a non-GAAP cash budgetary basis.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

***Budgetary Information (continued)***

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, Debt Service Funds, and Proprietary Funds.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
	Budgeted Funds:	
General Fund	\$ 1,532,289	\$ 398,406
Nonmajor Governmental Funds	\$ 88,002	\$ (389,902)

	Change in Net Assets	
	Original Budget	Final Budget
	Water & Wastewater Fund	\$ (794,483)
Ambulance Fund	\$ (13,436)	\$ (13,436)
Solid Waste Fund	\$ 119,127	\$ (18,768)
Internal Service Funds	\$ -	\$ (8,875)

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant basis, perspective, equity and timing differences in the excess (deficiency) of revenues and other sources of financial resources for the year ended June 30, 2009 is presented. Reconciliations between the Non-GAAP budgetary basis amounts and the financial statements on the GAAP basis by fund type can be found in each individual budgetary statement.

**NOTE 3. DEPOSITS AND INVESTMENTS**

State statutes authorize the investment of City funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. The City is not aware of any invested funds that did not meet the State investment requirements as of June 30, 2009.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the City. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

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**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The collateral pledged is listed on Schedule I in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation (FDIC), public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. However, on October 14, 2008, the FDIC announced a new Transaction Account Guarantee Program, that provides depositors' with unlimited coverage for noninterest-bearing transaction accounts. With regards to this Transaction Account Guarantee Program, Noninterest-bearing checking accounts include Demand Deposit Accounts (DDA's) and any other transaction accounts that has unlimited withdrawals and that cannot earn interest. Also included in this programs, are low-interest NOW accounts that cannot earn more than 0.5% interest. This program is scheduled to end December 31, 2009.

**Primary Government**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2009, \$2,040,664 of the City's bank balances of \$4,623,474 was exposed to custodial credit risk. \$771,067 was uninsured and collateralized. \$1,269,597 was collateralized by securities held by the pledging institution's trust department or agent, in other than the City's name.

	Wells Fargo Bank	Lea County State Bank	Western Commerce Bank	Estacado Credit Union	Total
Amount of deposits	\$ 315,806	\$ 2,005,114	\$ 2,290,664	\$ 11,890	\$ 4,623,474
Transaction Account Guarantee Program	(315,806)	(1,913,114)	-	-	(2,228,920)
FDIC Coverage	(250,000)	(250,000)	(250,000)	(11,890)	(761,890)
Total uninsured public funds	-	-	2,040,664	-	2,040,664
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	-	-	1,269,597	-	1,269,597
Uninsured and uncollateralized	\$ -	\$ -	\$ 771,067	\$ -	\$ 771,067
Collateral requirement (50% of uninsured funds)	\$ -	\$ -	\$ 1,020,332	\$ -	\$ 1,020,332
Pledged Collateral	441,066	2,255,000	1,269,597	-	3,965,663
Over (Under) collateralized	\$ 441,066	\$ 2,255,000	\$ 249,265	\$ -	\$ 2,945,331

**STATE OF NEW MEXICO**  
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**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

The collateral pledged is listed on Schedule II in this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district, political subdivision of the State of New Mexico

***Component Unit***

*Custodial Credit Risk – Deposits.* Custodial audit risk is the risk that in the event of a bank failure. The Lovington Housing Authority’s (the Authority) deposits may not be returned to it. The Authority does not have a policy for custodial credit risk except as set forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). At June 30, 2009, \$0 of The Authority’s bank balances of \$202,942 was exposed to custodial credit risk. \$0 was uninsured and uncollateralized. As of June 30, 2009, the carrying amount of these deposits was \$202,942.

**COMPONENT UNIT**

	Western Commerce Bank	State Farm Bank	Total
Amount of deposits	\$ 179,556	\$ 23,386	\$ 202,942
FDIC Coverage	(179,556)	(23,386)	(202,942)
Total uninsured public funds	-	-	-
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	-	-	-
Uninsured and uncollateralized	\$ -	\$ -	\$ -
Collateral requirement (50% of uninsured funds)	-	-	-
Pledged Collateral	174,411	-	174,411

The collateral pledged is listed on Schedule I of this report. The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, city or political subdivision of the State of New Mexico.

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**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

*City of Lovington Investments*

The City invests excess cash in the State Treasurer Local Government Investment Pool. The Pool's investments are valued at fair value based on quoted market prices as of the valuation date. The New Mexico State Treasurer Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued or backed by the United States Government or by its departments or agencies and are either direct obligations of the United States Government or agencies sponsored by the United States Governments. The Local Government Investment Pool's investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per 6-10-10.1 F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contribution entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested. Participation in the fund is voluntary. See Note 20, Subsequent Events, for additional information concerning the City's investments in the State Treasurer Local Government Investment Pool.

The City's investment at June 30, 2009 consists of the following:

<u>Investments</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
LGIP	46 Days	\$ 383,552	AAA
Reserve Contingency Fund	Does not earn interest	\$ 9,155	Unrated

See Schedule II for the reconciliation of deposit and investment account balances to cash per the financial statements for the City and the Housing Authority.

***Reconciliation to the Statement of Net Assets***

Cash and cash equivalents - Governmental Activities per Exhibit A-1	\$ 1,388,428
Investments - Governmental Activities per Exhibit A-1	522,319
Cash and cash equivalents - Business-type Activities per Exhibit A-1	2,355,342
Investments - Business-type Activities per Exhibit A-1	60,125
Cash and cash equivalents - Statement of Fiduciary Assets and Liabilities per Exhibit E-1	<u>64,192</u>
Total cash and cash equivalents and investments	<u>4,390,406</u>
Add: Outstanding checks and other reconciling items	709,413
Less: deposits in transit and other reconciling items	(92,343)
Less: investments held in New Mexico State Treasurer's LGIP	(383,552)
Less: petty cash	<u>(450)</u>
Bank balance of deposits	<u>\$ 4,623,474</u>

The general fund and special revenue funds are all in multiple accounts.

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**NOTE 4. RECEIVABLES**

The City's receivables as of June 30, 2009, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Governmental Activities:				
Taxes				
Property taxes	\$ 21,181	\$ -	\$ -	\$ 21,181
Gross receipts taxes	733,257	-	-	733,257
Franchise taxes	51,520	2,613	-	54,133
Gasoline and oil taxes	-	12,192	-	12,192
Lodger's taxes	-	522	-	522
Total Taxes	<u>805,958</u>	<u>15,327</u>	<u>-</u>	<u>821,285</u>
Intergovernmental:				
State	47,218	43,373	-	90,591
Federal	-	1,000	-	1,000
Total intergovernmental-grants	<u>47,218</u>	<u>44,373</u>	<u>-</u>	<u>91,591</u>
Other Receivables	<u>458</u>	<u>-</u>	<u>-</u>	<u>458</u>
Total Governmental Activities	<u>853,634</u>	<u>59,700</u>	<u>-</u>	<u>913,334</u>
Business-Type Activities				
Receivables from customers				
Water and Waste Water	-	-	645,612	645,612
Allowance for uncollectable amounts	<u>-</u>	<u>-</u>	<u>(72,812)</u>	<u>(72,812)</u>
Total Business Type Activities	<u>-</u>	<u>-</u>	<u>572,800</u>	<u>572,800</u>
Total Accounts Receivable	<u>\$ 853,634</u>	<u>\$ 59,700</u>	<u>\$ 572,800</u>	<u>\$1,486,134</u>

**STATE OF NEW MEXICO**  
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**NOTE 5. INTERFUND RECEIVABLES AND TRANSFERS**

Net operating transfers, made to close out funds and to supplement other funding sources are as follows:

Transfers In	Transfers Out	Amount
General Fund	Senior Citizens Fund	\$ 153,134
Ambulance Fund	EMS Fund	21
Recreation Fund	General Fund	92,000
Internal Service Fund	Water & Wastewater Fund	5,000
Water & Wastewater Fund	Internal Service Fund	5,000
		\$ 255,155

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2009 is as follows:

Due From	Due To	Amount
Solid Waste Fund	Water & Wastewater	\$ 395,717
Non Major Funds	Water & Wastewater	\$ 4,464
Non Major Funds	General Fund	\$ 529,300
		\$ 929,481

All Interfund Transactions are short-term and are repaid within one year.



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**NOTE 6. CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

*Government Activities*

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 52,319	\$ 81,000	\$ -	\$ 133,319
Total capital assets not being depreciated	52,319	81,000	-	133,319
Capital assets being depreciated:				
Infrastructure	16,013,381	1,548,753	-	17,562,134
Buildings and improvements	10,618,830	785,064	-	11,403,894
Machinery and equipment	3,889,005	171,134	-	4,060,139
Vehicles	1,858,765	711,081	142,588	2,427,258
Total capital assets being depreciated	32,379,981	3,216,032	142,588	35,453,425
Less accumulated depreciation				
Infrastructure	4,319,957	826,468	-	5,146,425
Buildings and improvements	3,857,219	261,240	-	4,118,459
Machinery and equipment	1,406,155	275,217	-	1,681,372
Vehicles	963,234	170,610	141,994	991,850
Total accumulated depreciation	10,546,565	1,533,535	141,994	11,938,106
Total capital assets, net of depreciation	<u>\$ 21,885,735</u>	<u>\$ 1,763,497</u>	<u>\$ 594</u>	<u>\$ 23,648,638</u>

**STATE OF NEW MEXICO**  
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**NOTE 6. CAPITAL ASSETS (continued)**

*Business-type Activities*

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>750</u>	<u>-</u>	<u>-</u>	<u>750</u>
Capital assets being depreciated:				
Buildings and improvements	21,849,740	2,080,725	-	23,930,465
Machinery and equipment	3,200,384	591,671	-	3,792,055
Vehicles	880,259	19,269	23,300	876,228
Total capital assets being depreciated	<u>25,930,383</u>	<u>2,691,665</u>	<u>23,300</u>	<u>28,598,748</u>
Less accumulated depreciation				
Buildings and improvements	7,673,208	624,986	-	8,298,194
Machinery and equipment	877,004	157,744	-	1,034,748
Vehicles	355,365	110,960	23,300	443,025
Total accumulated depreciation	<u>8,905,577</u>	<u>893,690</u>	<u>23,300</u>	<u>9,775,967</u>
Total capital assets, net of depreciation	<u>\$ 17,025,556</u>	<u>\$ 1,797,975</u>	<u>\$ -</u>	<u>\$ 18,823,531</u>

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**NOTE 6. CAPITAL ASSETS (continued)**

***Component Unit***

The capital assets for the Component Unit – Housing Authority are detailed below:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 215,936	\$ -	\$ -	\$ 215,936
Total capital assets not being depreciated	<u>215,936</u>	<u>-</u>	<u>-</u>	<u>215,936</u>
Capital assets being depreciated:				
Buildings and improvements	1,850,352	131,603	-	1,981,955
Machinery and equipment	51,901	-	14,590	37,311
Vehicles	<u>35,820</u>	<u>-</u>	<u>-</u>	<u>35,820</u>
Total capital assets being depreciated	<u>1,938,073</u>	<u>131,603</u>	<u>14,590</u>	<u>2,055,086</u>
Less accumulated depreciation				
Buildings and improvements	965,252	115,480	-	1,080,732
Machinery and equipment	45,354	2,626	13,500	34,480
Vehicles	<u>24,048</u>	<u>3,924</u>	<u>-</u>	<u>27,972</u>
Total accumulated depreciation	<u>1,034,654</u>	<u>122,030</u>	<u>13,500</u>	<u>1,143,184</u>
Total capital assets, net of depreciation	<u>\$ 1,119,355</u>	<u>\$ 9,573</u>	<u>\$ 1,090</u>	<u>\$ 1,127,838</u>

***Depreciation expense***

Depreciation expense for the year ended June 30, 2009 was charged to the following functions:

Governmental Activities

General Government	\$ 81,574
Public Safety	221,473
Public Works	888,902
Culture and Recreation	321,210
Health and Welfare	<u>20,376</u>

Total Governmental Activities \$ 1,533,535

Business Type Activities

Solid Waste	1,531
Water & Wastewater	828,718
Ambulance	<u>63,441</u>

Total Business Type Activities \$ 893,690

**STATE OF NEW MEXICO**  
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**NOTE 7. LONG-TERM DEBT**

***Governmental Activities***

During the year ended June 30, 2009, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due within One Year
Governmental activities					
Compensated absences	\$ 629,891	\$ 293,055	\$ 237,990	\$ 684,956	\$ 237,990

Typically, the general fund has been used to liquidate the compensated absences.

***Business-Type Activities***

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due within One Year
Business Type Activities					
Bond Payable:					
Water Tower	331,948	-	331,948	-	-
Notes Payable:					
NMFA Loan - Drinking Water	2,387,876	1,117,429	-	3,505,305	-
NMED Loan- Clean Water	5,160,277	329,723	-	5,490,000	226,362
Compensated absences	123,241	50,499	39,294	134,446	39,294
	<u>\$ 8,003,342</u>	<u>\$ 1,497,651</u>	<u>\$ 371,242</u>	<u>\$ 9,129,751</u>	<u>\$ 265,656</u>

During 2006, the City entered into a loan agreement with the New Mexico Environment Department (NMED) in the original amount of \$4,000,000, which was subsequently modified to \$5,500,000 on November 7, 2006. The loan is for construction of the Waste Water Treatment Plant and is used to fund a portion of the construction costs. The loan accrues interest at 2% per annum, and will be payable over 20 equal annual installments of \$336,362 to commence within one year after project completion and final closing of the loan. Through June 30, 2009, \$5,490,000 has been drawn on the loan and is shown as a liability of the Water & Wastewater Fund.

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**NOTE 7. LONG-TERM DEBT (continued)**

The annual requirements to amortize the loan outstanding as of June 30, 2009, including interest payments are as follows:

**Note - NMED Clean Water State Revolving Fund**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2010	\$ 226,362	\$ 110,000	\$ 336,362
2011	230,889	105,473	336,362
2012	235,507	100,855	336,362
2013	240,217	96,145	336,362
2014	245,021	91,341	336,362
2015-2019	1,300,604	381,206	1,681,810
2020-2024	1,435,971	245,838	1,681,809
2025-2029	1,575,429	96,381	1,671,810
	<u>\$ 5,490,000</u>	<u>\$ 1,227,239</u>	<u>\$ 6,717,239</u>

***Business-Type Activities***

During 2007, the City entered into a loan agreement with the New Mexico Finance Authority for the Drinking Water State Revolving Loan in the original amount of \$2,020,000, which was subsequently modified to \$3,535,000 on May 30, 2008. The loan has an interest rate of 1.75% and has a maturity date of May 30, 2030. The loan is for the purpose of financing the costs of a necessary drinking water project for improvements to the governmental unit's municipal water utility system, including but not limited to replacement of the flooring of a storage tank. The City will start paying on the loan 30 days after the final disbursement. Through June 30, 2008 \$2,387,876 has been drawn on the loan, but the City plans on using the full amount awarded to them from NMFA of \$3,535,000.

The annual requirements to amortize the loan outstanding as of June 30, 2009, including interest payments are as follows:

**NMFA - Drinking Water State Revolving Fund**

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2010	\$ -	\$ 51,363	\$ 51,363
2011	150,027	51,363	201,390
2012	152,520	49,250	201,770
2013	155,064	47,094	202,158
2014	157,656	44,896	202,552
2015-2019	828,981	189,929	1,018,910
2020-2024	901,843	127,966	1,029,809
2025-2029	982,138	59,540	1,041,678
2030-2034	177,076	3,081	180,157
	<u>\$ 3,505,305</u>	<u>\$ 624,482</u>	<u>\$ 4,129,787</u>

Compensated absences are paid for with the Solid Waste, Water & Wastewater, and the Ambulance funds.

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**NOTE 7. LONG-TERM DEBT (continued)**

***Component Unit***

To provide for the development and modernization of low-rent housing units, the City of Lovington issued New Housing Authority Bonds Series 1968 Dated 4-1-68. These bonds are HUD-guaranteed debt (third party). They are payable by HUD and secured by annual HUD contributions. The bonds do not constitute a debt of the City of Lovington Housing Authority and accordingly have not been reported in the accompanying financial statements in accordance with accounting guidance in HUD GAAP Flyer # 4 (January 2000). A related Bank of New York cash account exists that is used to make these debt payments. The cash in that account does not belong to the housing authority and has therefore also been excluded from the housing authority's total cash. The annual decrease in the bonds plus the annual related interest expense paid by HUD through the Bank of New York, are included in the City of Lovington Housing Authority's statement of activities as contributed capital.

Component Unit	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>	<u>Due within One Year</u>
Compensated Absences	<u>\$ 4,069</u>	<u>\$ 2,368</u>	<u>\$ 2,091</u>	<u>\$ 4,346</u>	<u>\$ 1,134</u>

**NOTE 8. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtains coverage from commercial insurance companies for the risks of loss mentioned above, except for injuries to employees. For risks of loss related to injuries to employees the City has not obtained coverage from a commercial insurance company but has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the Internal Service Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

The City participates in the New Mexico Self-Insurers' Fund (the Fund), which services the City's worker's compensation claims. Through this arrangement, the City retains some risk associated with worker's compensation claims up to \$250,000 per accident.

The City currently reports all of its risk management activities in its Internal Service Fund. The Internal Service Fund pays the worker's compensation claims and premiums, which are then reimbursed by the City's other Funds. The General Fund pays premiums and the Internal Service Fund pays unemployment premiums.

The New Mexico Self-Insurers' Fund charges a "premium" to the City to cover expenses of the Fund (including, but not limited to, reinsurance expenses, claims adjusting, rating, and underwriting, safety and loss control, reporting, and administration). This "premium" is equal to 20% of the earned normal premium, which is based on a percentage of the City's current payroll. Additionally, the "premium" charge includes a factor for recent actual claims experience.

The City continues to carry commercial insurance for all other risks.

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**NOTE 10. DEFERRED COMPENSATION PLAN**

The City offers its full-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by Union Central Life Insurance Company. The assets and liabilities are held in trust by Union Central Life Insurance Company.

**NOTE 11. PERA PENSION PLAN**

*Plan Description.* Substantially all of the City of Lovington's full-time employees participate in a public employee retirement system authorized under the Public Employees 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 the following percentages of their gross salary: 16.3% for law enforcement and fire protection employees; and 15.65% for municipal employees. The City was required to contribute the following percentages of the gross covered salary: 18.5% for law enforcement and fire protection plan members; and 11.65% for municipal plan members. The contribution requirements of plan members and the City of Lovington are established in State Statute under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The City of Lovington's contributions to PERA for the years ending June 30, 2009 and 2008 were approximately \$227,891 and \$214,383, respectively, which equal the amount of the required contributions for all years.

**NOTE 12. PENSION PLAN**

The City contributes to a defined contribution pension plan adopted under the provision of Internal Revenue Code Section 401.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investment on those contributions.

The name of the company of this plan is UNIFI Retirement Plan, and the plan is administered by a third part administrator, Hartgraves Insurance. The provisions of this plan have instituted that the City of Lovington's City Manager and City Clerk be the trustees. Further, the Commission of the City has control of any major changes in the plan. Contribution requirements for the plan are one full year of service with the City. An employee can contribute 3% to 6% and there yearly compensation, and the City will match up to %7. The total amount of employee and employer contributions to the plan at June 30, 2009 was \$72,902.52 and \$96,713.67 respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

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**NOTE 13. POST-EMPLOYMENT BENEFITS**

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments of out-of-pocket payments of eligible retirees. As authorized under Section 9D of Chapter 6, Laws of 1990, the City has elected not to participate in the program by adoption of an ordinance.

**NOTE 14. CONTINGENT LIABILITIES**

The City is party to various claims and lawsuits in the normal course of business. Management and the City's attorney are unaware of any material pending or threatened litigation, claims or assessments against the City which are not covered by the City's insurance.

**NOTE 15. FEDERAL AND STATE GRANTS**

The City of Lovington participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City of Lovington may be required to reimburse the grantor government. As of June 30, 2009, significant amounts of grant expenditures have not been audited by the grantor agencies. Management believes that any disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the City of Lovington.

**NOTE 16. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. The following fund had a deficit fund balance at year end June 30, 2009:

	<u>Cash Deficit</u>
Recreation Special Revenue fund	\$ <u>685</u>
	\$ <u>685</u>

- B. Excess of expenditures over budgeted amounts. The following fund had a deficit fund balance at year end June 30, 2009:

	<u>Deficit Fund Band</u>
Lodgers Tax Special Revenue fund	\$ <u>85</u>
	\$ <u>85</u>

- C. Budgeted designated cash exceeds the prior year cash and receivables available at June 30, 2009 in the following funds:

	<u>Designated cash</u>
EMS Grant Special Revenue Fund	\$ 19,628
Recreation Special Revenue fund	<u>369,433</u>
	\$ <u>389,061</u>



**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2009

**NOTE 17. FUND BALANCE AND NET ASSETS RESTATEMENT**

*Business-type Activities*

The City's proprietary capital assets and depreciation was not properly recorded in the prior year so adjustments were needed in the amount of \$1,037,426 to restate prior year net assets. Adjustments were made for the proprietary capital assets that were understated as a result of assets being deleted from the asset listing that were actually deleted in prior years but not reflected on the financial statements.

The City has restated prior year budgetary fund balances in the fund financial statements General Fund for \$11,087 to correct misstatement of prior year accounts payable.

**NOTE 18. NET ASSETS**

The government-wide statement of net assets reports \$336,087 of restricted net assets, all of which is restricted by enabling legislation. See the fund descriptions on pages 62 and 63 for the related enabling legislation.

**NOTE 19. JOINT POWERS AGREEMENTS**

Participants – Lea County

City of Lovington

Responsible party – Lea County

Description – County agrees to pay City \$240,000 for fire protection and ambulance services, public library services, and senior citizen services to residents of Lea County.

Contract period- Fiscal year 2008- 2009

Fiscal agent – None

Audit Responsibility- None

**NOTE 20. SUBSEQUENT PRONOUNCEMENTS**

In July 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009. For governments that were classified as phase 1 or phase 2 governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The City is analyzing the effect that this standard will have on the financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statements for periods beginning after June 15, 2010 with earlier implementation encouraged. GASB Statement No. 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purpose for which specific amounts can be spent. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. The City is analyzing the effect that this standard will have on the financial statements.

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**SUPPLEMENTARY INFORMATION**

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**NONMAJOR GOVERNMENTAL FUNDS**

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Fund Descriptions  
June 30, 2009

**SPECIAL REVENUE FUNDS**

Corrections Special Revenue Fund – To account for the collection of fines which are used to supplement the cost of prisoner housing. The fund was created by the authority of state statute NMSA 29-13-1.

EMS Grant Special Revenue Fund – To account for state and county proceeds provided for operations of the City’s emergency medical services. Authority – NMSA 24-10A.

Fire Protection Special Revenue Fund – To account for the operations and maintenance of fire equipment. Financing is provided by a state allotment. Authority – NMSA 59S-53-1.

Law Enforcement Protection Special Revenue Fund– To account for funds received from the state for law enforcement purposes. The fund was created by the authority of state grant provisions NMSA 29-13-3.

Lodgers Tax Special Revenue Fund– To account for a lodger’s tax which is to be used for cultural and recreational purposes. Authority – NMSA 3-38-14.

Gasoline Tax Special Revenue Fund– To account for the receipts and expenditures of special gasoline tax which is restricted for use in repairing and maintaining roads and streets within municipality. The fund was created by state statute NMSA 7-1-6.27.

Recreation Special Revenue Fund– To account for operations and maintenance of recreation facilities. Financing is provided by a specific tax on cigarette sales. Authority – NMSA 7-12-10.

Senior Citizens Special Revenue Fund – To account for the receipts and expenditures of special gasoline tax which is restricted for use in repairing and maintaining roads and streets within the municipality. The fund was created by state statute. NMSA 7-1-6.27.

Designated Franchise Special Revenue Fund– To account for operations of the City’s youth recreational department, in which financing is provided by a designated 2% franchise fee and is restricted to youth recreation use. The authority for the creation and maintenance of the fund is the requirement of the franchise agreement to maintain a separate fund.

**PROPRIETARY FUNDS**

Ambulance – To account for the provision of ambulance service to the residents of the City. All activities necessary to provide such service are accounted for in this fund including, but not limited to, administration, operations, billing and maintenance.

Capital Project Replace & Repair Water Lines – To account for the provision of funds for capital projects relating to the replacement and maintenance of water lines for the City.

**INTERNAL SERVICE FUNDS**

Unemployment Compensation Fund- to account for the accumulation of all financial resources and the allocation of costs associated with the City’s self-insured unemployment compensation plan.

Pension- To account for a 401 (K) plan that the City handles for its employees, it collects the money that the employees put into the plan and will send it to the UNIFI retirement company for them and they match up to 7% of the employee’s contributions.

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Fund Descriptions  
June 30, 2009

**AGENCY FUNDS**

Senior Citizens Supply Fund – to account for revenue from senior citizens and to expend such money as they require.

Motor Vehicle Department – to account for the collection and disbursement of Motor Vehicle Department fees to the State Motor Vehicle Department.

Lovington Economic Development and Economic Development Loan– To account for revenue received from contributions for economic development to be expended as the Lovington Economic Development Board directs.

Municipal Court fund- To account for fees collected for fines and penalties that are remitted to the City by the Municipal Court.

Bond Court Fees, Lab, Court Automation and Judicial Education Fees – to account for fees collected for fines that are remitted to the State of New Mexico for judicial education and court automation.

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Governmental Funds  
Combining Balance Sheet  
For the Year Ended June 30, 2009

Special Revenue

	<u>Corrections Fund</u>	<u>EMS Grant Fund</u>	<u>Fire Protection Fund</u>	<u>Law Enforcement Protection Fund</u>
<i>Assets</i>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Intergovernmental receivables	-	-	-	33,800
Other receivables	-	-	-	-
Inventory	-	-	-	-
Due from other funds	39,785	3	834	18,757
<i>Total assets</i>	<u>\$ 39,785</u>	<u>\$ 3</u>	<u>\$ 834</u>	<u>\$ 52,557</u>
<i>Liabilities</i>				
Accounts payable	\$ 3,570	\$ -	\$ -	\$ -
Accrued payroll expenses	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	830	18,755
<i>Total liabilities</i>	<u>3,570</u>	<u>-</u>	<u>830</u>	<u>18,755</u>
<i>Fund balances</i>				
Reserved for debt service	-	-	-	-
Unreserved, reported in:				
Special revenue	36,215	3	4	33,802
Debt service	-	-	-	-
<i>Total fund balances</i>	<u>36,215</u>	<u>3</u>	<u>4</u>	<u>33,802</u>
<i>Total liabilities and fund balances</i>	<u>\$ 39,785</u>	<u>\$ 3</u>	<u>\$ 834</u>	<u>\$ 52,557</u>

The accompanying notes are an integral part of these financial statements



Special Revenue

<u>Lodgers' Tax Fund</u>	<u>Gasoline Tax Fund</u>	<u>Recreation Fund</u>	<u>Senior Citizens Fund</u>	<u>Designated Franchise Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ (78)	\$ -	\$ 145	\$ 55,136	\$ 52,908	\$ 108,111
-	-	-	-	18,000	18,000
3,552	12,192	-	-	2,613	18,357
-	-	-	10,573	-	44,373
-	-	-	-	-	-
-	-	-	-	-	-
<u>7,325</u>	<u>124,965</u>	<u>661</u>	<u>16,070</u>	<u>-</u>	<u>208,400</u>
<u>\$ 10,799</u>	<u>\$ 137,157</u>	<u>\$ 806</u>	<u>\$ 81,779</u>	<u>\$ 73,521</u>	<u>\$ 397,241</u>
\$ 1,339	\$ 7,738	\$ 908	\$ -	\$ -	\$ 13,555
-	-	583	-	758	1,341
-	-	-	-	-	-
753	13,242	-	-	1,669	35,249
<u>2,092</u>	<u>20,980</u>	<u>1,491</u>	<u>-</u>	<u>2,427</u>	<u>50,145</u>
-	-	-	-	-	-
8,707	116,177	(685)	81,779	71,094	347,096
-	-	-	-	-	-
<u>8,707</u>	<u>116,177</u>	<u>(685)</u>	<u>81,779</u>	<u>71,094</u>	<u>347,096</u>
<u>\$ 10,799</u>	<u>\$ 137,157</u>	<u>\$ 806</u>	<u>\$ 81,779</u>	<u>\$ 73,521</u>	<u>\$ 397,241</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Governmental Funds  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2009

Special Revenue

	Corrections Fund	EMS Fund	Fire Protection Fund	Law Enforcement Protection Fund
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	67,310	33,800
State capital grants	-	19,880	-	-
Charges for services	-	-	-	-
Licenses and fees	63,401	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>63,401</u>	<u>19,880</u>	<u>67,310</u>	<u>33,800</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	55,839	-	68,035	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	19,857	-	33,526
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>55,839</u>	<u>19,857</u>	<u>68,035</u>	<u>33,526</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>7,562</u>	<u>23</u>	<u>(725)</u>	<u>274</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers (out)	-	(21)	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>(21)</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	7,562	2	(725)	274
<i>Fund balances - beginning of year</i>	<u>28,653</u>	<u>1</u>	<u>729</u>	<u>33,528</u>
<i>Fund balances - end of year</i>	<u>\$ 36,215</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 33,802</u>

The accompanying notes are an integral part of these financial statements

## Special Revenue

Lodger's Tax Fund	Gasoline Tax Fund	Recreation Fund	Senior Citizens Fund	Designated Franchise Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	144,727	-	-	-	144,727
56,585	-	10,378	-	49,495	116,458
-	-	-	7,380	-	7,380
-	-	-	16,887	-	16,887
-	-	-	156,841	-	257,951
-	-	139,269	-	-	159,149
-	-	1,343	-	-	1,343
-	-	-	-	-	63,401
-	-	-	-	-	-
-	-	-	-	249	249
-	-	4,010	24,156	-	28,166
56,585	144,727	155,000	205,264	49,744	795,711
-	-	-	-	33,377	33,377
-	-	-	-	-	123,874
-	90,135	-	-	-	90,135
-	-	-	-	-	-
88,666	-	39,162	3,900	-	131,728
-	-	208,523	-	-	261,906
-	-	-	-	-	-
-	-	-	-	-	-
88,666	90,135	247,685	3,900	33,377	641,020
(32,081)	54,592	(92,685)	201,364	16,367	154,691
-	-	92,000	-	-	92,000
-	-	-	(153,134)	-	(153,155)
-	-	92,000	(153,134)	-	(61,155)
(32,081)	54,592	(685)	48,230	16,367	93,536
40,788	61,585	-	33,549	54,727	253,560
\$ 8,707	\$ 116,177	\$ (685)	\$ 81,779	\$ 71,094	\$ 347,096

**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2009

Statement B-1

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	-	-	-
Accounts Receivable	-	-	-
Prepays	-	-	-
Inventory	20,678	-	20,678
Due from other funds	290,519	3,536	294,055
<i>Total current assets</i>	<u>311,197</u>	<u>3,536</u>	<u>314,733</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	-	-
Capital assets	483,628	-	483,628
Accumulated depreciation	(285,093)	-	(285,093)
<i>Total noncurrent assets</i>	<u>198,535</u>	<u>-</u>	<u>198,535</u>
<i>Total Assets</i>	<u><u>509,732</u></u>	<u><u>3,536</u></u>	<u><u>513,268</u></u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	5,862	-	5,862
Accrued expenses	2,734	-	2,734
Accrued interest	-	-	-
Prepaid rent	-	-	-
Accrued compensated absences current portion	11,788	-	11,788
Due to other funds	-	-	-
Deferred revenue	-	-	-
Current portion of notes payable	-	-	-
<i>Total current liabilities (payable from current assets):</i>	<u>20,384</u>	<u>-</u>	<u>20,384</u>
<i>Current liabilities (payable from restricted assets)</i>			
Tenant deposits	-	-	-
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total current liabilities</i>	<u>20,384</u>	<u>-</u>	<u>20,384</u>
<i>Noncurrent liabilities</i>			
Notes payable	-	-	-
Accrued compensated absences	28,450	-	28,450
Customer deposits	-	-	-
<i>Total noncurrent liabilities</i>	<u>28,450</u>	<u>-</u>	<u>28,450</u>
<i>Total liabilities</i>	<u>48,834</u>	<u>-</u>	<u>48,834</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	198,535	-	198,535
Restricted net assets	-	-	-
Unrestricted net assets	262,363	3,536	265,899
<i>Total net assets</i>	<u>460,898</u>	<u>3,536</u>	<u>464,434</u>
<i>Total Liabilities and Net Assets</i>	<u><u>\$ 509,732</u></u>	<u><u>\$ 3,536</u></u>	<u><u>\$ 513,268</u></u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement B-2

City of Lovington

Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Proprietary Funds

For the Year Ended June 30, 2009

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Operating revenues:</i>			
Charges for services	\$ 477,968	\$ -	\$ 477,968
<i>Total operating revenues</i>	<u>477,968</u>	<u>-</u>	<u>477,968</u>
<i>Operating expenses:</i>			
Personnel services	149,625	-	149,625
Contractual services	27,229	-	27,229
Supplies	38,703	-	38,703
Maintenance and materials	24,044	-	24,044
Utilities	-	-	-
Depreciation	63,441	-	63,441
Miscellaneous	45,433	-	45,433
<i>Total operating expenses</i>	<u>348,475</u>	<u>-</u>	<u>348,475</u>
<i>Operating income (loss)</i>	<u>129,493</u>	<u>-</u>	<u>129,493</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	-	-	-
Interest expense	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	500	-	500
<i>Total non-operating revenues (expenses)</i>	<u>500</u>	<u>-</u>	<u>500</u>
Federal capital grants	-	-	-
State capital grants	-	-	-
Gain (loss) on sale of capital assets	-	-	-
Transfers in	21	-	21
Transfers out	-	-	-
<i>Capital grants and net transfers</i>	<u>21</u>	<u>-</u>	<u>21</u>
<i>Change in net assets</i>	<u>130,014</u>	<u>-</u>	<u>130,014</u>
<i>Net assets, beginning of year</i>	330,884	3,536	334,420
<i>Net assets beginning as restated</i>	<u>330,884</u>	<u>3,536</u>	<u>334,420</u>
<i>Net assets, end of year</i>	<u>\$ 460,898</u>	<u>\$ 3,536</u>	<u>\$ 464,434</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Cash Flows - Nonmajor Proprietary Funds  
For the Year Ended June 30, 2009

Statement B-3

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 481,931	\$ -	\$ 481,931
Cash payments to employees for services	(137,320)	-	(137,320)
Cash payments to suppliers for goods and services	(138,888)	-	(138,888)
<i>Net cash provided (used) by operating activities</i>	205,723	-	205,723
<i>Cash flows from noncapital financing activities:</i>			
Operating grants	-	-	-
Taxes received	-	-	-
Miscellaneous income	500	-	500
Change in noncurrent accrued compensated absences	4,101	-	4,101
Internal transfers and loans	(210,324)	-	(210,324)
<i>Net cash provided (used) by noncapital financing activities:</i>	(205,723)	-	(205,723)
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	-	-
Acquisition of capital assets	-	-	-
Proceeds from sale of capital assets	-	-	-
Principal paid on capital debt	-	-	-
Proceeds from debt issuance	-	-	-
Interest paid on capital debt	-	-	-
<i>Net cash provided (used) by capital and related financing activities:</i>	-	-	-
<i>Cash flows from investing activities:</i>			
Interest on investments	-	-	-
<i>Net cash provided by (used) from investing activities</i>	-	-	-
<i>Net increase in cash and cash equivalents</i>	-	-	-
<i>Cash and cash equivalents - beginning of year</i>	-	-	-
<i>Cash and cash equivalents - end of year</i>	-	-	-
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	129,493	-	129,493
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	63,441	-	63,441
Interest received in prior period not recorded	-	-	-
Changes in assets and liabilities			
Receivables	3,963	-	3,963
Inventory	(8,174)	-	(8,174)
Prepaid expenses	-	-	-
Accounts payable	4,695	-	4,695
Accrued payroll expenses	517	-	517
Current accrued compensated absences	11,788	-	11,788
Customer deposits	-	-	-
Prepaid rent	-	-	-
Deferred revenue	-	-	-
<i>Net cash (used) by operating activities</i>	\$ 205,723	\$ -	\$ 205,723

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Net Assets  
Internal Service Funds  
June 30, 2009

Statement C-1

	<u>Unemployment Compensation Fund</u>	<u>Pension Fund</u>	<u>Total</u>
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 15,273	\$ -	\$ 15,273
Investments	55,429	-	55,429
Accounts Receivable	-	-	-
Inventory	-	-	-
Due from other funds	-	-	-
<i>Total current assets</i>	<u>70,702</u>	<u>-</u>	<u>70,702</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	-	-
Capital assets	-	-	-
Accumulated depreciation	-	-	-
<i>Total noncurrent assets</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Assets</i>	<u><u>70,702</u></u>	<u><u>-</u></u>	<u><u>70,702</u></u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	-	-	-
Accrued payroll expenses	-	-	-
Accrued compensated absences current portion	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Current portion of notes payable	-	-	-
<i>Total current liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Noncurrent liabilities</i>			
Notes payable	-	-	-
Accrued compensated absences	-	-	-
Customer deposits	-	-	-
<i>Total noncurrent liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	-	-	-
Restricted net assets	-	-	-
Unrestricted net assets	<u>70,702</u>	<u>-</u>	<u>70,702</u>
<i>Total net assets</i>	<u>70,702</u>	<u>-</u>	<u>70,702</u>
<i>Total Liabilities and Net Assets</i>	<u><u>\$ 70,702</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 70,702</u></u>

The accompanying notes are an integral part of these financial statements



## STATE OF NEW MEXICO

Statement C-2

City of Lovington

Combining Statement of Revenues, Expenses and Changes in Net Assets

Internal Service Funds

For the Year Ended June 30, 2009

	Unemployment Compensation Fund	Pension Fund	Total
<i>Operating revenues:</i>			
Charges for services	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenses:</i>			
Personnel services	-	-	-
Contractual services	-	-	-
Supplies	-	-	-
Maintenance and materials	-	-	-
Utilities	-	-	-
Housing assistance payments	-	-	-
Depreciation	-	-	-
Miscellaneous	8,306	-	8,306
<i>Total operating expenses</i>	<u>8,306</u>	<u>-</u>	<u>8,306</u>
<i>Operating income (loss)</i>	<u>(8,306)</u>	<u>-</u>	<u>(8,306)</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	804	-	804
Interest expense	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	1,798	-	1,798
<i>Total non-operating revenues (expenses)</i>	<u>2,602</u>	<u>-</u>	<u>2,602</u>
Federal capital grants	-	-	-
State capital grants	-	-	-
Transfers in	5,000	-	5,000
Transfers out	(5,000)	-	(5,000)
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	<u>(5,704)</u>	<u>-</u>	<u>(5,704)</u>
<i>Net assets, beginning of year</i>	<u>76,406</u>	<u>-</u>	<u>76,406</u>
<i>Net assets, end of year</i>	<u>\$ 70,702</u>	<u>\$ -</u>	<u>\$ 70,702</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Cash Flows - Internal Service Funds  
For the Year Ended June 30, 2009

Statement C-3

	<u>Unemployment Compensation Fund</u>	<u>Pension Fund</u>	<u>Total</u>
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 220	\$ -	\$ 220
Cash payments to employees for services	-	(1,670)	(1,670)
Cash payments to suppliers for goods and services	(8,306)	-	(8,306)
<i>Net cash provided (used) by operating activities</i>	<u>(8,086)</u>	<u>(1,670)</u>	<u>(9,756)</u>
<i>Cash flows from noncapital financing activities:</i>			
Operating grants	-	-	-
Other taxes received	-	-	-
Miscellaneous income	1,798	-	1,798
Change in noncurrent accrued compensated absences	-	-	-
Internal transfers and loans	-	-	-
<i>Net cash provided (used) by noncapital financing activities:</i>	<u>1,798</u>	<u>-</u>	<u>1,798</u>
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	-	-
Acquisition of capital assets	-	-	-
Proceeds from sale of capital assets	-	-	-
Principal paid on capital debt	-	-	-
Proceeds from debt issuance	-	-	-
Interest paid on capital debt	-	-	-
<i>Net cash provided (used) by capital and related financing activities:</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	804	-	804
<i>Net cash provided by (used) from investing activities</i>	<u>804</u>	<u>-</u>	<u>804</u>
<i>Net increase in cash and cash equivalents</i>	(5,484)	(1,670)	(7,154)
<i>Cash and cash equivalents - beginning of year</i>	<u>76,186</u>	<u>1,670</u>	<u>77,856</u>
<i>Cash and cash equivalents - end of year</i>	<u><u>70,702</u></u>	<u><u>-</u></u>	<u><u>70,702</u></u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	(8,306)	-	(8,306)
<i>Adjustments to reconcile operating (loss) to net cash (used) by operating activities:</i>			
Depreciation	-	-	-
<i>Changes in assets and liabilities</i>			
Receivables	220	-	220
Inventory	-	-	-
Accounts payable	-	-	-
Accrued payroll expenses	-	(1,670)	(1,670)
Current accrued compensated absences	-	-	-
Meter deposits and other refundable deposits	-	-	-
Deferred revenue	-	-	-
<i>Net cash (used) by operating activities</i>	<u><u>\$ (8,086)</u></u>	<u><u>\$ (1,670)</u></u>	<u><u>\$ (9,756)</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**  
City of Lovington  
Corrections Special Revenue Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
For the Year Ended June 30, 2009

Statement D-1

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	59,000	59,000	68,256	9,256
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	59,000	59,000	68,256	9,256
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	59,000	59,000	52,269	6,731
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	59,000	59,000	52,269	6,731
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	15,987	15,987
<i>Other financing sources (uses)</i>				
Designated cash	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	-	-	-	-
<i>Net change in fund balance</i>	-	-	15,987	15,987
<i>Fund balance - beginning of year</i>	-	-	23,798	23,798
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 39,785	\$ 39,785
Net change in fund balance (Non-GAAP)				\$ 15,987
Adjustments to revenue for charges for services				(4,855)
No adjustments				(3,570)
Net change in fund balance (GAAP budgetary basis)				\$ 7,562

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement D-2

City of Lovington

EMS Grant Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	20,000	20,000	19,103	(897)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>20,000</u>	<u>20,000</u>	<u>19,103</u>	<u>(897)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	2,000	2,000	(757)	2,757
Culture and recreation	-	-	-	-
Capital outlay	18,000	19,857	19,857	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>20,000</u>	<u>21,857</u>	<u>19,100</u>	<u>2,757</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>(1,857)</u>	<u>3</u>	<u>1,860</u>
<i>Other financing sources (uses)</i>				
Designated cash	17,792	19,649	-	(19,649)
Transfers in	-	-	-	-
Transfers out	(17,792)	(17,792)	(21)	17,771
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>1,857</u>	<u>(21)</u>	<u>(1,878)</u>
<i>Net change in fund balance</i>	-	-	(18)	(18)
<i>Fund balance - beginning of year</i>	-	-	21	21
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>
Net change in fund balance (Non-GAAP)				\$ (18)
No adjustments				777
Adjustments to expenditures for health and welfare				(757)
Net change in fund balance (GAAP budgetary basis)				<u>\$ 2</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

Statement D-3

City of Lovington  
 Fire Protection Special Revenue Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	67,310	67,310	67,310	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>67,310</u>	<u>67,310</u>	<u>67,310</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	68,091	68,091	68,087	4
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>68,091</u>	<u>68,091</u>	<u>68,087</u>	<u>4</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(781)</u>	<u>(781)</u>	<u>(777)</u>	<u>4</u>
<i>Other financing sources (uses)</i>				
Designated cash	781	781	-	(781)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>781</u>	<u>781</u>	<u>-</u>	<u>(781)</u>
<i>Net change in fund balance</i>	-	-	(777)	(777)
<i>Fund balance - beginning of year</i>	-	-	781	781
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ 4</u>
Net change in fund balance (Non-GAAP)				\$ (777)
No adjustments				-
Adjustments to expenditures for public safety				52
Net change in fund balance (GAAP budgetary basis)				<u>\$ (725)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

Statement D-4

City of Lovington

Law Enforcement Protection Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	33,200	33,200	33,200	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>33,200</u>	<u>33,200</u>	<u>33,200</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	33,528	33,528	33,526	2
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>33,528</u>	<u>33,528</u>	<u>33,526</u>	<u>2</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(328)</u>	<u>(328)</u>	<u>(326)</u>	<u>2</u>
<i>Other financing sources (uses)</i>				
Designated cash	328	328	-	(328)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>328</u>	<u>328</u>	<u>-</u>	<u>(328)</u>
<i>Net change in fund balance</i>	-	-	(326)	(326)
<i>Fund balance - beginning of year</i>	-	-	328	328
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>
Net change in fund balance (Non-GAAP)				\$ (326)
Adjustments to revenue for state grants				600
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<u>\$ 274</u>

The accompanying notes are an integral part of these financial statements

STATE OF NEW MEXICO

Statement D-5

City of Lovington

Lodger's Tax Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	64,210	64,210	53,033	(11,177)
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>64,210</u>	<u>64,210</u>	<u>53,033</u>	<u>(11,177)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	55,000	87,242	87,327	(85)
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>55,000</u>	<u>87,242</u>	<u>87,327</u>	<u>(85)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>9,210</u>	<u>(23,032)</u>	<u>(34,294)</u>	<u>(11,262)</u>
<i>Other financing sources (uses)</i>				
Designated cash	(9,210)	23,032	-	(23,032)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(9,210)</u>	<u>23,032</u>	<u>-</u>	<u>(23,032)</u>
<i>Net change in fund balance</i>	-	-	(34,294)	(34,294)
<i>Fund balance - beginning of year</i>	-	-	40,788	40,788
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,494</u>	<u>\$ 6,494</u>
Net change in fund balance (Non-GAAP)				\$ (34,294)
Adjustments to revenue for other income				3,552
No adjustments				(1,339)
Net change in fund balance (GAAP budgetary basis)				<u>\$ (32,081)</u>

The accompanying notes are an integral part of these financial statements



**STATE OF NEW MEXICO**

Statement D-6

City of Lovington  
 Gasoline Tax Special Revenue Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	130,903	130,903	142,214	11,311
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>130,903</u>	<u>130,903</u>	<u>142,214</u>	<u>11,311</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	50,000	82,399	82,397	2
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>50,000</u>	<u>82,399</u>	<u>82,397</u>	<u>2</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>80,903</u>	<u>48,504</u>	<u>59,817</u>	<u>11,313</u>
<i>Other financing sources (uses)</i>				
Designated cash	(80,903)	(48,504)	-	48,504
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(80,903)</u>	<u>(48,504)</u>	<u>-</u>	<u>48,504</u>
<i>Net change in fund balance</i>	-	-	59,817	59,817
<i>Fund balance - beginning of year</i>	-	-	51,906	51,906
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,723</u>	<u>\$ 111,723</u>
Net change in fund balance (Non-GAAP)				\$ 59,817
Adjustments to revenue for gasoline and motor vehicle taxes				2,513
Adjustments to expenditures for public works				(7,738)
Net change in fund balance (GAAP budgetary basis)				<u>\$ 54,592</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

Statement D-7

City of Lovington

Recreation Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	6,393	6,393	10,378	3,985
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	343,245	343,245
Charges for services	400	400	1,343	943
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	4,010	4,010
<i>Total revenues</i>	<u>6,793</u>	<u>6,793</u>	<u>358,976</u>	<u>352,183</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	46,509	37,930	37,875	55
Capital outlay	-	412,939	412,938	1
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>46,509</u>	<u>450,869</u>	<u>450,813</u>	<u>56</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(39,716)</u>	<u>(444,076)</u>	<u>(91,837)</u>	<u>352,239</u>
<i>Other financing sources (uses)</i>				
Designated cash	(5,284)	397,076	-	(397,076)
Transfers in	45,000	47,000	92,000	45,000
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>39,716</u>	<u>444,076</u>	<u>92,000</u>	<u>(352,076)</u>
<i>Net change in fund balance</i>	-	-	163	163
<i>Fund balance - beginning of year</i>	-	-	643	643
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 806</u>	<u>\$ 806</u>
Net change in fund balance (Non-GAAP)				\$ 163
Adjustments for insurance recoveries				(203,976)
Adjustments to expenditures for culture and recreation and capital outlay				203,128
Net change in fund balance (GAAP budgetary basis)				<u>\$ (685)</u>

The accompanying notes are an integral part of these financial statements

**STATE OF NEW MEXICO**

Statement D-8

City of Lovington  
 Senior Citizens Special Revenue Fund  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	3,945	3,945	7,380	3,435
Federal capital grants	15,411	15,411	16,887	1,476
State operating grants	131,056	131,056	159,617	28,561
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	14,050	14,050	17,454	3,404
<i>Total revenues</i>	<u>164,462</u>	<u>164,462</u>	<u>201,338</u>	<u>36,876</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	3,900	3,900	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>-</u>	<u>3,900</u>	<u>3,900</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>164,462</u>	<u>160,562</u>	<u>197,438</u>	<u>36,876</u>
<i>Other financing sources (uses)</i>				
Designated cash	-	3,900	-	(3,900)
Transfers in	-	-	-	-
Transfers out	(164,462)	(164,462)	(153,134)	11,328
<i>Total other financing sources (uses)</i>	<u>(164,462)</u>	<u>(160,562)</u>	<u>(153,134)</u>	<u>7,428</u>
<i>Net change in fund balance</i>	-	-	44,304	44,304
<i>Fund balance - beginning of year</i>	-	-	26,902	26,902
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,206</u>	<u>\$ 71,206</u>
Net change in fund balance (Non-GAAP)				\$ 44,304
Adjustments to revenue for federal grants				3,926
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<u>\$ 48,230</u>

The accompanying notes are an integral part of these financial statements

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**STATE OF NEW MEXICO**

Statement D-9

City of Lovington

Designated Franchise Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variances
	Original	Final	(Non-GAAP	Favorable
			Budgetary Basis)	(Unfavorable)
				Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	-	-	-	-
Other	43,358	43,358	50,864	7,506
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	700	600	249	(351)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>44,058</u>	<u>43,958</u>	<u>51,113</u>	<u>7,155</u>
<i>Expenditures:</i>				
Current:				
General government	32,552	33,213	33,213	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>32,552</u>	<u>33,213</u>	<u>33,213</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>11,506</u>	<u>10,745</u>	<u>17,900</u>	<u>7,155</u>
<i>Other financing sources (uses)</i>				
Designated cash	(11,506)	(10,745)	-	10,745
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(11,506)</u>	<u>(10,745)</u>	<u>-</u>	<u>10,745</u>
<i>Net change in fund balance</i>	-	-	17,900	17,900
<i>Fund balance - beginning of year</i>	-	-	33,339	33,339
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,239</u>	<u>\$ 51,239</u>
Net change in fund balance (Non-GAAP)				\$ 17,900
Adjustments to revenue for other taxes				(1,369)
Adjustments to expenditures for general government				(164)
Net change in fund balance (GAAP budgetary basis)				<u>\$ 16,367</u>

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement E-1

City of Lovington

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 Solid Waste Proprietary Fund  
 For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variances
	Original	Final	(GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 7,340	\$ 7,340	\$ 1,641,765	\$ 1,634,425
<i>Total operating revenues</i>	<u>7,340</u>	<u>7,340</u>	<u>1,641,765</u>	<u>1,634,425</u>
<i>Operating expenditures:</i>				
Personnel services	84,529	83,853	69,776	14,077
Contractual services	1,167,171	1,305,407	1,282,295	23,112
Supplies	3,000	3,355	3,354	1
Maintenance and materials	2,900	1,943	1,939	4
Utilities	500	796	751	45
Other operating expenditures	5,500	6,141	5,717	424
<i>Total operating expenditures</i>	<u>1,263,600</u>	<u>1,401,495</u>	<u>1,363,832</u>	<u>37,663</u>
<i>Operating income (loss)</i>	<u>(1,256,260)</u>	<u>(1,394,155)</u>	<u>277,933</u>	<u>1,672,088</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(119,127)	18,768	-	-
Interest income	3,200	3,200	741	(2,459)
Federal capital grants	-	-	-	-
Miscellaneous income	400	400	611	211
Interest expense	-	-	-	-
Transfers in	1,371,787	1,371,787	-	(1,371,787)
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>1,256,260</u>	<u>1,394,155</u>	<u>1,352</u>	<u>(1,374,035)</u>
<i>Change in net assets</i>	-	-	279,285	298,053
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>214,079</u>	<u>214,079</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 493,364</u>	<u>\$ 512,132</u>
Changes in net assets above			\$ 279,285	
Depreciation			<u>(1,531)</u>	
Change in net assets per Exhibit B-2			<u>\$ 277,754</u>	

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement E-2

City of Lovington

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 Water & Wastewater Proprietary Fund  
 For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 3,438,031	\$ 3,438,031	\$ 1,989,228	\$ (1,448,803)
<i>Total operating revenues</i>	<u>3,438,031</u>	<u>3,438,031</u>	<u>1,989,228</u>	<u>(1,448,803)</u>
<i>Operating expenditures:</i>				
Personnel services	836,506	878,990	903,641	(24,651)
Contractual services	43,198	533,842	26,412	507,430
Supplies	655,000	613,317	218,596	394,721
Maintenance and materials	106,800	166,217	144,768	21,449
Utilities	154,000	163,081	131,459	31,622
Other operating expenditures	4,588,044	4,028,091	175,322	3,852,769
<i>Total operating expenditures</i>	<u>6,383,548</u>	<u>6,383,538</u>	<u>1,600,198</u>	<u>4,783,340</u>
<i>Operating income (loss)</i>	<u>(2,945,517)</u>	<u>(2,945,507)</u>	<u>389,030</u>	<u>3,334,537</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	794,483	794,473	-	(794,473)
Interest income	7,236	7,236	6,110	(1,126)
Federal capital grants	3,470,600	3,470,600	-	(3,470,600)
Miscellaneous income	44,985	44,985	49,369	4,384
Interest expense	-	-	(56,824)	(56,824)
Transfers in	-	-	5,000	5,000
Transfers out	(1,371,787)	(1,371,787)	(5,000)	1,366,787
<i>Total other financing sources (uses)</i>	<u>2,945,517</u>	<u>2,945,507</u>	<u>(1,345)</u>	<u>(2,946,852)</u>
<i>Change in net assets</i>	-	-	387,685	387,685
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>2,366,286</u>	<u>2,366,286</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,753,971</u>	<u>\$ 2,753,971</u>
Changes in net assets above			\$ 387,685	
Depreciation			<u>(828,718)</u>	
Change in net assets per Exhibit B-2			<u>\$ (441,033)</u>	

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement E-3

City of Lovington

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 Ambulance Proprietary Fund  
 For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 342,443	\$ 342,443	\$ 477,968	\$ 135,525
<i>Total operating revenues</i>	<u>342,443</u>	<u>342,443</u>	<u>477,968</u>	<u>135,525</u>
<i>Operating expenditures:</i>				
Personnel services	158,301	160,188	149,625	10,563
Contractual services	21,580	26,544	27,229	(685)
Supplies	40,000	45,483	38,703	6,780
Maintenance and materials	6,000	23,820	24,044	(224)
Utilities	-	-	-	-
Other operating expenditures	147,790	117,636	45,433	72,203
<i>Total operating expenditures</i>	<u>373,671</u>	<u>373,671</u>	<u>285,034</u>	<u>88,637</u>
<i>Operating income (loss)</i>	<u>(31,228)</u>	<u>(31,228)</u>	<u>192,934</u>	<u>224,162</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	13,436	13,436	-	(13,436)
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Miscellaneous income	-	-	500	500
Interest expense	-	-	-	-
Transfers in	17,792	17,792	21	(17,771)
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>31,228</u>	<u>31,228</u>	<u>521</u>	<u>(30,707)</u>
<i>Change in net assets</i>	-	-	193,455	193,455
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>80,174</u>	<u>80,174</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 273,629</u>	<u>\$ 273,629</u>
Changes in net assets above			\$ 193,455	
Depreciation			<u>(63,441)</u>	
Change in net assets per Exhibit B-2			<u>\$ 130,014</u>	

The accompanying notes are an integral part of these financial statements



## STATE OF NEW MEXICO

Statement E-4

City of Lovington

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 Capital Project Replace & Repair Water Lines Proprietary Fund  
 For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenditures:</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Supplies	-	-	-	-
Maintenance and materials	-	-	-	-
Utilities	-	-	-	-
Other operating expenditures	-	-	-	-
<i>Total operating expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating income (loss)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	-	-	-	-
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>3,536</u>	<u>3,536</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,536</u>	<u>\$ 3,536</u>
Changes in net assets above			\$ -	
Depreciation			<u>-</u>	
Change in net assets per Exhibit B-2			<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement F-1

City of Lovington

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 Unemployment Compensation Internal Service Fund  
 For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenditures:</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Supplies	-	-	-	-
Maintenance and materials	-	-	-	-
Utilities	-	-	-	-
Other operating expenditures	5,300	8,875	8,306	569
<i>Total operating expenditures</i>	<u>5,300</u>	<u>8,875</u>	<u>8,306</u>	<u>569</u>
<i>Operating income (loss)</i>	<u>(5,300)</u>	<u>(8,875)</u>	<u>(8,306)</u>	<u>569</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	3,800	8,875	-	(8,875)
Interest income	-	-	804	804
Federal capital grants	1,500	-	1,798	1,798
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	5,000	5,000	-
Transfers out	-	(5,000)	(5,000)	-
<i>Total other financing sources (uses)</i>	<u>5,300</u>	<u>8,875</u>	<u>2,602</u>	<u>(6,273)</u>
<i>Change in net assets</i>	-	-	(5,704)	(5,704)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>76,186</u>	<u>76,186</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,482</u>	<u>\$ 70,482</u>
Changes in net assets above			\$ (5,704)	
Depreciation			<u>-</u>	
Change in net assets per Exhibit B-2			<u>\$ (5,704)</u>	

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement F-2

City of Lovington

Statement of Revenues, Expenses and Changes in Net Assets  
 Budget (Non-GAAP Budgetary Basis) and Actual  
 Pension Internal Service Fund  
 For the Year Ended June 30, 2009

	Budget Amounts		Actual	Variances Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ -	\$ -	\$ -	\$ -
<i>Total operating revenues</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating expenditures:</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Supplies	-	-	-	-
Maintenance and materials	-	-	-	-
Utilities	-	-	-	-
Other operating expenditures	-	-	-	-
<i>Total operating expenditures</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Operating income (loss)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	-	-	-	-
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,670</u>	<u>1,670</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,670</u>	<u>\$ 1,670</u>
Changes in net assets above			\$ -	
Depreciation			<u>-</u>	
Change in net assets per Exhibit B-2			<u>\$ -</u>	

The accompanying notes are an integral part of these financial statements

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**SUPPORTING SCHEDULES**

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**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Collateral Pledged By Depository  
For Public Funds  
June 30, 2009

Schedule I

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2009	Location of Safekeeper
<b>Wells Fargo Bank</b>					
	FNCL 891949	5/1/2036	31410M5J5	\$ 303,645	San Francisco California
	FNCL 867437	5/1/2036	31409CV69	<u>137,421</u>	San Francisco California
	Total Wells Fargo Bank			441,066	
<b>Western Commerce Bank</b>					
	GNMA	5/15/2026	412608A	40,119	Carlsbad New Mexico
	GNMA	1/20/2026	8792	75,296	Carlsbad New Mexico
	GNMA	6/20/2032	80610	28,840	Carlsbad New Mexico
	GNMA	9/20/2022	8042	38,988	Carlsbad New Mexico
	GNMA	4/20/2032	80594	20,883	Carlsbad New Mexico
	FNMA	6/1/2013	254758	204,757	Carlsbad New Mexico
	FNMA	2/1/2037	888129	733,179	Carlsbad New Mexico
	FHLMC	11/1/2026	420051	49,482	Carlsbad New Mexico
	FHLMC	6/1/2029	420192 A	47,594	Carlsbad New Mexico
	FHLMC	6/1/2029	420192 B	<u>30,460</u>	Carlsbad New Mexico
	Total Western Commerce Bank			<u>1,269,597</u>	
<b>Lea County State Bank</b>					
	Silver City NM 3.75%	8/1/2023		1,150,000	Hobbs New Mexico
	* Bernalillo MSD MG9 3.5%	8/1/2015		400,000	Hobbs New Mexico
	* Espanola NM PSD 3.85%	7/1/2016		575,000	Hobbs New Mexico
	* Grants & Cibola 3.95%	10/1/2011		<u>130,000</u>	Hobbs New Mexico
	Total Lea County State Bank			<u>2,255,000</u>	
	Total Pledged Collateral			<u><u>\$ 3,965,663</u></u>	

\*Par Value used for New Mexico Securities Pledged

**Component Unit**

<b>Western Commerce Bank</b>					
	GNMA #8824	8/20/2021	8824	\$ 44,378	Carlsbad New Mexico
	GNMA #80187	4/20/2028	80187	65,556	Carlsbad New Mexico
	FNMA #60679	1/1/2028	60679	<u>64,477</u>	Carlsbad New Mexico
	Total Housing Pledged Collateral			<u><u>\$ 174,411</u></u>	

See the accompanying independent auditor's report

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Deposit and Investment Accounts  
For the Year Ended June 30, 2009

**Primary Government**

Bank Account Type/Name	Wells Fargo Bank	Lea County State Bank	Western Commerce Bank
Senior Citizens Supply Fund- Checking	13,355		
Employee Pension- Checking	17,812	-	-
Multipurpose Senior Center- Checking	16,811	-	-
Unemployment Compensation- Checking	10,126	-	-
Special Youth Recreation Fund- Checking	52,725	-	-
CDBG Housing Rehab- Checking	5	-	-
Motor Vehicle Department- Checking	18,805	-	-
Waste Water Treatment Department- Checking	185,131	-	-
Lovington Fire Department- Checking	1,036	-	-
Payroll- Checking	-	7,797	-
General Fund- Checking	-	1,868,523	-
Economic Development Revolving Loan Fund- Checking	-	7,854	-
Municipal Court Trust Account- Checking	-	26,525	-
Municipal Court Bond Account- Checking	-	2,415	-
Water & Sewer- Checking	-	-	2,090,709
Waste Water Treatment Plant- Checking	-	-	104,955
General Fund- Checking	-	-	-
Solid Waste- Checking	-	-	-
Special Youth- Checking	-	-	-
Customer Deposits- Checking	-	-	-
Unemployment- Checking	-	-	-
Teen Fund Certificate of Deposit	-	-	-
Certificate of Deposit	-	92,000	-
Certificate of Deposit	-	-	15,000
Certificate of Deposit	-	-	25,000
Certificate of Deposit	-	-	16,000
Certificate of Deposit	-	-	39,000
<b>Total</b>	<b>315,806</b>	<b>2,005,114</b>	<b>2,290,664</b>
Reconciling items	8,068	(529,197)	(95,936)
Reconciled balance	<u>\$ 323,874</u>	<u>\$ 1,475,917</u>	<u>\$ 2,194,728</u>

Plus: Petty cash

Total deposits and investments

Cash and cash equivalents and investments per financial statements:

Governmental Activities - Exhibit A-1

Business-type Activities - Exhibit A-1

Governmental Activities Investments - Exhibit A-1

Business-type Activities Investments - Exhibit A-1

Agency funds - Exhibit E-1

Total cash and cash equivalents and investments

See accompanying independent auditors' report



New Mexigrow LGIP	Estacado Credit Union	Totals
-	-	13,355
-	-	17,812
-	-	16,811
-	-	10,126
-	-	52,725
-	-	5
-	-	18,805
-	-	185,131
-	-	1,036
-	-	7,797
-	-	1,868,523
-	-	7,854
-	-	26,525
-	-	2,415
-	-	2,090,709
-	-	104,955
250,000	-	250,000
60,123	-	60,123
18,000	-	18,000
15,000	-	15,000
40,429	-	40,429
-	11,890	11,890
-	-	92,000
-	-	15,000
-	-	25,000
-	-	16,000
-	-	39,000
383,552	11,890	5,007,026
-	-	(617,065)
<u>\$ 383,552</u>	<u>\$ 11,890</u>	4,389,961
		450
		<u>\$ 4,390,411</u>
		1,388,428
		2,355,342
		522,319
		60,125
		64,192
		<u>\$ 4,390,406</u>

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**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Deposit and Investment Accounts  
For the Year Ended June 30, 2009

Component Unit	Western Commerce Bank	State Farm Bank	Total
<u>Bank Account Type/Name</u>			
Operating Account	159,383	-	159,383
Checking Account	8,479	-	8,479
Certificate of Deposit	11,482	-	11,482
Certificate of Deposit	-	11,734	11,734
Certificate of Deposit	-	11,652	11,652
<b>Total on deposit</b>	<b>179,344</b>	<b>23,386</b>	<b>202,730</b>
Reconciling items	<u>(1,188)</u>	<u>-</u>	<u>(1,188)</u>
<b>Total deposits and investments</b>	<b><u>\$ 178,156</u></b>	<b><u>\$ 23,386</u></b>	<b><u>\$ 201,542</u></b>

Cash and cash equivalents per discretely presented component unit financial statements:

Cash and cash equivalents- Exhibit A-1	193,242
Restricted cash and cash equivalents- Exhibit A-1	<u>8,300</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 201,542</u></b>

See accompanying independent auditors' report

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<i>Senior Citizen Supply Fund</i>				
Assets				
Cash and cash equivalents	\$ 14,205	\$ 2,949	\$ 3,799	\$ 13,355
Due from other funds	10	-	-	10
<i>Total assets</i>	<u>14,215</u>	<u>2,949</u>	<u>3,799</u>	<u>13,365</u>
Liabilities				
Deposits held and due to others	14,215	2,949	3,799	13,365
<i>Total liabilities</i>	<u>\$ 14,215</u>	<u>\$ 2,949</u>	<u>\$ 3,799</u>	<u>\$ 13,365</u>
<i>Motor Vehicle Fund</i>				
Assets				
Cash and cash equivalents	\$ 18,763	\$ -	\$ 17,550	\$ 1,213
Due from other funds	390	1	-	391
<i>Total assets</i>	<u>19,153</u>	<u>1</u>	<u>17,550</u>	<u>1,604</u>
Liabilities				
Deposits held and due to others	19,153	1	17,550	1,604
<i>Total liabilities</i>	<u>\$ 19,153</u>	<u>\$ 1</u>	<u>\$ 17,550</u>	<u>\$ 1,604</u>
<i>Economic Development Fund</i>				
Assets				
Cash and cash equivalents	\$ 7,854	\$ -	\$ -	\$ 7,854
<i>Total assets</i>	<u>7,854</u>	<u>-</u>	<u>-</u>	<u>7,854</u>
Liabilities				
Deposits held and due to others	7,854	-	-	7,854
<i>Total liabilities</i>	<u>\$ 7,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,854</u>

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<i>Municipal Court Trust Fund</i>				
Assets				
Cash and cash equivalents	\$ 23,269	\$ 331,989	\$ 328,829	\$ 26,429
<i>Total assets</i>	<u>23,269</u>	<u>331,989</u>	<u>328,829</u>	<u>26,429</u>
Liabilities				
Deposits held and due to others	23,269	331,989	328,829	26,429
<i>Total liabilities</i>	<u>\$ 23,269</u>	<u>\$ 331,989</u>	<u>\$ 328,829</u>	<u>\$ 26,429</u>
<i>Municipal Court Bond Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,091	\$ 4,257	\$ 2,933	\$ 2,415
<i>Total assets</i>	<u>1,091</u>	<u>4,257</u>	<u>2,933</u>	<u>2,415</u>
Liabilities				
Deposits held and due to others	1,091	4,257	2,933	2,415
<i>Total liabilities</i>	<u>\$ 1,091</u>	<u>\$ 4,257</u>	<u>\$ 2,933</u>	<u>\$ 2,415</u>
<i>Lovington Beautiful Fund</i>				
Assets				
Cash and cash equivalents	\$ 3,811	\$ -	\$ 3,811	\$ -
<i>Total assets</i>	<u>3,811</u>	<u>-</u>	<u>3,811</u>	<u>-</u>
Liabilities				
Deposits held and due to others	3,811	-	3,811	-
<i>Total liabilities</i>	<u>\$ 3,811</u>	<u>\$ -</u>	<u>\$ 3,811</u>	<u>\$ -</u>
<i>Lovington Fire Department Fund</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 1,036	\$ -	\$ 1,036
<i>Total assets</i>	<u>-</u>	<u>1,036</u>	<u>-</u>	<u>1,036</u>
Liabilities				
Deposits held and due to others	-	1,036	-	1,036
<i>Total liabilities</i>	<u>\$ -</u>	<u>\$ 1,036</u>	<u>\$ -</u>	<u>\$ 1,036</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<i>Teen Fund</i>				
Assets				
Investments	\$ 11,395	\$ 495	\$ -	\$ 11,890
<i>Total assets</i>	<u>11,395</u>	<u>495</u>	<u>-</u>	<u>11,890</u>
Liabilities				
Deposits held and due to others	11,395	495	-	11,890
<i>Total liabilities</i>	<u>\$ 11,395</u>	<u>\$ 495</u>	<u>\$ -</u>	<u>\$ 11,890</u>
<i>Lea County Museum Fund</i>				
Assets				
Cash and cash equivalents	\$ 67,849	\$ -	\$ 67,849	\$ -
<i>Total assets</i>	<u>67,849</u>	<u>-</u>	<u>67,849</u>	<u>-</u>
Liabilities				
Deposits held and due to others	67,849	-	67,849	-
<i>Total liabilities</i>	<u>\$ 67,849</u>	<u>\$ -</u>	<u>\$ 67,849</u>	<u>\$ -</u>
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 136,842	\$ 340,231	\$ 424,771	\$ 52,302
Investments	11,395	495	-	11,890
Accounts Receivable	-	-	-	-
Due from other funds	400	1	-	401
<i>Total assets</i>	<u>148,637</u>	<u>340,727</u>	<u>424,771</u>	<u>64,593</u>
Liabilities				
Deposits held and due to others	148,637	340,727	424,771	64,593
<i>Total liabilities</i>	<u>\$ 148,637</u>	<u>\$ 340,727</u>	<u>\$ 424,771</u>	<u>\$ 64,593</u>

**COMPLIANCE SECTION**



**Accounting & Consulting Group, LLP**

**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 Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
To the Honorable Mayor and City Councilors  
City of Lovington  
Lovington, New Mexico

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the budgetary comparison for the general fund, and the aggregate remaining fund information of City of Lovington, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated December 1, 2009. We also have audited the financial statements of each of the City's nonmajor governmental funds, the internal service funds, component unit, the budgetary comparisons for the proprietary funds, the component unit, and the remaining nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2009 as listed in the table of contents. We qualified our opinion because we were unable to verify utility accounts receivables and the allowance for doubtful accounts related to these receivables. 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

In planning and performing our audit, we considered City of Lovington'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 City of Lovington's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lovington's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Lovington's financial statements that is more than inconsequential will not be prevented or detected by City of Lovington's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as item 2007-2, FS 08-01, FS 08-02, FS 08-03, FS 08-05, FS 09-01, FS 09-02, HA 2007-2, and HA 08-01.

*Certified Public Accountants*

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866.307.2727 – 505.883.2727 – Fax 505.884.6719 – [albuquerque.office@acgnm.com](mailto:albuquerque.office@acgnm.com) – [www.acgnm.com](http://www.acgnm.com)

**Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock**



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by City of Lovington internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to material weaknesses. However, of the significant deficiencies described above, we consider items 2007-2, FS 08-01, FS 08-02, FS 08-03, FS 08-05, FS 09-01, FS 09-02, and HA 08-01 to be a material weaknesses.

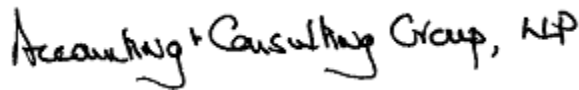
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lovington’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item FS 08-07 and FA 09-01.

We noted certain matters that are required to be reported under *Government Auditing Standards, January 2008 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as findings 2007-06, FS 08-09, FS 08-10, and HA 08-08, HA 08-09, HA 08-10, HA 2009-01, HA 2009-02, HA 2009-03, and HA 2009-04.

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

This report is intended solely for the information and use of management, others within City of Lovington, the audit committee, the State Auditor, the City Council, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these parties.



Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
December 1, 2009

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**FEDERAL FINANCIAL ASSISTANCE**



**Accounting & Consulting Group, LLP**

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector Balderas  
New Mexico State Auditor  
The Office of Management and Budget and  
To the Honorable Mayor and City Councilors  
City of Lovington  
Lovington, New Mexico

Compliance

We have audited the compliance of City of Lovington , with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Lovington 's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Lovington 's management. Our responsibility is to express an opinion on City of Lovington 's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Lovington's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Lovington 's compliance with those requirements.

In our opinion, City of Lovington complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of Lovington is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Lovington's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lovington's internal control over compliance.

*Certified Public Accountants*  
2700 San Pedro Northeast [87110-333] – P.O. Box 3130, Albuquerque, New Mexico 87190-3130  
866.307.2727 – 505.883.2727 – Fax 505.884.6719 – [albuquerque.office@acgnm.com](mailto:albuquerque.office@acgnm.com) – [www.acgnm.com](http://www.acgnm.com)  
**Alamogordo – Albuquerque – Carlsbad – Clovis – Hobbs – Lubbock**

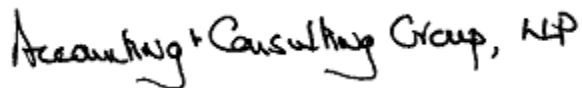
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

A *control deficiency* in City of Lovington's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects City of Lovington's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by City of Lovington's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item FA 09-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by City of Lovington's internal control. Of the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item FA 09-01 to be a material weakness.

City of Lovington's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Lovington's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within City of Lovington, the audit committee, the State Auditor, the City Council, the New Mexico Legislature, the New Mexico Department of Finance and Administration, and applicable federal and state grantors, and is not intended to be and should not be used by anyone other than these parties.



Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
December 1, 2009

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

	Flow Thru Number	Federal CDEA Number	Federal Expenditures
U. S. Department of Health and Human Services Administration on Aging			
Passed through North Central New Mexico Economic Development District Non-Metro Area Agency on Aging			
Federal Aging Grant Title III for Nutritional Services Incentive Program			
Part B	2008-09	93.044	16,887
Part C	2008-09	93.045	7,380
Total Department of Health and Human Services Administration on Aging			24,267
U.S. Department of Housing and Urban Development- Component Unit			
Low Rent Operating Subsidy	NM 02300106D NM02300105D	14.850	115,623
Total Department of Housing and Urban Development			115,623
U.S. Environmental Protection Agency			
Passed through State of New Mexico Environment Department			
(1) Clean Water State Revolving Fund (CWSRF)	1438048	66.458	(1) 329,723
Passed through State of New Mexico Finance Authority			
(1) Drinking Water State Revolving Fund (DWSRF)	2018-DW	66.468	(1) <u>1,117,429</u>
Total U.S. Environment Protection Agency			1,447,152
<b>Total Federal Financial Assistance</b>			<b>\$ 1,587,042</b>

(1) Denotes major Federal financial assistance program

See accompanying independent auditors' report

**Notes to Schedule of Expenditures of Federal Awards**1 Basis of Presentation

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Expenditures related to federal awards have been included in various categories in the Statement of Revenues, Expenditures and Changes in Fund Balances. During the year ended June 30, 2009, there were no federal awards expended in the form of non-cash assistance.

2 Subrecipients

The City did not provide any federal awards to subrecipients during the year.

3 Reconciliation to Financial Statements

Federal operating and capital grant revenues per Exhibit B-2	24,267
Loan proceeds from loans with state agencies per Note 7.	1,447,152
HUD Low Rent Operating Subsidy per discrete component unit financial statements	<u>115,623</u>
Total federal awards expended per Schedule of Expenditures of Federal Awards	<u><u>\$ 1,587,042</u></u>

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Findings and Questioned Costs  
June 30, 2009

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

- |  |           |
|--|-----------|
| 1. Type of auditors' report issued   | Qualified |
| 2. Internal control over financial reporting:                                    |           |
| a. Material weakness identified?   | Yes       |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes       |
| c. Noncompliance material to the financial statements noted?                     | Yes       |

*Federal Awards:*

- |   |             |
|---|-------------|
| 1. Internal control over major programs:  |             |
| a. Material weaknesses identified?  | Yes         |
| b. Significant deficiencies identified not considered to be material weaknesses?                                      | No          |
| 2. Type of auditors' report issued on compliance for major programs   | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes         |
| 4. Identification of major programs:  |             |

CFDA Number	Federal Program
66.458	Clean Water State Revolving Fund
66.468	Drinking Water State Revolving Fund

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 6. Auditee qualified as low-risk auditee?                                   | No        |



**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT**

**2007-2 — Preparation of Financial Statements**

***Condition:***

Financial statements and related footnote disclosures were not prepared by the City.

***Criteria:***

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems should be implemented and should include controls over financial statement preparation, footnote disclosure preparation, and should give the entity the ability to catch material errors that may effect the financial statements.

***Effect:***

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

***Cause:***

City personnel do not have the time to prepare the City's financial statements, or adequate training to understand the elements of external financial reporting including the preparation of financial statements, the preparation of the related footnote disclosures, or the ability to recognize material errors.

***Auditors' Recommendation:***

We recommend the City's management and personnel receive training on understanding the requirements of external financial reporting. The training should include, but not be limited to:

- Selection of appropriate accounting policies:
  - Governmental Accounting Standards Board (GASB)
  - Generally Accepted Accounting Principles (specifically as applied to governmental units)
  - Financial Accounting Standards Board (FASB)
- Understanding the financial reporting entity
- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information, including Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor

In addition, we recommend that the City develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

***Agency's Response:***

City staff does not have the knowledge or training to prepare these statements.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**2007-6 — Expenditures in Excess of Budget**

***Condition:***

The City over expended its budget in the following fund:

**Nonmajor Funds**

Lodger's Tax Special Revenue Fund	<u>\$ (85)</u>
<b>Total</b>	<b><u><u>\$ (85)</u></u></b>

***Criteria:***

Budgetary controls, which include the timely adoption of budget adjustments, should prevent any expenditure in excess of the approved budget. (NMSA 6-6-6(I))

***Effect:***

Any expenditure in excess of the approved budget indicates a lack on controls in the purchasing process which leads to unauthorized purchases being made with City money.

***Cause:***

The City over expended its budget in the above fund because of inadequate monitoring of the budget in all funds.

***Auditors' Recommendations:***

We recommend the City establish policies and procedures governing the budgetary process and monitoring of the budget in order to properly prepare and adjust the budget in order to properly authorize all expenditures.

***Agency's Response:***

This in an incorrect posting done in March. It was not reversed & corrected at year end. The staff will be more observant.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight**

***Condition:***

The City does not have a comprehensive documented internal control structure. We noted the following areas in which the City does not have sufficient key internal controls in place.

- Tests performed on five disbursements totaling \$3,007.36 revealed all five disbursements that were not approved by the supervisor until after the purchases were made.
- We noted that bank reconciliations are performed by the same individual who has authority to sign checks and post transactions to the general ledger. Also, there are two agency funds there were not reconciled at year end for a total of \$10,037.
- Travel and Per Diem payments to the Treasurer were initiated by the Treasurer, signed by the Treasurer and the Treasurer's subordinate, and received by the Treasurer.
- Upper management does not properly authorize expenditures made by the department heads or review any of the work performed by the department heads.
- There is not a financial expert on the Board of Commissioners to effectively oversee the financial reporting process
- There is not a conflict of interest policy at the City
- No supporting documentation for manual journal entries and there aren't any segregation of duties or monitoring for the journal entry process
- Material journal entries were required for cash, accounts receivable, accrued payroll, and accounts payable.
- There were four agency fund cash accounts that were not reported on the G/L for a total of \$32,063 of cash.
- There is a lack of internal controls over credit cards. Tests performed on five credit card purchases totaling \$23,241.65 revealed two purchases totaling \$17,904.38, that did not have sufficient documentation to support the purchase.

***Criteria:***

*The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

***Effect:***

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight (continued)**

***Cause:***

For the fiscal year 2009 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly. Also, the governing body was unaware of requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

***Auditors' Recommendation:***

The City should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. Management should authorize expenses from the department heads, and they should either maintain a separate fund for the federal grant money or track the federal expenses in a different line item. Management should: (1) maintain the listing of federal awards throughout the year; (2) keep State grants separate from federal grants; and (3) anytime the City receives a new grant, check with the grant contact person to determine whether the grant is federal or State funds.

***Agency's Response:***

Again, we are a small staff. Two employees reconcile each month & they do have authority to write & sign checks and post to general ledger. In the future, if staff is available, the Treasurer & deputy are not signing their own per diem paper work. The Board of Commissioners is elected by the citizens. The City has no control over who runs for election & the fact that none are a financial expert. City employees are told to bring receipts for their credit card usage. At times, they have failed to get a printout when ordered online. These two items in question is equipment for the Activity Center & could be verified. The City will look into developing policies.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-02 Segregation of Duties**

***Condition:***

During our testwork of the cash receipting and payroll processing we noted the following instances of a lack of appropriate segregation of duties.

In our testwork of the cash receipting process in the Treasurers Office, we noted that the City Clerk performs all the duties and functions that are required for the cash receipting process:

- The City Clerk receives the money and issues the cash receipt; and
- The City Clerk prepares the deposit slips; and

In our testwork of the payroll process, we noted that the same staff person that processes payroll also signs the payroll checks, when the City Clerk was not available to sign them.

***Criteria:***

Appropriate segregation of duties in cash receipting and payroll processing is required to maintain proper and sufficient internal controls and properly report all revenues and expenditures as required by Section 6-6-3, NMSA 1978.

***Effect:***

Without adequate segregation of duties in key control processes, there is an increased risk of fraudulent activity, and also an increased risk of errors that may not be detected timely.

***Cause:***

Due to limited resources, the City relies on the expertise of one individual to perform many duties. Limited resources in the process noted above, appear to result in a lack of segregation of duties.

***Auditors' Recommendation:***

Develop a formal review process for the receipt, disbursement, and payroll transaction cycle. Also, implement and document policies and procedures to maintain proper internal controls that include segregation of duties.

***Agency's Response:***

Again, the City Clerk does not take the deposits to the bank. Other employees have that duty. And again, we are a small staff. We can segregate duties only so far.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-03 Computer Controls**

***Condition:***

During our audit, we noted that:

- Adequate controls for access to computer programs and data have not been established by management to restrict access to properly authorized individuals. Lack of such controls exist in the following areas:
  1. Information Security Policy/User Awareness
  2. Configuration of Access Rules/Access Administration
  3. Monitoring
  4. Physical Access
- Adequate controls are not in place to ensure recoverability from interruptions in service in a timely manner and to restore critical information services in the event of a disaster.

***Criteria:***

State of New Mexico Statewide Guideline S-GUIDE-002.003 (per NMSA 1978 Section 15-1C-1 et. Seq. and NMAC 1.12.6 and NMAC 1.12.2) establishes an Enterprise Security Policy for the protection of information technology (IT) assets and resources including data and information. The policy establishes that protection must be provided for IT assets, resources, and data/information from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality, availability, accountability, and assurance, and establishes that controls must be maintained over information systems, resources, and data/information sufficient to contain risk of loss or misuse of information.

***Effect:***

Lack of policies, access restriction, monitoring, physical security, proper backup procedures, and contingency plans leave the City at risk for loss or misuse of computer hardware, data and information. Adequate protection has not been established to safeguard IT assets and resources.

***Cause:***

The City is not properly safeguarding IT assets and resources. The following deficiencies were noted:

- Management does not have computer usage and security policies in place.
- Access to the City's financial software (MIP) modules is unrestricted among the MIP users. Individuals have access to software modules they don't need to use in order to perform their duties
- No City employee is approving or reviewing systems administration work performed by the vendor Lighthouse Consulting Group, resulting in a lack of monitoring
- Lack of physical security to restrict access to server in City Hall
- Lack of contingency plan for disaster recovery
- Lack of offsite storage for backups

***Auditors' Recommendations:***

The City should consider implementing the following recommendations:

- Establish written policies governing computer use (Acceptable Use Policy) and security (IT Security Policy). Communicate such policies to City employees and other users.
- Set permissions within MIP to restrict the access of computer users to only the modules required by job title and job function. The City Clerk/Treasurer, Deputy Clerk, and Accounting Clerk should not have equal permissions (access) within MIP and they should not all have full rights. They should be able to access only the modules necessary to perform their duties.
- City management should request a list of system activities or a report (description of the work performed on the City's computer systems similar to an invoice explanation) from Lighthouse Consulting Group that will allow City management to monitor and approve the system administrator activities performed by Lighthouse Consulting Group.
- Relocate the HP Proliant ML150 server that is currently in City Hall, to a locked room or area and restrict access to the server to authorized personnel only.
- Designate an offsite area for storage of backup tapes.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-03 Computer Controls (continued)**

***Agency's Response:***

Rights will be limited to accounting staff to prevent them from having access to all modules. The City does not employ an IT person & we depend on Lighthouse Consulting Group. They provide us with service only when called & they perform only work requested. They do report back to the Clerk, via phone, as to work provided. Again, there is no locked room or area to move the server in order to restrict access. The City will look into an offsite area for storage of backup tapes.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-05 – Capital Assets**

***Condition:***

The capital asset inventory system was not reconciled correctly. The City has in current and prior year's improperly depreciated land, recorded assets twice, taken assets off in prior years then put them back on in the current year, and has not performed an annual inventory as required by NMAC.

***Criteria:***

Section 2.20.1 of NMAC requires agencies to properly account for capital assets. The required capital asset accounting system is described in Section 2.20.1.8 of NMAC. Proper controls over the capital assets are described in section 2.20.1.15 of NMAC. The statutory annual inventory requirement is described in Section 2.20.1.16 of NMAC. The requirement to follow the applicable statutes when disposing of capital assets is described in Section 2.20.1.18 of NMAC.

Section 12-6-10 NMSA1978 requires that the agency's capital asset inventory list any item costing more than \$5,000, effective June 17, 2005. Per guidance from the State Auditor dated September 8, 2006, the older capital asset items that did not meet the new capitalization threshold were supposed to remain on the list until they are disposed of in accordance with applicable statutes.

***Effect:***

The lack of proper implementation of controls over capital assets may result in the financial statements being misstated.

***Cause:***

According to City personnel, this occurred due to oversight and not understanding what was required of them.

***Auditors' Recommendations:***

The City should complete a yearly count of all inventories, and create a complete and accurate capital asset inventory listing. Also, the City should implement an internal controls system to manage and monitor the Districts capital asset listing.

***Agency's Response:***

The City agrees.



**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-07- Cash Appropriations in Excess of Available Cash Balances**

***Condition:***

The City designated cash appropriations in excess of available balances in the following funds in fiscal year 2009:

EMS Grant Special Revenue Fund	\$	19,628
Recreation Special Revenue fund		<u>369,433</u>
	\$	<u>389,061</u>

***Criteria:***

All City funds, with the exception of agency funds, are to be budgeted by the local governing body and submitted to the Department of Finance Administration for approval. Once adopted, any claims or warrants in excess of budget are a violation of Section 6.20.2.9.

***Effect:***

The effect of a budget with inadequate designated cash available to cover the excess of budgeted expenditures over budgeted revenue could result in the City incurring debt to pay for current year budgeted expenditures, which would result in noncompliance with the Bateman Act.

***Cause:***

Inadequate monitoring of cash available to be budgeted in subsequent year caused this noncompliance.

***Auditors' Recommendation:***

Greater attention should be given to the cash balances actually available to cover budgeted expenditures in excess of budgeted revenues.

***Agency's Response:***

The City agrees. This problem was noticed and corrected.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-09—Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets**

***Condition:***

The City did not notify the Office of the State Auditor prior to the disposition of City property.

***Criteria:***

Section 2.2.2.10.W(3), NMAC, of the State Audit Rule states that an government agency must submit a certification indicating that computer hard drives have been erased and notification of disposition of property to the state auditor at least 30 days prior to the disposition of the computer hard drives.

***Effect:***

The City is in violation of Section 2.2.2.10.W (3), NMAC, of the State Audit Rule. In addition, the City may have disposed of property that was unallowable.

***Cause:***

The capital assets notification was overlooked during the deletion process of capital assets.

***Auditors’ Recommendation:***

We recommend that the City implement procedures with regards to disposition of capital assets and ensure that proper notifications are issued prior to the disposals.

***Agency’s Response:***

In the future, the City will notify the proper authority before disposing of any property.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 08-10—Travel and Per Diem Mileage Act**

***Condition:***

The City does not have adequate internal controls over travel and per diem expenditures. The City did not have sufficient documentation for ten out of ten samples tested for a total of \$1,279.60.

***Criteria:***

Per NMAC 6.20.2.19 Travel and Training: Each City shall establish and implement written policies and procedures for travel and training. Travel policies and procedures shall be in compliance with the Per Diem and Mileage Act, Sections 10-8-1 through 10-8-8, NMSA 1978, and department of finance and administration (DFA) regulations. NMAC 6.2.2.24 (c) Other Administrative Standards states that City records shall be in accordance with the Public Records Act, Section 14-3-1, NMSA 1978 and should be available for review by auditors. In addition, NMAC 6.20.2.11 (c) states that internal control structure is required to demonstrate the City's ability to record, process, summarize and report financial statement assertions of existence and occurrence.

***Effect:***

Unauthorized travel and per diem expenditures may be processed and paid without proper approval and rate calculation. Noncompliance with statutes may subject officials and employees to punishment as defined by state statutes.

***Cause:***

The City did not maintain policies and procedures to ensure that documentation is properly reviewed to ensure compliance with State Statutes.

***Auditors' Recommendations:***

We recommend the City review all supporting documentation and retain all documents to ensure compliance with NMAC 6.20.2.24 (c) and 6.20.2.11 (c). The policy should be clear, written, and communicated to all to whom it applies and enforced uniformly.

***Agency's Response:***

The City would like to review these samples. Staff always has approved travel requests and per diem is paid according to State Statute. We are very careful about this.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 09-01—Utility Accounts Receivable**

***Condition:***

The City's utility accounts receivables general ledger balance of \$422,035 for utility accounts receivable at June 30, 2009, did not reconcile to the manual utility ledger balance of \$633,329, accounts receivable aging report balance of \$718,558, or the accounting system which had multiple reports with inconsistent balances.

***Criteria:***

Per Section 6.20.2.13 of NMAC, all Cities' shall establish and maintain an accurate general ledger in accordance with GAAP. The general ledger will be comprised of individual funds and account groups using the department's uniform chart of accounts and shall be reconciled every fiscal year with department records. The general ledger must tie with the accounting documentation including the utility aging reports and other ledgers. City's shall use funds and account groups to report their financial position and operating results accurately. In accordance with GASB 34, City's shall use a full accrual basis of accounting in preparation of annual financial statements.

***Effect:***

The utility proprietary fund did not have sufficient reliable documentation to audit the balances of accounts receivable at June 30, 2009. Also, having unreliable supporting documentation for utilities increases the risk of fraudulent activity, and increases the possibility that a financial statement audit will not uncover the fraudulent activities.

***Cause:***

The City does not have internal controls in place to prevent or detect general ledger errors or irregularities due to the City lacking sufficient knowledge governmental accounting and the lack of training with the new utility system implemented in the current fiscal year.

***Auditors' Recommendation:***

We recommend the City receive training and necessary updates in order to be able to produce a complete and accurate utility general ledger and supporting documentation.

***Agency's Response:***

The current utility software has only been in place one year. The difference can be explained. The City will work with our software company and request additional training.

**B. FINANCIAL STATEMENT FINDINGS – PRIMARY GOVERNMENT (CONTINUED)**

**FS 09-02- DFA Cash Report Does not Reconcile to the City's Cash**

***Condition:***

For the year ended June 30, 2009, the City did not report 10 accounts (4 City accounts and 6 Agency accounts) in the amount of \$343,099, as required, to the Department of Finance and Administration (DFA).

***Criteria:***

Per Section 6-6-3 NMSA 1978, every local public body shall:

- Keep all the books, records and accounts in their respective offices in the form prescribed by the local government division
- Make all reports as may be required by the local government division, and
- Conform to the rules and regulations adopted by the local government division.

***Effect:***

The information that is reported to DFA is incomplete and could lead to inappropriate funding of the City.

***Cause:***

The City was unaware that they were required to report these accounts to DFA.

***Auditors' Recommendation:***

We recommend the City communicate with DFA regarding what the requirements are for reporting cash balances and report what is required by DFA.

***Agency's Response:***

The City was told by a previous auditor & budget analyst at DFA that agency funds were not required to be reported on the quarterly report. These funds have not been on that report for many years and nothing has been said to the City until this audit. The City agrees to start listing the agency funds on the quarterly report.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT

**HA 2007-2 — Preparation of Financial Statements**

***Condition:***

Financial statements and related footnote disclosures were not prepared by the Authority.

***Criteria:***

According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems should be implemented and should include controls over financial statement preparation, footnote disclosure preparation, and should give the entity the ability to catch material errors that may effect the financial statements.

***Effect:***

When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

***Cause:***

Authority personnel do not have the time to prepare the Authority's financial statements, or adequate training to understand the elements of external financial reporting including the preparation of financial statements, the preparation of the related footnote disclosures, or the ability to recognize material errors.

***Auditors' Recommendation:***

We recommend the Authority's management and personnel receive training on understanding the requirements of external financial reporting. The training should include, but not be limited to:

- Selection of appropriate accounting policies:
  - Governmental Accounting Standards Board (GASB)
  - Generally Accepted Accounting Principles (specifically as applied to governmental units)
  - Financial Accounting Standards Board (FASB)
- Understanding the financial reporting entity
- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplementary information, including Management's discussion and analysis
- Supplementary information required by the Office of the State Auditor and the U.S. Department of Housing and Urban Development

In addition, we recommend that the Authority develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

***Agency Response:***

The Lovington Housing Authority will continue to receive training on external financial reporting; GASB, GAAP, and FASB.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight**

***Condition:***

The Authority does not have a comprehensive documented internal control structure. We noted the following areas in which the Authority does not have sufficient key internal controls in place:

- We noted that bank reconciliations are performed by the same individual who has authority to sign checks and post transactions to the general ledger.
- There is not a risk assessment done at the Authority
- There is not a financial expert on the Board of Directors to effectively oversee the financial reporting process
- There is not a conflict of interest policy at the Authority
- No supporting documentation for manual journal entries and there are not appropriate levels of segregation of duties or monitoring for the journal entry process
- Allowance for doubtful accounts estimate was not completed by the client and there is no policy for estimating this amount

***Criteria:***

*The Codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

The SAS No. 112 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a potential material weakness in internal control.

***Effect:***

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets. Adequate controls are not in place to prevent or detect intentional misstatements of accounting information.

***Cause:***

For the fiscal year 2009 management did not have a documented policy in place to follow to ensure internal controls were in place and working properly. Also, the governing body was not familiar with the requirements under SAS 112 to provide effective oversight of internal control and the financial reporting process.

***Auditors' Recommendation:***

The Authority should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

***Agency Response:***

The Lovington Housing Authority adopted an internal control policy on March 8, 2000. The Lovington Housing Authority is a small authority; we strive to follow all rules and regulation to the best of our ability. The Lovington Housing Authority will continue to utilize all its resources to better maintain internal control. The Lovington Housing Authority fee accountant is responsible for the official reconciliation that ties into the Lovington Housing Authority balance sheet.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 08-08 — Capital Assets Threshold for Capitalization**

***Condition:***

During our audit we noted the Housing Authority has not implemented the \$5,000 limit for capitalization of capital assets. The Authority has raised their limit for capitalization of fixed assets to \$500 from \$250.

***Criteria:***

According to the State Audit Rule Section 2.2.2.10 Y, “The Audit Act (12-6-10, NMSA 1978) requires agencies to capitalize only chattels and equipment that cost over \$5,000. All agencies should update their capitalization policies in accordance with the law. The State Auditor still encourages agencies to maintain a separate accountability report of those items that cost \$5,000 or less, for asset safeguarding and management purposes.”

***Effect:***

There are more assets included on the capital assets listing than are allowed by the State’s capitalization policy. While not material to the financial statements, in continuing with this capitalization policy the Authority is overstating its capital assets and depreciation expense while understating actual expenses because the expenses are being capitalized rather than expensed.

***Cause:***

The Authority has not updated its capitalization policy to reflect the State Auditor requirement that does not allow for capitalization thresholds which are more restrictive than the applicable law.

***Auditors’ Recommendation:***

We recommend that the Authority maintain capital assets records and record depreciation only for those assets with a cost in excess of \$5,000. For accountability purposes, the Authority should continue to track assets in accordance with the existing policy, although these assets should not be included in the capital assets reported on the financial statements.

***Agency Response:***

The Lovington Housing Authority has adopted the new capitalization on August 12, 2009. The Lovington Housing Authority will update at the next available board meeting their capitalization policy in accordance with the law.



C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 08-09 — Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets**

***Condition:***

During our tests related to capital assets, we noted that the Authority disposed of equipment during the year ended June 30, 2009. The Authority obtained approval from its governing board, but failed to notify the State Auditor of the planned disposition.

***Criteria:***

The New Mexico State Audit Rule 2.2.2.10 V. requires agencies disposing of assets, which have been reported on their capital assets inventory listing, to notify the New Mexico State Auditor’s Office at least 30 days prior to the disposition of such assets.

***Effect:***

The Authority is not properly exercising its custodial responsibilities over its capital assets. The notification to the State Auditor’s Office is in place to serve as a check to ensure that capital assets are not frivolously disposed of by governmental agencies.

***Cause:***

Neither the executive director nor the governing board understood that this was a requirement of the New Mexico State Auditor’s Office.

***Auditors’ Recommendation:***

We recommend that the board implement a policy that capital assets which have been listed on the Authority’s capital asset inventory listing be reported to the New Mexico State Auditor’s office at least 30 days prior to being disposed of, after having been properly approved and attested to by the governing board.

***Agency Response:***

The Lovington Housing Authority has begun to report on their disposition of all assets to the State Auditor and will continue to follow this procedure.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act**

***Condition:***

During our tests of compliance with the Per Diem and Mileage Act we noted several exceptions out of seven (7) randomly selected disbursements totaling approximately \$2,990:

- a. For one (1) disbursement for approximately \$735, the executive director and various board members traveled to a training conference and received payments in excess of the Per Diem and Mileage Act for both mileage and meals reimbursement. The Authority reimbursed the executive director and board members at a rate of fifty-eight and a half cents (\$.585) a mile, which exceeds the allowable rate for reimbursement. The Authority also reimbursed a board member for approximately \$49, which exceeds the allowable amount for reimbursement of meals for in-state travel
- b. For three (3) disbursements totaling approximately \$2,302, there was not sufficient supporting documentation attached to support the purposes of the reimbursement and the related amounts.

***Criteria:***

- a. The Mileage and Per Diem Act, NMSA 1978, Sections 10-8-1 through 10-8-8, and Section 2.42.2 NMAC requires that the Authority reimburse each public officer or employee thirty-two cents (\$.32) a mile for each mile traveled in a privately owned vehicle if the travel is necessary for the individual to perform their official duties. Proper internal controls should be in place to ensure that the Authority is in compliance with allowable rates and that the Authority becomes aware of any changes to the rates as they occur.
- b. The Mileage and Per Diem Act, DFA Rule 95-1, as well as good internal controls and sound business practices, requires that the Authority provide adequate support for its travel and per diem transactions to support the purposes of the reimbursement and the related amounts.

***Effect:***

- a. The executive director and board members received payments in excess of the amounts allowed under the Per Diem and Mileage Act in the amounts of approximately \$185 for each of three board members, and approximately \$322 for the executive director.
- b. Internal controls over travel and per diem transactions are not sufficiently monitored and maintained to prevent or detect accidental or intentional misappropriation of the Authority's assets. Without adequate documentation over the travel and per diem transaction process, it can become difficult to support the purposes of reimbursements and their related amounts.

***Cause:***

- a. Neither the executive director nor the board understood the limits set by the Per Diem and Mileage Act. They requested the fee accountant calculate the allowable amounts, and the fee accountant based the calculations on the IRS amounts for mileage and per diem rates.
- b. The Authority has failed to maintain its supporting documentation for at least three (3) of its travel and per diem transactions. The purposes and related amounts of the transactions are not adequately supported.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act (continued)**

***Auditors' Recommendation:***

- a. We recommend the Authority follow the Mileage and Per Diem Act, when paying per diem and travel reimbursements. The Authority should ensure that it and the fee accountant have access to and have reviewed the Mileage and Per Diem Act as well as the New Mexico State Auditor Rule. Furthermore, the Authority should be certain that it updates these on an annual basis. We also recommend that the Authority request that the executive director and board members reimburse the Authority for the amounts that they were over reimbursed.
- b. The Authority should ensure that its employees and board members provide sufficient documentation to the Authority so that the Authority can properly support the purposes and the related amounts for its travel and per diem transactions. Additionally, the Authority should ensure that all documentation is adequately maintained and available for inspection.

***Agency Response:***

We the Lovington Housing Authority paid out the per diem in reference to the calculations of the fee accountant which was resolved last year. The Lovington Housing Authority had last year's exit meeting on December 1, 2008 we were advised on the per diem and have followed the mileage and per diem act since this date. All original documentation is sent to the fee accountant who is currently at the auditor's office.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 2009-01 — Tracking of Compensatory Time**

***Condition:***

During our tests related to accrued leave, we noted that compensatory time has not been included in the accrued leave computation prepared by the fee accountant during the year ended June 30, 2009. As a result, the compensatory time calculations are not being considered for accrued compensation purposes.

***Criteria:***

The City of Lovington personnel manual, which also serves as the Authority's personnel manual, Section 9.10 establishes the guidelines to be followed in determining how an employee accumulates vacation, sick, and compensatory time based upon employment classification and length of employment and how that compensatory leave balance will be distributed upon termination.

***Effect:***

If someone were to be terminated, the City of Lovington would have to rely on the Authority's executive director's records for payout purposes. The control risk factor leaves room for abuse and overstatement on the ending balances.

***Cause:***

Only the Authority's executive director is tracking her compensatory time on her self-prepared time sheets. The City of Lovington is not properly tracking accumulated compensation balances and used leave balances.

***Auditors' Recommendation:***

We recommend that the Authority and the City of Lovington develop a reconciliation report that tracks all three liability components of accrued leave; vacation time, sick leave, and compensatory time. A monthly report should be provided to both parties to ensure accountability, accuracy and good record keeping practices.

***Agency Response:***

The Lovington Housing Authority will turn in a monthly report to the City of Lovington.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 2009-02 — Anti-Donation Violation**

***Condition:***

During our tests related to capital assets, we noted that the Authority donated eighteen (18) ranges to a thrift store during the year ended June 30, 2009. The Authority obtained approval from its governing board, but failed to adhere to State constitutional provisions regarding the Anti-Donation Clause in the New Mexico Constitution Article IX, Section 14.

***Criteria:***

According to the 2009 State Audit Rule 2.2.2.10 G, it clearly states that adherence to State constitutional provisions must be tested. According to the New Mexico Constitution Article IX, Section 14, no governmental agency shall directly or indirectly make any donation to or in aid of any person, association or public or private corporation.

***Effect:***

In donating the eighteen (18) ranges to one organization the Authority is providing a service to an organization and receiving nothing in return.

***Cause:***

The Authority donated ranges to a thrift store only after their attempt to sell all the available ranges in their public auction. The remaining eighteen (18) ranges were then donated to a local charitable organization.

***Auditors' Recommendation:***

We recommend that the Authority become familiar with the Audit Rule 2009 document provided by the New Mexico Office of the State Auditor. This document clearly states all the compliance issues that regulate the Authority. Future disposal of property or equipment must be carefully considered after review of this document. It is critical to involve the governing board and keep them abreast of all State rulings.

***Agency Response:***

The Lovington Housing Authority will assure that it will comply with the Audit Rule 2009, and give a copy of the rulings to each board member that is presently serving and to the new board members who come in.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 2009-03 — Internal Control Deviations - Disbursements**

***Condition:***

During our review of internal controls over disbursements, we noted three (3) deviations in internal control out of five (5) randomly selected disbursements totaling approximately \$22,519:

- a. Tests performed on one (1) disbursement for approximately \$50 revealed that the purchase was made with out a stamp indicating approval from the governing board.
- b. Tests performed on one (1) disbursement for approximately \$100 revealed that there was not sufficient supporting documentation attached to support the refund of a security deposit.
- c. Tests performed on one (1) disbursement for approximately \$100 revealed that disbursement was not properly posted against the proper tenant's security deposits liability accounts.

***Criteria:***

- a. Good internal controls and sound business practice requires that the Authority adhere to its established policies and procedures for internal controls over disbursements. The Authority, having established the practice of stamping its disbursements with governing board approval, should ensure that all disbursements have been stamped to show governing board approval.
- b. Good internal controls and sound business practices, requires that the Authority provide adequate support for its disbursement transactions to support the purposes and the related amounts.
- c. Good internal controls and sound business practices, requires that the Authority exercise due diligence and ensure that all transactions are properly posted and to the correct account.

***Effect:***

Internal controls over disbursements are not sufficiently monitored and maintained to prevent or detect accidental or intentional misappropriation of the Authority's assets. This may result in many issues, including but not limited to, purchase of unauthorized or unnecessary items. Furthermore, in the case of improperly posted transactions, this could result in incorrect balances being reflected that could adversely affect decision making and in this specific case of tenant security deposit, an incorrect reflection of a tenant's security deposit balance.

***Cause:***

The Authority has failed to adhere to its own established policies and procedures over the internal control structure over disbursements.

***Auditors' Recommendation:***

The Authority should always follow its established polices and procedures to ensure that the proper internal controls are in place over its disbursements. Additionally, the Authority should ensure that all supporting documentation is adequately maintained and available for inspection. Lastly, the Authority should review all postings to the general ledger on a regular basis to ensure all postings are reasonable and accurate.

***Agency Response:***

The Lovington Housing Authority will continue to advise the governing board of all of it transactions, we will strive to document all files as necessary.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA 2009-04 — Low Income Public Housing Program - Tenant Files**

***Condition:***

During our review of tenant files relating to eligibility for tenants participating in the Low Rent Public Housing Program, we noted several issues out of the twelve (12) randomly selected tenant files:

- a. Tests performed on one (1) tenant file revealed that no documentation was available to review the tenant's income so that the Authority could ensure the tenant was indeed eligible for participation in the program.
- b. Tests performed on one (1) tenant files revealed that no copy of photo identification was maintained in the tenant file to ensure that the tenant is indeed the same person claimed on the application.

***Criteria:***

The Authority is required to maintain complete tenant files. As a condition of admission or continued occupancy, the Authority is required to have the tenant and other family members provide necessary information, documentation, and releases for the Public Housing Agency to verify income eligibility in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement 4-14.850-5.

***Effect:***

Non-compliance with the eligibility requirements of the program could affect the Authority's federal award funding.

***Cause:***

The Authority is not properly maintaining tenant files to ensure that:

- a. Proper documentation of the tenant's income is maintained so that the Authority can ensure the tenant is indeed eligible for participation in the program.
- b. A copy of photo identification is maintained in the tenant file to ensure that the tenant is indeed the same person claimed on the application.

***Auditors' Recommendation:***

The Authority should always follow its established policies and procedures to ensure tenant files maintain the required documentation to substantiate tenant eligibility to participate in its Low Income Public Housing Program. Additionally, we recommend that the Authority develop a coversheet with a checklist to accompany the face of each tenant file to ensure that all tenant information considered necessary is maintained in the tenant file.

***Agency Response:***

The Lovington Housing Authority will strive to better the protocols for our tenant files.

**D. FEDERAL AWARD FINDINGS – PRIMARY GOVERNMENT**

**FA 09-01 Lack of Grant Monitoring**

U.S. Department of Health and Human Services, Administration on Aging, Federal Aging Grant Title III, Part B and C, CFDA No.'s 93.044 and 93.045; U.S. Department of Housing and Urban Development, Low Rent Operating Subsidy, CFDA No. 14,850; U.S. Environmental Protection Agency, Clean Water State Revolving Fund (CWSRF), CFDA No. 66.458; and U.S. Environmental Protection Agency, Drinking Water State Revolving Fund (DWSRF), CFDA No. 66.468

***Condition:***

The City did not adequately monitor its grant activity during the fiscal year. Grant files, documents and transactions had to be reconstructed by a consultant hired by the City in August 2009.

***Criteria:***

The City should have an internal control process in place to monitor grant activity on a regular basis to ensure compliance with grant requirements.

***Questioned Costs:***

None

***Effect:***

Noncompliance with grant requirements could result in disallowed costs.

***Cause:***

In February 2009, the City's grant administrator resigned and the City did not assign the grant administrator's responsibilities to another City employee.

***Auditors' Recommendation:***

We recommend that the City implement a monitoring process over its grant activities. This process should include the maintenance of grant files, including supporting documentation for transactions, such as draw downs requests to demonstrate compliance with grant requirements. The City should also hire a grant administrator, or train an employee on grant management.

***Agency's Response:***

The City's grant administrator retired suddenly & this vacancy left the City with no one to oversee grants. We now have one in place & she is in the process of setting up a maintenance system for the City's grants.



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**E. FEDERAL AWARD FINDINGS – COMPONENT UNIT**

None

F. PRIOR YEAR AUDIT FINDINGS

**Primary Government:**

**FS 07-02 — Preparation of Financial Statements- Repeated**

**FS 07-06 — Expenditures in Excess of Budget - Repeated**

**FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight- Repeated and Modified**

**FS 08-02 — Segregation of Duties- Repeated**

**FS 08-03 — Computer Controls - Repeated**

**FS 08-04 — Budget Adjustment Requests- Resolved**

**FS 08-05 — Capital Assets – Repeated and Modified**

**FS 08-06 — Stale Dated Checks- Resolved**

**FS 08-07 — Cash Appropriations in Excess of Available Cash Balances - Repeated**

**FS 08-08 — Capital Assets Threshold for Capitalization- Resolved**

**FS 08-09 — Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets- Repeated**

**FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act – Repeated**

**FS 08-11 — Insufficient Documentation Relating to a Credit Card Payment to HSBC - Resolved**

**Component Unit:**

**2007-02 — Preparation of Financial Statements- Repeated and modified as HA 2007-02**

**FS 08-01 — Deficiencies in Internal Control Structure Design, Operation, and Oversight- Repeated and Modified- Repeated and modified as HA 07-02**

**FS 08-08 — Capital Assets Threshold for Capitalization- Resolved- Repeated and modified as HA 08-01**

**FS 08-09 — Notification to the State Auditor’s Office not Performed Prior to Disposition of Capital Assets- Repeated and modified as HA 08-09**

**FS 08-10 — Travel Expenses not Paid Following Requirements Under Per Diem and Mileage Act- Repeated and modified as HA 08-10**

**FS 08-11 — Insufficient Documentation Relating to a Credit Card Payment to HSBC - Resolved**

**FS 08-12 — No Approval by a Board Member for Payment Made for Labor for a Unit Turn Around - Resolved**

**STATE OF NEW MEXICO**

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Other Disclosures

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**A. AUDITOR PREPARED FINANCIAL STATEMENTS**

Although it would be preferred and desirable for the City to prepare its own GAAP-basis financial statements, it is felt that the City's personnel do not have the time to prepare them. Therefore, the outside auditor prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.

**B. EXIT CONFERENCE**

The contents of this report were discussed on December 1, 2009. The following individuals were in attendance.

City of Lovington

Dixie Drummond, Mayor

Rhonda Jones, City Clerk/Treasurer

Michael Leighton, City Manager

Carol Ann Hogue, Deputy Clerk

City of Lovington Housing Authority

Billie Jo Rodriguez, Executive Director

Maria Rios, Board Member

Accounting & Consulting Group, LLP

Cindy Bryan, Partner