

**STATE OF NEW MEXICO  
CITY OF LOVINGTON**

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

**YEAR ENDED JUNE 30, 2010**

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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, 2010

<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  
Certified Public Accountants

## 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 were engaged to audit 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. We were also engaged to audit the financial statements of each of the City's nonmajor governmental and proprietary funds, the discretely presented 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, 2010 as listed in the table of contents. These financial statements are the responsibility of City of Lovington's management.

The City has not maintained adequate internal controls over cash, manual journal entries, disbursements, and receipts. The City lacks internal controls over its cash and general ledger transactions due to there being several material cash bank accounts that were not posted to the City's general ledger and also not reported to the Department of Finance and Administration (DFA) at year end June 30, 2010. With regards to management overrides for cash bank accounts that are not posted to the general ledger, there are no internal controls to mitigate risks of possible misappropriation or fraud. Also, the City is deficient in internal control design, operation, and oversight, where there are insufficient internal controls over disbursements, credit cards, and manual journal entry's. Also, the City does not have sufficient segregation of duties in the cash receipting process due to City Clerk performing all the duties and functions that are required for the cash receipting process. Lastly, the City does not have adequate controls for computer programs and data to restrict access to properly authorized individuals that would prevent possible unauthorized access, misappropriation, or fraud.

Because we were unable to obtain adequate supporting documentation for the City's assets, liabilities, net assets, revenues and expenditures, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the governmental activities, the business-type activities, each major fund, the budgetary comparison for the general fund and the aggregate remaining fund information of the City. Also, because we were unable to obtain adequate supporting documentation for the Town's revenues, expenditures, and cash, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the City's nonmajor governmental and proprietary funds, and the budgetary comparisons for the proprietary funds, and the remaining nonmajor governmental funds presented as supplementary information.

In our opinion, the financial statements of the City of Lovington's Housing Authority (discretely presented component unit) referred to above, present fairly, in all material respects, the financial position and the results of the operations 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, 2010 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.

We were engaged to conduct an audit for the purpose of forming opinions on the City's basic financial statements, the combining and individual fund financial statements, and the budgetary comparisons. 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. Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express an opinion regarding whether schedules I through III are fairly stated, in all material respects, in relation to the basic financial statements and the remaining nonmajor governmental fund financial statements. 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, 2010

**STATE OF NEW MEXICO**  
City of Lovington  
Management's Discussion and Analysis  
June 30, 2010

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, 2010. 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 \$36,106,628 (*net assets*). Of this amount, \$4,078,668 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets decreased from \$37,537,838 for the year ending June 30, 2009 to \$36,106,628 for the year ended June 30, 2010. This represents an decrease of 4%, or \$1,431,210. The majority of this decrease is due to the decrease 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 \$1,550,075, an decrease of \$734,037 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 \$1,344,236 or 17 percent of total general fund expenditures.
- The City of Lovington's total debt increased by \$145,677, during the current fiscal year. The key factor in this increase was a 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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**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 \$36,106,628 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, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Current and other assets	\$ 2,013	\$ 3,832	\$ 4,128	\$ 3,362	\$ 6,141	\$ 7,194
Capital assets, net of accumulated depreciation	<u>23,068</u>	<u>23,648</u>	<u>17,991</u>	<u>18,823</u>	<u>41,059</u>	<u>42,471</u>
Total assets	<u>25,081</u>	<u>27,480</u>	<u>22,119</u>	<u>22,185</u>	<u>47,200</u>	<u>49,665</u>
Long-term liabilities outstanding	349	447	9,366	9,153	9,715	9,600
Other liabilities	<u>688</u>	<u>533</u>	<u>689</u>	<u>823</u>	<u>1,377</u>	<u>1,356</u>
Total liabilities	<u>1,037</u>	<u>980</u>	<u>10,055</u>	<u>9,976</u>	<u>11,092</u>	<u>10,956</u>
Net Assets	<u>24,044</u>	<u>26,500</u>	<u>12,064</u>	<u>12,209</u>	<u>36,108</u>	<u>38,709</u>
Total liabilities and net assets	<u>\$ 25,081</u>	<u>\$ 27,480</u>	<u>\$ 22,119</u>	<u>\$ 22,185</u>	<u>\$ 47,200</u>	<u>\$ 49,665</u>

A portion of the City of Lovington's net assets of \$31,690,286 represents resources that are not available for current obligations representing the net investment in capital assets. There is \$337,674 that is restricted for contractual obligations including debt and other purposes. The remaining balance of *unrestricted net assets* \$4,078,668 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 \$182,839 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 decreased the City of Lovington's net assets by \$1,285,949. 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 \$145,261.

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

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

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Revenues</b>						
Taxes	\$ 5,307	\$ 7,483	\$ -	\$ -	\$ 5,307	\$ 7,483
Intergovernmental	2,218	2,495	162	-	2,380	2,495
Charges for services	284	384	4,174	4,109	4,458	4,493
Other	165	507	46	57	211	564
	<u>7,974</u>	<u>10,869</u>	<u>4,382</u>	<u>4,166</u>	<u>12,356</u>	<u>15,035</u>
<b>Expenses</b>						
Current:						
General government	2,880	2,188	-	-	2,880	2,188
Public safety	3,521	3,544	-	-	3,521	3,544
Public works	1,271	1,527	-	-	1,271	1,527
Health and welfare	28	20	-	-	28	20
Culture and recreation	1,495	1,705	-	-	1,495	1,705
Conservation and development	65	68	-	-	65	68
Joint Utility	-	-	4,167	3,851	4,167	3,851
Ambulance	-	-	360	348	360	348
	<u>9,260</u>	<u>9,052</u>	<u>4,527</u>	<u>4,199</u>	<u>13,787</u>	<u>13,251</u>
<b>Excess of revenues over expenses</b>	<u>\$ (1,286)</u>	<u>\$ 1,817</u>	<u>\$ (145)</u>	<u>\$ (33)</u>	<u>\$ (1,431)</u>	<u>\$ 1,784</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 \$1,550,075 a decrease of \$734,037 in comparison with the prior year. The decrease was due to all the expenses that were incurred related to the aquatic center and several other renovations to City buildings. Approximately 65 percent of this total amount, \$857,384, 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 \$857,384 and represents 17 percent of total general fund expenditures.

The fund balance of the City of Lovington's general fund decreased by \$592,780 during the current fiscal year. The majority of the increase is because of the increase 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, 2010. 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 D-1 through D-9.

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	\$ (903,776)	\$ (943,506)
Nonmajor Governmental Funds	\$ 240,896	\$ 6,022
	Change in Net Assets	
	Original Budget	Final Budget
Water & Wastewater Fund	\$ 347,912	\$ 148,684
Ambulance Fund	\$ (95,296)	\$ (37,861)
Solid Waste fund	\$ (53,874)	\$ 4,184
Internal Service Funds	\$ 7,280	\$ 24,962

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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, 2010, amounts to \$31,690,286 (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, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Land	\$ 133,319	\$ 133,319	\$ 750	\$ 750	\$ 134,069	\$ 134,069
Construction in process	787,870	-	-	-	787,870	-
Infrastructure	17,562,134	17,562,134	-	-	17,562,134	17,562,134
Buildings and Improvement	11,446,743	11,403,894	23,937,939	23,930,466	35,384,682	35,334,360
Machinery and Equipment	4,135,094	4,060,139	3,865,361	3,792,055	8,000,455	7,852,194
Vehicles	2,466,454	2,427,258	978,287	876,228	3,444,741	3,303,486
	<u>36,531,614</u>	<u>35,586,744</u>	<u>28,782,337</u>	<u>28,599,499</u>	<u>65,313,951</u>	<u>64,186,243</u>
Less accumulated depreciation	<u>13,464,063</u>	<u>11,938,106</u>	<u>10,791,137</u>	<u>9,775,968</u>	<u>24,255,200</u>	<u>21,714,074</u>
	<u>\$ 23,067,551</u>	<u>\$ 23,648,638</u>	<u>\$ 17,991,200</u>	<u>\$ 18,823,531</u>	<u>\$ 41,058,751</u>	<u>\$ 42,472,169</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 \$9,148,705 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 \$819,402.

	Governmental Activities		Business-type Activities		Total	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Bonds Payable: Water Tower	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Notes Payable: Wastewater Facility	-	-	3,535,000	3,505,305	3,535,000	3,505,305
Drinking Water	-	-	5,813,966	5,490,000	5,813,966	5,490,000
NM Water Trust Board	-	-	78,794	153,400	78,794	153,400
Compensated Absences	613,313	684,956	72,711	134,446	686,024	819,402
	<u>\$ 613,313</u>	<u>\$ 684,956</u>	<u>\$ 9,500,471</u>	<u>\$ 9,283,151</u>	<u>\$ 10,113,784</u>	<u>\$ 9,968,107</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.

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**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 2010 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, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing Authority
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 579,499	\$ 2,856,582	\$ 3,436,081	\$ 190,421
Investments	467,228	-	467,228	-
Receivables:				
Taxes receivable	937,125	-	937,125	-
Intergovernmental	84,655	16,087	100,742	-
Other receivables	1,416	604,687	606,103	292
Prepays	-	-	-	1,471
Inventory	145,476	93,183	238,659	1,333
Internal balances	(261,506)	261,506	-	-
Total current assets	<u>1,953,893</u>	<u>3,832,045</u>	<u>5,785,938</u>	<u>193,517</u>
Noncurrent assets				
Restricted cash and cash equivalents	59,295	295,408	354,703	6,850
Capital assets	36,531,614	28,782,337	65,313,951	2,385,462
Less: accumulated depreciation	(13,464,063)	(10,791,137)	(24,255,200)	(1,270,770)
Total noncurrent assets	<u>23,126,846</u>	<u>18,286,608</u>	<u>41,413,454</u>	<u>1,121,542</u>
Total assets	<u>\$ 25,080,739</u>	<u>\$ 22,118,653</u>	<u>\$ 47,199,392</u>	<u>\$ 1,315,059</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	\$ 281,233	\$ 150,113	\$ 431,346	\$ 985
Accrued payroll expenses	142,807	13,812	156,619	20,069
Accrued interest	-	95,206	95,206	-
Accrued compensated absences	263,725	47,989	311,714	2,270
Due to fiduciary funds	401	-	401	-
Prepaid rent	-	-	-	73
Current portion of bonds and notes payable	-	381,966	381,966	-
Total current liabilities	<u>688,166</u>	<u>689,086</u>	<u>1,377,252</u>	<u>23,397</u>
<i>Current liabilities (payable from restricted assets)</i>				
Tenant deposits	-	-	-	6,850
<i>Total current liabilities (payable from restricted assets)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,850</u>
Noncurrent liabilities				
Accrued compensated absences	349,588	24,722	374,310	1,159
Customer deposits	-	295,408	295,408	-
Bonds and notes payable	-	9,045,794	9,045,794	-
Total noncurrent liabilities	<u>349,588</u>	<u>9,365,924</u>	<u>9,715,512</u>	<u>1,159</u>
Total liabilities	<u>1,037,754</u>	<u>10,055,010</u>	<u>11,092,764</u>	<u>31,406</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	23,126,846	8,563,440	31,690,286	1,114,692
Restricted for (Note 18):				
Other purposes	337,674	-	337,674	-
Unrestricted	578,465	3,500,203	4,078,668	168,961
Total net assets	<u>24,042,985</u>	<u>12,063,643</u>	<u>36,106,628</u>	<u>1,283,653</u>
Total liabilities and net assets	<u>\$ 25,080,739</u>	<u>\$ 22,118,653</u>	<u>\$ 47,199,392</u>	<u>\$ 1,315,059</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Activities  
For the Year Ending June 30, 2010

<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	\$ 2,880,969	\$ 279,053	\$ 1,298,864	\$ 4,941
Public safety	3,520,520	-	47,921	49,079
Public works	1,270,954	-	-	-
Health and welfare	28,293	-	-	-
Culture and recreation	1,494,660	5,004	166,302	36,033
Conservation and development	64,968	-	-	-
<i>Total governmental activities</i>	<u>9,260,364</u>	<u>284,057</u>	<u>1,513,087</u>	<u>90,053</u>
<b>Business-type Activities:</b>				
Capital Projects repair and replace water lines	-	-	-	-
Solid Waste	1,377,457	1,665,293	-	-
Water & Wastewater	2,390,518	2,068,387	-	156,948
Ambulance	359,712	440,318	-	144
<i>Total business type activities</i>	<u>4,127,687</u>	<u>4,173,998</u>	<u>-</u>	<u>157,092</u>
<i>Total primary government</i>	<u>\$ 13,388,051</u>	<u>\$ 4,458,055</u>	<u>\$ 1,513,087</u>	<u>\$ 247,145</u>
<b>Component Unit:</b>				
Housing Authority	<u>\$ 380,694</u>	<u>\$ 118,189</u>	<u>\$ 114,813</u>	<u>\$ 115,268</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  
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>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>	<b>Housing Authority</b>
\$ (1,298,111)	\$ -	\$ (1,298,111)	\$ -
(3,423,520)	-	(3,423,520)	-
(1,270,954)	-	(1,270,954)	-
(28,293)	-	(28,293)	-
(1,287,321)	-	(1,287,321)	-
(64,968)	-	(64,968)	-
<u>(7,373,167)</u>	<u>-</u>	<u>(7,373,167)</u>	<u>-</u>
-	-	-	-
-	287,836	287,836	-
-	(165,183)	(165,183)	-
-	80,750	80,750	-
<u>-</u>	<u>203,403</u>	<u>203,403</u>	<u>-</u>
<u>(7,373,167)</u>	<u>203,403</u>	<u>(7,169,764)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,424)</u>
293,027	-	293,027	-
4,522,184	-	4,522,184	-
186,844	-	186,844	-
197,562	-	197,562	-
21,001	-	21,001	-
45,986	-	45,986	-
40,641	-	40,641	-
195,615	-	195,615	-
3,325	4,843	8,168	956
164,629	46,493	211,122	8,342
(1,067)	-	(1,067)	-
417,471	(400,000)	17,471	-
<u>6,087,218</u>	<u>(348,664)</u>	<u>5,738,554</u>	<u>9,298</u>
(1,285,949)	(145,261)	(1,431,210)	(23,126)
25,328,934	12,208,904	37,537,838	1,306,779
<u>25,328,934</u>	<u>12,208,904</u>	<u>37,537,838</u>	<u>1,306,779</u>
<u>\$ 24,042,985</u>	<u>\$ 12,063,643</u>	<u>\$ 36,106,628</u>	<u>\$ 1,283,653</u>

**STATE OF NEW MEXICO**

City of Lovington  
Balance Sheet  
Governmental Funds  
June 30, 2010

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 540,103	\$ 59,295	\$ 599,398
Investments	437,000	30,228	467,228
Receivables:			
Taxes	900,779	36,346	937,125
Intergovernmental	72,082	12,573	84,655
Other receivables	424	992	1,416
Inventory	145,475	-	145,475
Due from other funds	30,909	122,005	152,914
	<u>2,126,772</u>	<u>261,439</u>	<u>2,388,211</u>
<i>Total assets</i>			
<i>Liabilities</i>			
Accounts payable	246,658	20,003	266,661
Accrued payroll expenses	142,807	-	142,807
Deferred revenue	13,848	-	13,848
Due to other funds	379,223	35,597	414,820
	<u>782,536</u>	<u>55,600</u>	<u>838,136</u>
<i>Total liabilities</i>			
<i>Fund balances</i>			
Reserved for debt service	692,691	-	692,691
Unreserved, reported in:			
General fund	651,545	-	651,545
Special revenue	-	205,839	205,839
	<u>1,344,236</u>	<u>205,839</u>	<u>1,550,075</u>
<i>Total fund balances</i>			
<i>Total liabilities and fund balances</i>	<u>\$ 2,126,772</u>	<u>\$ 261,439</u>	<u>\$ 2,388,211</u>

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, 2010

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

Fund balances - total governmental funds	\$ 1,550,075
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.	24,824
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,067,551
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds: Deferred property taxes	13,848
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>(613,313)</u>
Total net assets	<u><u>\$ 24,042,985</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, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
<i>Revenues</i>			
Taxes:			
Property	\$ 289,617	\$ -	\$ 289,617
Gross receipts	4,522,184	-	4,522,184
Gasoline and motor vehicle	17,955	168,889	186,844
Other	211,545	93,645	305,190
Intergovernmental:			
Federal operating grants	950	16,429	17,379
Federal capital grants	-	21,071	21,071
State operating grants	1,297,490	231,399	1,528,889
State capital grants	19,903	15,279	35,182
Charges for services	8,272	5,004	13,276
Licenses and fees	203,756	67,025	270,781
Fines, forfeitures, and penalties	195,615	-	195,615
Investment income	2,881	31	2,912
Miscellaneous	148,943	16,148	165,091
<i>Total revenues</i>	<u>6,919,111</u>	<u>634,920</u>	<u>7,554,031</u>
<i>Expenditures</i>			
Current:			
General government	2,654,183	82,130	2,736,313
Public safety	2,985,530	133,834	3,119,364
Public works	371,547	172,227	543,774
Health and welfare	-	15,279	15,279
Culture and recreation	1,140,221	62,350	1,202,571
Conservation and development	66,878	-	66,878
Capital outlay	905,676	115,684	1,021,360
<i>Total expenditures</i>	<u>8,124,035</u>	<u>581,504</u>	<u>8,705,539</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,204,924)</u>	<u>53,416</u>	<u>(1,151,508)</u>
<i>Other financing sources (uses)</i>			
Transfers in	623,144	11,000	634,144
Transfers (out)	(11,000)	(205,673)	(216,673)
<i>Total other financing sources (uses)</i>	<u>612,144</u>	<u>(194,673)</u>	<u>417,471</u>
<i>Net change in fund balances</i>	(592,780)	(141,257)	(734,037)
<i>Fund balances - beginning of year</i>	<u>1,937,016</u>	<u>347,096</u>	<u>2,284,112</u>
<i>Fund balances - end of year</i>	<u>\$ 1,344,236</u>	<u>\$ 205,839</u>	<u>\$ 1,550,075</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, 2010

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

Net change in fund balances - total governmental funds	\$ (734,037)
<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>	
	(45,878)
<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	1,021,360
Depreciation expense	(1,601,380)
(Gain) loss on sale	(1,067)
<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	3,410
<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>	
Decrease in compensated absences	71,643
Change in net assets of governmental activities	\$ (1,285,949)

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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, 2010

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
<i>Revenues</i>				
Taxes:				
Property	\$ 277,440	\$ 277,440	\$ 289,789	\$ 12,349
Gross receipts	5,400,000	5,400,000	4,435,507	(964,493)
Gasoline and motor vehicle	18,000	18,000	17,955	(45)
Other	262,961	262,961	203,609	(59,352)
Intergovernmental:				
Federal operating grants	39,759	39,759	950	(38,809)
Federal capital grants	-	-	-	-
State operating grants	555,000	555,000	1,243,366	688,366
State capital grants	3,000	3,000	14,962	11,962
Charges for services	4,000	4,000	8,272	4,272
Licenses and fees	196,845	196,845	205,040	8,195
Fines, forfeitures, and penalties	230,375	230,375	213,815	(16,560)
Investment income	8,000	8,000	2,881	(5,119)
Miscellaneous	97,200	97,200	163,236	66,036
<i>Total revenues</i>	<u>7,092,580</u>	<u>7,092,580</u>	<u>6,799,382</u>	<u>(293,198)</u>
<i>Expenditures</i>				
Current:				
General government	2,345,516	2,541,775	2,541,268	507
Public safety	3,382,430	3,106,400	3,106,145	255
Public works	543,362	547,620	547,490	130
Health and welfare	-	-	-	-
Culture and recreation	1,400,611	1,167,183	1,165,822	1,361
Conservation and development	94,799	69,395	69,094	301
Capital outlay	229,638	603,713	603,709	4
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>7,996,356</u>	<u>8,036,086</u>	<u>8,033,528</u>	<u>2,558</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(903,776)</u>	<u>(943,506)</u>	<u>(1,234,146)</u>	<u>(290,640)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	378,776	418,506	-	418,506
Transfers in	560,000	560,000	623,144	1,183,144
Transfers out	(35,000)	(35,000)	(11,000)	24,000
<i>Total other financing sources (uses)</i>	<u>903,776</u>	<u>943,506</u>	<u>612,144</u>	<u>1,625,650</u>
<i>Net change in fund balances</i>	-	-	(622,002)	1,335,010
<i>Fund balances - beginning of year</i>	-	-	1,250,791	1,250,791
<i>Fund balances</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,789</u>	<u>\$ 2,585,801</u>
Net change in fund balance (Non-GAAP)				\$ (622,002)
Adjustments to revenue for property taxes, gross receipt taxes, state grants, and other revenues				119,729
Adjustments to expenditures for general government, public safety, public works, and culture and rec.				(90,507)
Net change in fund balance (GAAP budgetary basis)				<u>\$ (592,780)</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, 2010

	<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	\$ 60,150	\$ 2,796,432	\$ -
Investments	-	-	-
Accounts receivable	6,000	604,687	10,087
Prepays	-	-	-
Inventory	-	70,847	22,336
Due from other funds	700,386	-	269,311
<i>Total current assets</i>	<u>766,536</u>	<u>3,471,966</u>	<u>301,734</u>
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	295,408	-
Capital assets	168,305	28,010,178	603,854
Accumulated depreciation	(142,260)	(10,291,837)	(357,040)
<i>Total noncurrent assets</i>	<u>26,045</u>	<u>18,013,749</u>	<u>246,814</u>
<i>Total Assets</i>	<u><u>792,581</u></u>	<u><u>21,485,715</u></u>	<u><u>548,548</u></u>
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	132,121	14,628	3,364
Accrued expenses	-	13,812	-
Accrued interest	-	95,206	-
Accrued compensated absences	-	47,989	-
Due to other funds	-	708,191	-
Current portion of notes payable	-	381,966	-
<i>Total current liabilities:</i>	<u>132,121</u>	<u>1,261,792</u>	<u>3,364</u>
<i>Total current liabilities</i>	<u>132,121</u>	<u>1,261,792</u>	<u>3,364</u>
<i>Noncurrent liabilities</i>			
Notes payable	-	9,045,794	-
Accrued compensated absences	-	24,722	-
Customer deposits	-	295,408	-
<i>Total noncurrent liabilities</i>	<u>-</u>	<u>9,365,924</u>	<u>-</u>
<i>Total liabilities</i>	<u>132,121</u>	<u>10,627,716</u>	<u>3,364</u>
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	26,045	8,290,581	246,814
Restricted net assets	-	-	-
Unrestricted net assets	634,415	2,567,418	298,370
<i>Total net assets</i>	<u>660,460</u>	<u>10,857,999</u>	<u>545,184</u>
<i>Total Liabilities and Net Assets</i>	<u><u>\$ 792,581</u></u>	<u><u>\$ 21,485,715</u></u>	<u><u>548,548</u></u>

The accompanying notes are an integral part of these financial statements

Total	Internal Service funds
\$ 2,856,582	\$ 39,396
-	-
620,774	-
-	-
93,183	-
969,697	-
<u>4,540,236</u>	<u>39,396</u>
295,408	-
28,782,337	-
(10,791,137)	-
<u>18,286,608</u>	<u>-</u>
<u>22,826,844</u>	<u>39,396</u>
150,113	14,572
13,812	-
95,206	-
47,989	-
708,191	-
381,966	-
<u>1,397,277</u>	<u>14,572</u>
<u>1,397,277</u>	<u>14,572</u>
9,045,794	-
24,722	-
295,408	-
<u>9,365,924</u>	<u>-</u>
<u>10,763,201</u>	<u>14,572</u>
8,563,440	-
-	-
<u>3,500,203</u>	<u>24,824</u>
<u>12,063,643</u>	<u>24,824</u>
<u>\$ 22,826,844</u>	<u>\$ 39,396</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, 2010

	Solid Waste	Water & Wastewater	Non-Major Funds
<i>Operating revenues:</i>			
Charges for services	\$ 1,665,293	\$ 2,068,387	\$ 440,310
<i>Total operating revenues</i>	<u>1,665,293</u>	<u>2,068,387</u>	<u>440,310</u>
<i>Operating expenses:</i>			
Personnel services	45,246	853,319	87,552
Contractual services	1,306,787	34,164	20,043
Supplies	3,107	133,023	40,390
Maintenance and materials	392	160,192	115,280
Utilities	14,523	113,529	-
Depreciation	3,449	957,941	71,947
Miscellaneous	3,953	249,326	24,500
<i>Total operating expenses</i>	<u>1,377,457</u>	<u>2,501,494</u>	<u>359,712</u>
<i>Operating income (loss)</i>	<u>287,836</u>	<u>(433,107)</u>	<u>80,598</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	-	4,843	-
Interest expense	-	110,976	-
Gross receipts and other taxes	-	-	-
Miscellaneous	2,542	43,956	152
<i>Total non-operating revenues (expenses)</i>	<u>2,542</u>	<u>159,775</u>	<u>152</u>
Federal capital grants	-	156,943	-
Transfers out	-	(400,000)	-
<i>Capital grants and net transfers</i>	<u>-</u>	<u>(243,057)</u>	<u>-</u>
<i>Change in net assets</i>	<u>290,378</u>	<u>(516,389)</u>	<u>80,750</u>
<i>Net assets, beginning of year</i>	<u>370,082</u>	<u>11,374,388</u>	<u>464,434</u>
<i>Net assets, end of year</i>	<u>\$ 660,460</u>	<u>\$ 10,857,999</u>	<u>\$ 545,184</u>

The accompanying notes are an integral part of these financial statements

<u>Total</u>	<u>Internal Service fund</u>
\$ 4,173,990	\$ -
<u>4,173,990</u>	<u>-</u>
986,117	-
1,360,994	-
176,520	-
275,864	-
128,052	-
1,033,337	-
<u>277,779</u>	<u>46,448</u>
<u>4,238,663</u>	<u>46,448</u>
<u>(64,673)</u>	<u>(46,448)</u>
-	-
-	-
4,843	413
110,976	-
-	-
<u>46,650</u>	<u>157</u>
<u>162,469</u>	<u>570</u>
156,943	-
<u>(400,000)</u>	<u>-</u>
<u>(243,057)</u>	<u>-</u>
<u>(145,261)</u>	<u>(45,878)</u>
<u>12,208,904</u>	<u>70,702</u>
<u>\$ 12,063,643</u>	<u>\$ 24,824</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2010

	<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	\$ 1,659,293	\$ 2,082,651	\$ 430,223
Cash payments to employees for services	(45,735)	(1,106,580)	(102,074)
Cash payments to suppliers for goods and services	(1,311,456)	(815,926)	(204,369)
<i>Net cash provided (used) by operating activities</i>	<u>302,102</u>	<u>160,145</u>	<u>123,780</u>
<i>Cash flows from noncapital financing activities:</i>			
Miscellaneous income	2,542	43,956	152
Change in noncurrent accrued compensated absences	-	-	(28,450)
Internal transfers and loans	(304,669)	(91,990)	24,744
<i>Net cash provided (used) by noncapital financing activities:</i>	<u>(302,127)</u>	<u>(48,034)</u>	<u>(3,554)</u>
<i>Cash flows from capital and related financing activities:</i>			
Capital grants	-	156,943	-
Acquisition of capital assets	-	(80,780)	(120,226)
Principal paid on capital debt	-	(74,606)	-
Proceeds from debt issuance	-	507,061	-
Interest paid on capital debt	-	110,976	-
<i>Net cash provided (used) by capital and related financing activities:</i>	<u>-</u>	<u>619,594</u>	<u>(120,226)</u>
<i>Cash flows from investing activities:</i>			
Interest on investments	-	4,843	-
<i>Net cash provided by (used) from investing activities</i>	<u>-</u>	<u>4,843</u>	<u>-</u>
<i>Net increase in cash and cash equivalents</i>	(25)	736,548	-
<i>Cash and cash equivalents - beginning of year</i>	<u>60,175</u>	<u>2,355,292</u>	<u>-</u>
<i>Cash and cash equivalents - end of year</i>	<u>60,150</u>	<u>3,091,840</u>	<u>-</u>
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	287,836	(433,107)	80,598
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	3,449	957,941	71,947
Changes in assets and liabilities			
Receivables	(6,000)	(31,887)	(10,087)
Inventory	-	(7,679)	(1,658)
Prepaid expenses	-	-	-
Accounts payable	17,306	(118,013)	(2,498)
Accrued payroll expenses	(489)	(231,764)	(2,734)
Accrued compensated absences	-	(21,497)	(11,788)
Customer deposits	-	46,151	-
<i>Net cash (used) by operating activities</i>	<u>\$ 302,102</u>	<u>\$ 160,145</u>	<u>\$ 123,780</u>

The accompanying notes are an integral part of these financial statements



<u>Total</u>	<u>Internal Service funds</u>
\$ 4,172,167	\$ -
(1,254,389)	-
<u>(2,331,751)</u>	<u>(31,876)</u>
<u>586,027</u>	<u>(31,876)</u>
46,650	157
(28,450)	-
<u>(371,915)</u>	<u>-</u>
	-
<u>(353,715)</u>	<u>157</u>
156,943	-
(201,006)	-
(74,606)	-
507,061	-
<u>110,976</u>	<u>413</u>
499,368	413
4,843	-
<u>4,843</u>	<u>-</u>
736,523	(31,306)
<u>2,415,467</u>	<u>70,702</u>
<u>3,151,990</u>	<u>39,396</u>
(64,673)	(46,448)
1,033,337	-
(47,974)	-
(9,337)	-
-	-
(103,205)	14,572
(234,987)	-
(33,285)	-
<u>46,151</u>	<u>-</u>
<u>\$ 586,027</u>	<u>\$ (31,876)</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2010

Exhibit E-1

<i>Current Assets</i>	
Cash and cash equivalents	\$ 25,574
Due from other governmental activities	12,228
Due from other funds	<u>401</u>
<i>Total assets</i>	<u><u>\$ 38,203</u></u>
<i>Current Liabilities</i>	
Deposits held and due to others	<u>\$ 38,203</u>
<i>Total liabilities</i>	<u><u>\$ 38,203</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, 2010

**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, 2010

**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, 2010

**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, 2010

**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 two proprietary funds as major funds and also reports an internal service funds:

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.

*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.

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.

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, 2010

**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, 2010

**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, 2010

**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>
Infrastructure	20 yrs – 30 yrs
Building and improvements	40 yrs – 50 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, 2010

**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, 2010

**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:

Budgeted Funds:	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
	General Fund	\$ (903,776)
Nonmajor Governmental Funds	\$ 240,896	\$ 6,022

	Change in Net Assets	
	Original Budget	Final Budget
	Water & Wastewater Fund	\$ 347,912
Ambulance Fund	\$ (95,296)	\$ (37,861)
Solid Waste Fund	\$ (53,874)	\$ 4,184
Internal Service Funds	\$ 7,280	\$ 24,962

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, 2010 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, 2010.

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.

**STATE OF NEW MEXICO**  
City of Lovington  
Notes to Financial Statements  
June 30, 2010

**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 negotiable order of withdrawal (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 (TAG) Program, that provides depositors' with unlimited coverage through December 31, 2010, for insured depository institutions (IDIs) currently participating in the TAG program, with the possibility of an additional extension of up to 12 months without additional rulemaking, upon a determination by the FDIC's Board of Directors that continuing economic difficulties warrant further extension. With regards to this Transaction 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 program, are low-interest NOW accounts that cannot earn more than 0.5% interest.

**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, 2010, \$2,643,667 of the City's bank balances of \$4,322,018 was exposed to custodial credit risk. \$1,375,317 was uninsured and collateralized. \$1,268,350 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	\$ 394,784	\$ 843,999	\$ 3,071,007	\$ 12,228	\$ 4,322,018
Transaction Account Guarantee Program	-	(744,123)	-	-	(744,123)
FDIC Coverage	(250,000)	(342,000)	(330,000)	(12,228)	(934,228)
Total uninsured public funds	144,784	(242,124)	2,741,007	-	2,643,667
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	144,784	(242,124)	1,365,690	-	1,268,350
Uninsured and uncollateralized	\$ -	\$ -	\$ 1,375,317	\$ -	\$ 1,375,317
Collateral requirement (50% of uninsured funds)	\$ 72,392	\$ (121,062)	\$ 1,370,504	\$ -	\$ 1,321,834
Pledged Collateral	310,260	225,500	1,365,690	-	1,901,450
Over (Under) collateralized	\$ 237,868	\$ 346,562	\$ (4,814)	\$ -	\$ 579,617

**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

***Primary Government Investments***

The City invests excess cash in the New MexiGROW Local Government Investment Pool’s (LGIP). The (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.1 A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

The City’s investment at June 30, 2010 consists of the following:

<u>Investments</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
LGIP	46 Days	\$ 343,000	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.

**Interest Rate Risk – Investments.** The City does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

**Concentration of Credit Risk – Investments.** For an investment, concentration credit risk is when any one issuer is 5% or more of the investment portfolio of the City. The investments in the New MexiGROW LGIP 66% of the investment portfolio. Since the City only purchase investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the City. The City’s policy related to concentration credit risk is to comply with the state statute as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978).

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

*Reconciliation to the Statement of Net Assets*

Cash and cash equivalents - Governmental Activities per Exhibit A-1	\$ 638,794
Investments - Governmental Activities per Exhibit A-1	467,228
Cash and cash equivalents - Business-type Activities per Exhibit A-1	3,151,990
Cash and cash equivalents - Statement of Fiduciary Assets and Liabilities per Exhibit E-1	<u>25,574</u>
 Total cash and cash equivalents and investments	 <u>4,283,586</u>
 Add: Outstanding checks and other reconciling items	 537,640
Less: deposits in transit and other reconciling items	(155,558)
Less: investments held in New Mexico State Treasurer's LGIP	(343,000)
Less: petty cash	<u>(650)</u>
 Bank balance of deposits	 <u>\$ 4,322,018</u>

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

**STATE OF NEW MEXICO**  
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**NOTE 4. RECEIVABLES**

The City's receivables as of June 30, 2010, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Property taxes	\$ 24,419	\$ -	\$ -	\$ 24,419
Other taxes:				
Gross receipts taxes	819,934	-	-	819,934
Franchise taxes	56,426	4,283	-	60,709
Gasoline and oil taxes	-	28,860	-	28,860
Lodger's taxes	-	3,203	-	3,203
Other receivables:				
Licenses and fees	-	-	-	-
Intergovernmental-grants:				
State	72,082	12,573	6,000	90,655
Federal	-	-	-	-
Miscellaneous	424	992	10,087	11,503
Total Governmental Activities	<u>973,285</u>	<u>49,911</u>	<u>16,087</u>	<u>1,039,283</u>
Business-Type Activities				
Receivables from customers				
Water and Waste Water	-	-	678,429	678,429
Allowance for uncollectable amounts	<u>-</u>	<u>-</u>	<u>(73,742)</u>	<u>(73,742)</u>
Total Business Type Activities	<u>-</u>	<u>-</u>	<u>604,687</u>	<u>604,687</u>
Totals by category	<u>\$ 973,285</u>	<u>\$ 49,911</u>	<u>\$ 620,774</u>	<u>\$ 1,643,970</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:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Senior Citizens Fund	\$ 205,673
Recreation Fund	General Fund	11,000
General Fund	Water & Wastewater Fund	400,000
General Fund	Agency Funds	17,471
		<u>\$ 634,144</u>

Internal balances have primarily been recorded when funds overdraw their share of pooled cash. The composition of interfund balances as of June 30, 2010 is as follows:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
Solid Waste	Water & Wastewater	\$ 700,386
Non Major Funds	Water & Wastewater	7,805
Non Major Funds	General Fund	414,820
		<u>\$ 1,123,011</u>

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



**STATE OF NEW MEXICO**  
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**NOTE 6. CAPITAL ASSETS**

A summary of capital assets and changes occurring during the year ended June 30, 2010, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land is not subject to depreciation.

*Government Activities*

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2010</b>
Capital assets not being depreciated:				
Land	\$ 133,319	\$ -	\$ -	\$ 133,319
Construction in progress	-	787,870	-	787,870
Total capital assets not being depreciated	<u>133,319</u>	<u>787,870</u>	<u>-</u>	<u>921,189</u>
Capital assets being depreciated:				
Infrastructure	17,562,134	-	-	17,562,134
Buildings and improvements	11,403,894	42,849	-	11,446,743
Machinery and Equipment	4,060,139	81,317	6,362	4,135,094
Vehicles	2,427,258	109,324	70,128	2,466,454
Total capital assets being depreciated	<u>35,453,425</u>	<u>233,490</u>	<u>76,490</u>	<u>35,610,425</u>
Less accumulated depreciation:				
Infrastructure	5,146,425	782,343	-	5,928,768
Buildings and improvements	4,118,459	349,732	-	4,468,191
Equipment	1,681,372	278,526	6,362	1,953,536
Vehicles	991,850	190,779	69,061	1,113,568
Total accumulated depreciation	<u>11,938,106</u>	<u>1,601,380</u>	<u>75,423</u>	<u>13,464,063</u>
Total capital assets, net of depreciation	<u>\$ 23,648,638</u>	<u>\$ (580,020)</u>	<u>\$ (1,067)</u>	<u>\$ 23,067,551</u>

**STATE OF NEW MEXICO**  
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June 30, 2010

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

*Business-type Activities*

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2010</b>
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Total capital assets not being depreciated	<u>750</u>	<u>-</u>	<u>-</u>	<u>750</u>
Capital assets being depreciated:				
Buildings and improvements	23,930,465	7,474	-	23,937,939
Machinery and equipment	3,792,055	73,306	-	3,865,361
Vehicles	876,228	120,226	18,167	978,287
Total capital assets being depreciated	<u>28,598,748</u>	<u>201,006</u>	<u>18,167</u>	<u>28,781,587</u>
Less accumulated depreciation:				
Buildings and improvements	8,298,194	634,371	-	8,932,565
Machinery and equipment	1,034,748	279,460	-	1,314,208
Vehicles	443,025	119,506	18,167	544,364
Total accumulated depreciation	<u>9,775,967</u>	<u>1,033,337</u>	<u>18,167</u>	<u>10,791,137</u>
Total capital assets, net of depreciation	<u>\$ 18,823,531</u>	<u>\$ (832,331)</u>	<u>\$ -</u>	<u>\$ 17,991,200</u>

*Depreciation expense*

Depreciation expense for the year ended June 30, 2010 was charged to the following functions:

General government	\$ 174,739
Public safety	248,889
Public works	778,599
Culture and recreation	386,139
Health and welfare	13,014
Total governmental activities	<u>\$ 1,601,380</u>
Business type activities	
Solid waste	\$ 3,449
Water and wastewater	957,941
Ambulance	71,947
Total business type activities	<u>\$ 1,033,337</u>

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

***Governmental Activities***

During the year ended June 30, 2010, the following changes occurred in the liabilities reported in the government-wide statement of net assets:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
Compensated Absences	\$ 684,956	\$ 226,719	\$ 298,362	\$ 613,313	\$ 263,725

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

***Business-Type Activities***

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
NMFA Loan - Drinking Water					
State Revolving Loan	3,505,305	29,695	-	3,535,000	134,015
NMED Loan - Clean Water					
State Revolving Loan	5,490,000	323,966		5,813,966	239,283
NM Water Trust Board	153,400	-	74,606	78,794	8,668
Compensated Absences	134,446	26,635	88,370	72,711	47,989
<b>Total Long-Term Debt</b>	<b>\$ 9,283,151</b>	<b>\$ 380,296</b>	<b>\$ 162,976</b>	<b>\$ 9,500,471</b>	<b>\$ 429,955</b>

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

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, 2010, \$5,813,966 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, 2010, including interest payments are as follows:

**Note - NMED Wastewater**

Fiscal Year Ending June 30,	Principal	Interest	Admin Fee	Total Debt Service
2011	239,284	90,954	25,326	355,564
2012	244,069	87,210	24,283	355,562
2013	248,952	83,392	23,220	355,564
2014	253,930	79,498	22,136	355,564
2015	259,008	75,525	21,030	355,563
2016-2020	1,374,848	315,201	87,766	1,777,815
2021-2025	1,517,943	203,272	56,600	1,777,815
2026-2030	1,675,932	79,693	22,190	1,777,815
2031-2035	-	-	-	-
	<u>\$ 5,813,966</u>	<u>\$ 1,014,745</u>	<u>\$ 282,551</u>	<u>\$ 7,111,262</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, 2010 \$3,505,305 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, 2010, 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>

**STATE OF NEW MEXICO**  
City of Lovington  
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**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 09. 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 10. 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, 2010, 2009, and 2008 were approximately \$226,354, \$227,891, and \$214,383, respectively, which equal the amount of the required contributions for all years.

**NOTE 11. 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, 2010 was \$74,777 and \$104,775 respectively. The assets and liabilities are held in trust by Hartgraves Insurance.

**STATE OF NEW MEXICO**  
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June 30, 2010

**NOTE 12. 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 13. 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 14. 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, 2010, 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 15. 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 funds reflected a deficit fund balance as of June 30, 2010:

Fire Protection Fund Special Revenue fund	\$ 952
	<u>\$ 952</u>

B. Excess of expenditures over budgeted amounts. The following funds exceeded approved budgetary authority for the year ended June 30, 2010:

Solid Waste Proprietary Fund	\$ 16,536
Unemployment Compensation Internal Service Fund	<u>20,305</u>
	<u>\$ 36,841</u>

C. There Designated cash appropriations in excess of available balances. The following fund exceeded approved budgetary authority for the year ended June 30, 2010:

Recreation Special Revenue Fund	\$ 1,434
Total Governmental Funds	<u>\$ 1,434</u>

**STATE OF NEW MEXICO**  
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**NOTE 16. NET ASSETS**

The government-wide statement of net assets reports \$337,674 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 17. 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 2009- 2010

Fiscal agent – None

Audit Responsibility- None

**NOTE 18. SUBSEQUENT EVENT**

**LGIP Investment in the Reserve Primacy Fund**

The New Mexico State Treasurer's Office invested a portion of the LGIP in The Reserve Primary Fund ("the Fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, The Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen.

On July 15, 2010, the Reserve announced that it will begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of approximately \$215 million, represents approximately 67% of the Fund's remaining asset value of \$323 million as of the close of business on July 9, 2010. Including this seventh distribution, \$50.7 billion of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. There is \$108 million still remaining with the Reserve at this time and the STO has no information about timing nor amounts of potential future distributions. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from The Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date.



**SUPPLEMENTARY INFORMATION**

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**NONMAJOR GOVERNMENTAL FUNDS**

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Fund Descriptions  
June 30, 2010

**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**  
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**AGENCY FUNDS**

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

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

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

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

Municipal Court Bond Fund – to account for fees collected for fines that are remitted to the State of New Mexico for judicial education and court automation.

Lovington Fire Department Fund - to account for monies donated to the Lovington Fire Department to purchase equipment.

Teen Fund - to account for monies collected from fund raising for the youth programs.

**STATE OF NEW MEXICO**  
City of Lovington  
Nonmajor Governmental Funds  
Combining Balance Sheet  
For the Year Ended June 30, 2010

Special Revenue

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforcement Protection</u>
<i>Assets</i>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Intergovernmental receivables	-	-	-	-
Other receivables	-	-	-	-
Inventory	-	-	-	-
Due from other funds	56,244	3	912	18,762
<i>Total assets</i>	<u>\$ 56,244</u>	<u>\$ 3</u>	<u>\$ 912</u>	<u>\$ 18,762</u>
<i>Liabilities</i>				
Accounts payable	\$ 3,046	\$ -	\$ 1,034	\$ -
Accrued payroll expenses	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	830	18,755
<i>Total liabilities</i>	<u>3,046</u>	<u>-</u>	<u>1,864</u>	<u>18,755</u>
<i>Fund balances</i>				
Unreserved, reported in:				
Special revenue	53,198	3	(952)	7
Debt service	-	-	-	-
<i>Total fund balances</i>	<u>53,198</u>	<u>3</u>	<u>(952)</u>	<u>7</u>
<i>Total liabilities and fund balances</i>	<u>\$ 56,244</u>	<u>\$ 3</u>	<u>\$ 912</u>	<u>\$ 18,762</u>

The accompanying notes are an integral part of these financial statements

Special Revenue

<u>Lodgers' Tax</u>	<u>Gasoline Tax</u>	<u>Recreation</u>	<u>Senior Citizens</u>	<u>Designated Franchise</u>	<u>Total Nonmajor Governmental Funds</u>
\$ (78)	\$ -	\$ 145	\$ 49,858	\$ 9,370	\$ 59,295
-	-	12,228	-	18,000	30,228
3,203	28,860	-	-	4,283	36,346
-	-	-	12,573	-	12,573
992	-	-	-	-	992
-	-	-	-	-	-
<u>12,569</u>	<u>14,022</u>	<u>3,423</u>	<u>16,070</u>	<u>-</u>	<u>122,005</u>
<u>\$ 16,686</u>	<u>\$ 42,882</u>	<u>\$ 15,796</u>	<u>\$ 78,501</u>	<u>\$ 31,653</u>	<u>\$ 261,439</u>
\$ 1,724	\$ -	\$ 14,199	\$ -	\$ -	\$ 20,003
-	-	-	-	-	-
-	-	-	-	-	-
753	13,242	-	-	2,017	35,597
<u>2,477</u>	<u>13,242</u>	<u>14,199</u>	<u>-</u>	<u>2,017</u>	<u>55,600</u>
14,209	29,640	1,597	78,501	29,636	205,839
-	-	-	-	-	-
<u>14,209</u>	<u>29,640</u>	<u>1,597</u>	<u>78,501</u>	<u>29,636</u>	<u>205,839</u>
<u>\$ 16,686</u>	<u>\$ 42,882</u>	<u>\$ 15,796</u>	<u>\$ 78,501</u>	<u>\$ 31,653</u>	<u>\$ 261,439</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, 2010

Special Revenue

	<u>Corrections</u>	<u>EMS Grant</u>	<u>Fire Protection</u>	<u>Law Enforcement Protection</u>
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gross receipts	-	-	-	-
Gasoline and motor vehicle	-	-	-	-
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	81,526	-
State capital grants	-	15,279	-	-
Charges for services	-	-	-	-
Licenses and fees	67,025	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>67,025</u>	<u>15,279</u>	<u>81,526</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	50,042	-	82,482	1,310
Public works	-	-	-	-
Health and welfare	-	15,279	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	32,485
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>50,042</u>	<u>15,279</u>	<u>82,482</u>	<u>33,795</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>16,983</u>	<u>-</u>	<u>(956)</u>	<u>(33,795)</u>
<i>Other financing sources (uses)</i>				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balances</i>	16,983	-	(956)	(33,795)
<i>Fund balances - beginning of year</i>	<u>36,215</u>	<u>3</u>	<u>4</u>	<u>33,802</u>
<i>Fund balances - end of year</i>	<u>\$ 53,198</u>	<u>\$ 3</u>	<u>\$ (952)</u>	<u>\$ 7</u>

The accompanying notes are an integral part of these financial statements



## Special Revenue

Lodger's Tax	Gasoline Tax	Recreation	Senior Citizens	Designated Franchise	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	168,889	-	-	-	168,889
45,986	-	7,018	-	40,641	93,645
-	-	-	16,429	-	16,429
-	-	-	21,071	-	21,071
-	-	-	149,873	-	231,399
-	-	-	-	-	15,279
-	-	5,004	-	-	5,004
-	-	-	-	-	67,025
-	-	-	-	-	-
-	-	-	-	31	31
-	-	1,126	15,022	-	16,148
<u>45,986</u>	<u>168,889</u>	<u>13,148</u>	<u>202,395</u>	<u>40,672</u>	<u>634,920</u>
-	-	-	-	82,130	82,130
-	-	-	-	-	133,834
-	172,227	-	-	-	172,227
-	-	-	-	-	15,279
40,484	-	21,866	-	-	62,350
-	83,199	-	-	-	115,684
-	-	-	-	-	-
-	-	-	-	-	-
<u>40,484</u>	<u>255,426</u>	<u>21,866</u>	<u>-</u>	<u>82,130</u>	<u>581,504</u>
<u>5,502</u>	<u>(86,537)</u>	<u>(8,718)</u>	<u>202,395</u>	<u>(41,458)</u>	<u>53,416</u>
-	-	11,000	-	-	11,000
-	-	-	(205,673)	-	(205,673)
-	-	11,000	(205,673)	-	(194,673)
5,502	(86,537)	2,282	(3,278)	(41,458)	(141,257)
8,707	116,177	(685)	81,779	71,094	347,096
<u>\$ 14,209</u>	<u>\$ 29,640</u>	<u>\$ 1,597</u>	<u>\$ 78,501</u>	<u>\$ 29,636</u>	<u>\$ 205,839</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Combining Statement of Net Assets  
Nonmajor Proprietary Funds  
June 30, 2010

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	10,087	-	10,087
Prepays	-	-	-
Inventory	22,336	-	22,336
Due from other funds	265,775	3,536	269,311
<i>Total current assets</i>	298,198	3,536	301,734
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	-	-
Capital assets	603,854	-	603,854
Accumulated depreciation	(357,040)	-	(357,040)
<i>Total noncurrent assets</i>	246,814	-	246,814
<i>Total Assets</i>	545,012	3,536	548,548
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	3,364	-	3,364
Accrued expenses	-	-	-
Accrued interest	-	-	-
Prepaid rent	-	-	-
Accrued compensated absences current portion	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Current portion of notes payable	-	-	-
<i>Total current liabilities (payable from current assets):</i>	3,364	-	3,364
<i>Current liabilities (payable from restricted assets)</i>			
Tenant deposits	-	-	-
<i>Total current liabilities (payable from restricted assets)</i>	-	-	-
<i>Total current liabilities</i>	3,364	-	3,364
<i>Noncurrent liabilities</i>			
Notes payable	-	-	-
Accrued compensated absences	-	-	-
Customer deposits	-	-	-
<i>Total noncurrent liabilities</i>	-	-	-
<i>Total liabilities</i>	3,364	-	3,364
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	246,814	-	246,814
Restricted net assets	-	-	-
Unrestricted net assets	294,834	3,536	298,370
<i>Total net assets</i>	541,648	3,536	545,184
<i>Total Liabilities and Net Assets</i>	\$ 545,012	\$ 3,536	\$ 548,548

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, 2010

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Operating revenues:</i>			
Charges for services	\$ 440,310	\$ -	\$ 440,310
<i>Total operating revenues</i>	<u>440,310</u>	<u>-</u>	<u>440,310</u>
<i>Operating expenses:</i>			
Personnel services	87,552	-	87,552
Contractual services	20,043	-	20,043
Supplies	40,390	-	40,390
Maintenance and materials	115,280	-	115,280
Utilities	-	-	-
Depreciation	71,947	-	71,947
Miscellaneous	24,500	-	24,500
<i>Total operating expenses</i>	<u>359,712</u>	<u>-</u>	<u>359,712</u>
<i>Operating income (loss)</i>	<u>80,598</u>	<u>-</u>	<u>80,598</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	-	-	-
Interest expense	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	152	-	152
<i>Total non-operating revenues (expenses)</i>	<u>152</u>	<u>-</u>	<u>152</u>
Federal capital grants	-	-	-
State capital grants	-	-	-
Gain (loss) on sale of capital assets	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	<u>80,750</u>	<u>-</u>	<u>80,750</u>
<i>Net assets, beginning of year</i>	460,898	3,536	464,434
<i>Net assets beginning as restated</i>	<u>460,898</u>	<u>3,536</u>	<u>464,434</u>
<i>Net assets, end of year</i>	<u>\$ 541,648</u>	<u>\$ 3,536</u>	<u>\$ 545,184</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, 2010

Statement B-3

	Ambulance	Capital Project Replace & Repair Water Lines	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ 430,223	\$ -	\$ 430,223
Cash payments to employees for services	(102,074)	-	(102,074)
Cash payments to suppliers for goods and services	(204,369)	-	(204,369)
<i>Net cash provided (used) by operating activities</i>	123,780	-	123,780
<i>Cash flows from noncapital financing activities:</i>			
Miscellaneous income	152	-	152
Change in noncurrent accrued compensated absences	(28,450)	-	(28,450)
Internal transfers and loans	24,744	-	24,744
<i>Net cash provided (used) by noncapital financing activities:</i>	(3,554)	-	(3,554)
<i>Cash flows from capital and related financing activities:</i>			
Acquisition of capital assets	(120,226)	-	(120,226)
<i>Net cash provided (used) by capital and related financing activities:</i>	(120,226)	-	(120,226)
<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)	80,598	-	80,598
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	71,947	-	71,947
Interest received in prior period not recorded	-	-	-
Changes in assets and liabilities			
Receivables	(10,087)	-	(10,087)
Inventory	(1,658)	-	(1,658)
Prepaid expenses	-	-	-
Accounts payable	(2,498)	-	(2,498)
Accrued payroll expenses	(2,734)	-	(2,734)
Current accrued compensated absences	(11,788)	-	(11,788)
Customer deposits	-	-	-
Prepaid rent	-	-	-
Deferred revenue	-	-	-
<i>Net cash (used) by operating activities</i>	\$ 123,780	\$ -	\$ 123,780

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- Proprietary Fund  
June 30, 2010

Statement C-1

	Unemployment Compensation	Pension	Total
<i>Assets</i>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 39,077	\$ 319	\$ 39,396
Investments	-	-	-
Accounts Receivable	-	-	-
Inventory	-	-	-
Due from other funds	-	-	-
<i>Total current assets</i>	39,077	319	39,396
<i>Noncurrent assets</i>			
Restricted cash and cash equivalents	-	-	-
Capital assets	-	-	-
Accumulated depreciation	-	-	-
<i>Total noncurrent assets</i>	-	-	-
<i>Total Assets</i>	39,077	319	39,396
<i>Liabilities and Net Assets</i>			
<i>Liabilities:</i>			
<i>Current liabilities</i>			
Accounts payable	14,572	-	14,572
Accrued payroll expenses	-	-	-
Accrued compensated absences current portion	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
Current portion of notes payable	-	-	-
<i>Total current liabilities</i>	14,572	-	14,572
<i>Noncurrent liabilities</i>			
Notes payable	-	-	-
Accrued compensated absences	-	-	-
Customer deposits	-	-	-
<i>Total noncurrent liabilities</i>	-	-	-
<i>Total liabilities</i>	14,572	-	14,572
<i>Net Assets:</i>			
Invested in capital assets, net of related debt	-	-	-
Restricted net assets	-	-	-
Unrestricted net assets	24,505	319	24,824
<i>Total net assets</i>	24,505	319	24,824
<i>Total Liabilities and Net Assets</i>	\$ 39,077	\$ 319	\$ 39,396

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- Proprietary Fund

For the Year Ended June 30, 2010

	Unemployment Compensation	Pension	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	46,767	(319)	46,448
<i>Total operating expenses</i>	<u>46,767</u>	<u>(319)</u>	<u>46,448</u>
<i>Operating income (loss)</i>	<u>(46,767)</u>	<u>319</u>	<u>(46,448)</u>
<i>Non-operating revenues (expenses):</i>			
Federal operating grants	-	-	-
State operating grants	-	-	-
Interest income	413	-	413
Interest expense	-	-	-
Gross receipts and other taxes	-	-	-
Miscellaneous	157	-	157
<i>Total non-operating revenues (expenses)</i>	<u>570</u>	<u>-</u>	<u>570</u>
Federal capital grants	-	-	-
State capital grants	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
<i>Capital grants and net transfers</i>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Change in net assets</i>	<u>(46,197)</u>	<u>319</u>	<u>(45,878)</u>
<i>Net assets, beginning of year</i>	<u>70,702</u>	<u>-</u>	<u>70,702</u>
<i>Net assets, end of year</i>	<u>\$ 24,505</u>	<u>\$ 319</u>	<u>\$ 24,824</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- Proprietary Fund  
For the Year Ended June 30, 2010

Statement C-3

	Unemployment Compensation	Pension	Total
<i>Cash flows from operating activities:</i>			
Cash received from user charges	\$ -	\$ -	\$ -
Cash payments to employees for services	-	-	-
Cash payments to suppliers for goods and services	(32,195)	319	(31,876)
<i>Net cash provided (used) by operating activities</i>	(32,195)	319	(31,876)
<i>Cash flows from noncapital financing activities:</i>			
Operating grants	-	-	-
Other taxes received	-	-	-
Miscellaneous income	157	-	157
Change in noncurrent accrued compensated absences	-	-	-
Internal transfers and loans	-	-	-
<i>Net cash provided (used) by noncapital financing activities:</i>	157	-	157
<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	413	-	413
<i>Net cash provided by (used) from investing activities</i>	413	-	413
<i>Net increase in cash and cash equivalents</i>	(31,625)	319	(31,306)
<i>Cash and cash equivalents - beginning of year</i>	70,702	-	70,702
<i>Cash and cash equivalents - end of year</i>	39,077	319	39,396
<i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>			
Operating income (loss)	(46,767)	319	(46,448)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:			
Depreciation	-	-	-
Changes in assets and liabilities			
Receivables	-	-	-
Inventory	-	-	-
Accounts payable	14,572	-	14,572
Accrued payroll expenses	-	-	-
Current accrued compensated absences	-	-	-
Meter deposits and other refundable deposits	-	-	-
Deferred revenue	-	-	-
<i>Net cash (used) by operating activities</i>	\$ (32,195)	\$ 319	\$ (31,876)

The accompanying notes are an integral part of these financial statements

## STATE OF NEW MEXICO

Statement D-1

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, 2010

	Budgeted Amounts		Actual	Variations
	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	55,000	55,000	67,025	12,025
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>55,000</u>	<u>55,000</u>	<u>67,025</u>	<u>12,025</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	55,000	55,000	50,566	4,434
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>55,000</u>	<u>55,000</u>	<u>50,566</u>	<u>4,434</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	16,459	16,459
<i>Other financing sources (uses)</i>				
Designated cash	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	-	-	16,459	16,459
<i>Fund balance - beginning of year</i>	-	-	39,785	39,785
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,244</u>	<u>\$ 56,244</u>
Net change in fund balance (Non-GAAP)				\$ 16,459
No adjustments				-
Adjustments to expenditures for public safety				524
Net change in fund balance (GAAP budgetary basis)				<u>\$ 16,983</u>

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, 2010

	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	26,300	26,300	15,279	(11,021)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>26,300</u>	<u>26,300</u>	<u>15,279</u>	<u>(11,021)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	19,300	19,300	15,279	4,021
Culture and recreation	-	-	-	-
Capital outlay	7,000	7,000	-	7,000
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>26,300</u>	<u>26,300</u>	<u>15,279</u>	<u>11,021</u>
<i>Excess (deficiency) of revenues over expenditures</i>	-	-	-	-
<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>	-	-	-	-
<i>Fund balance - beginning of year</i>	-	-	3	3
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>
Net change in fund balance (Non-GAAP)				\$ -
No adjustments				-
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<u>\$ -</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, 2010

	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	81,526	81,526	81,526	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>81,526</u>	<u>81,526</u>	<u>81,526</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	81,526	81,526	81,448	78
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>81,526</u>	<u>81,526</u>	<u>81,448</u>	<u>78</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>78</u>	<u>78</u>
<i>Other financing sources (uses)</i>				
Designated cash	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>78</u>	<u>78</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82</u>	<u>\$ 82</u>
Net change in fund balance (Non-GAAP)				\$ 78
No adjustments				-
Adjustments to expenditures for public safety				(1,034)
Net change in fund balance (GAAP budgetary basis)				<u>\$ (956)</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, 2010

	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	33,800	33,800	33,800	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>33,800</u>	<u>33,800</u>	<u>33,800</u>	<u>-</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	2,836	1,314	1,310	4
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	30,964	32,486	32,485	1
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>33,800</u>	<u>33,800</u>	<u>33,795</u>	<u>5</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>
<i>Other financing sources (uses)</i>				
Designated cash	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7</u>	<u>\$ 7</u>
Net change in fund balance (Non-GAAP)				\$ 5
Adjustments to revenue for state grants				(33,800)
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<u>\$ (33,795)</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, 2010

	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	50,000	50,000	46,543	(3,457)
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>50,000</u>	<u>50,000</u>	<u>46,543</u>	<u>(3,457)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	47,000	47,000	41,299	5,701
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>47,000</u>	<u>47,000</u>	<u>41,299</u>	<u>5,701</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>3,000</u>	<u>3,000</u>	<u>5,244</u>	<u>2,244</u>
<i>Other financing sources (uses)</i>				
Designated cash	(3,000)	(3,000)	-	3,000
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>	<u>3,000</u>
<i>Net change in fund balance</i>	-	-	5,244	5,244
<i>Fund balance - beginning of year</i>	-	-	6,494	6,494
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,738</u>	<u>\$ 11,738</u>
Net change in fund balance (Non-GAAP)				\$ 5,244
Adjustments to revenue for other income				(557)
Adjustments to expenditures for Culture and recreation				815
Net change in fund balance (GAAP budgetary basis)				<u>\$ 5,502</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, 2010

	Budgeted Amounts		Actual	Variations
	Original	Final	(Non-GAAP Budgetary Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Gasoline and motor vehicle	132,000	132,000	152,221	20,221
Other	-	-	-	-
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	58,685	58,685	-	(58,685)
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<b>190,685</b>	<b>190,685</b>	<b>152,221</b>	<b>(38,464)</b>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	78,246	263,164	263,164	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>78,246</b>	<b>263,164</b>	<b>263,164</b>	<b>-</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>112,439</b>	<b>(72,479)</b>	<b>(110,943)</b>	<b>(38,464)</b>
<i>Other financing sources (uses)</i>				
Designated cash	(112,439)	72,479	-	(72,479)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(112,439)</b>	<b>72,479</b>	<b>-</b>	<b>(72,479)</b>
<i>Net change in fund balance</i>	-	-	(110,943)	(110,943)
<i>Fund balance - beginning of year</i>	-	-	111,723	111,723
<i>Fund balance - end of year</i>	\$ -	\$ -	\$ 780	\$ 780
Net change in fund balance (Non-GAAP)				\$ (110,943)
Adjustments to revenue for gasoline and motor vehicle taxes				16,668
Adjustments to expenditures for public works				7,738
Net change in fund balance (GAAP budgetary basis)				\$ (86,537)

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, 2010

	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	7,000	7,000	7,018	18
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	400	400	5,004	4,604
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	400	400	1,126	726
<i>Total revenues</i>	<u>7,800</u>	<u>7,800</u>	<u>13,148</u>	<u>5,348</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	45,040	45,040	21,386	23,654
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>45,040</u>	<u>45,040</u>	<u>21,386</u>	<u>23,654</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(37,240)</u>	<u>(37,240)</u>	<u>(8,238)</u>	<u>29,002</u>
<i>Other financing sources (uses)</i>				
Designated cash	2,240	2,240	-	(2,240)
Transfers in	35,000	35,000	11,000	(24,000)
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>37,240</u>	<u>37,240</u>	<u>11,000</u>	<u>(26,240)</u>
<i>Net change in fund balance</i>	-	-	2,762	2,762
<i>Fund balance - beginning of year</i>	-	-	806	806
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,568</u>	<u>\$ 3,568</u>
Net change in fund balance (Non-GAAP)				\$ 2,762
No adjustments				-
Adjustments to expenditures for culture and recreation and capital outlay				(480)
Net change in fund balance (GAAP budgetary basis)				<u>\$ 2,282</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, 2010

	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	16,429	12,484
Federal capital grants	15,411	15,411	21,071	5,660
State operating grants	121,644	121,644	141,171	19,527
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	19,000	19,000	21,724	2,724
<i>Total revenues</i>	<u>160,000</u>	<u>160,000</u>	<u>200,395</u>	<u>40,395</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	19,970	19,970	-	19,970
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>19,970</u>	<u>19,970</u>	<u>-</u>	<u>19,970</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>140,030</u>	<u>140,030</u>	<u>200,395</u>	<u>60,365</u>
<i>Other financing sources (uses)</i>				
Designated cash	19,970	65,643	-	(65,643)
Transfers in	-	-	-	-
Transfers out	(160,000)	(205,673)	(205,673)	-
<i>Total other financing sources (uses)</i>	<u>(140,030)</u>	<u>(140,030)</u>	<u>(205,673)</u>	<u>(65,643)</u>
<i>Net change in fund balance</i>	-	-	(5,278)	(5,278)
<i>Fund balance - beginning of year</i>	-	-	71,206	71,206
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,928</u>	<u>\$ 65,928</u>
Net change in fund balance (Non-GAAP)				\$ (5,278)
Adjustments to revenue for federal grants				2,000
No adjustments				-
Net change in fund balance (GAAP budgetary basis)				<u>\$ (3,278)</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, 2010

	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	55,000	55,000	38,971	(16,029)
Intergovernmental:				
Federal operating grants	-	-	-	-
Federal capital grants	-	-	-	-
State operating grants	-	-	-	-
State capital grants	-	-	-	-
Charges for services	-	-	-	-
Licenses and fees	-	-	-	-
Investment income	250	600	31	(569)
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>55,250</u>	<u>55,600</u>	<u>39,002</u>	<u>(16,598)</u>
<i>Expenditures:</i>				
Current:				
General government	32,583	82,889	82,888	1
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>32,583</u>	<u>82,889</u>	<u>82,888</u>	<u>1</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>22,667</u>	<u>(27,289)</u>	<u>(43,886)</u>	<u>(16,597)</u>
<i>Other financing sources (uses)</i>				
Designated cash	(22,667)	27,289	-	(27,289)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(22,667)</u>	<u>27,289</u>	<u>-</u>	<u>(27,289)</u>
<i>Net change in fund balance</i>	-	-	(43,886)	(43,886)
<i>Fund balance - beginning of year</i>	-	-	51,239	51,239
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,353</u>	<u>\$ 7,353</u>
Net change in fund balance (Non-GAAP)				\$ (43,886)
Adjustments to revenue for other taxes				1,670
Adjustments to expenditures for general government				758
Net change in fund balance (GAAP budgetary basis)				<u>\$ (41,458)</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, 2010

	Budget Amounts		Actual (GAAP Budgetary Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 10,000	\$ 10,000	\$ 1,665,293	\$ 1,655,293
<i>Total operating revenues</i>	<u>10,000</u>	<u>10,000</u>	<u>1,665,293</u>	<u>1,655,293</u>
<i>Operating expenditures:</i>				
Personnel services	89,226	45,741	45,246	495
Contractual services	1,196,788	1,306,867	1,306,787	80
Supplies	3,000	1,420	3,107	(1,687)
Maintenance and materials	2,400	790	392	398
Utilities	800	878	14,523	(13,645)
Other operating expenditures	7,200	1,776	3,953	(2,177)
<i>Total operating expenditures</i>	<u>1,299,414</u>	<u>1,357,472</u>	<u>1,374,008</u>	<u>(16,536)</u>
<i>Operating income (loss)</i>	<u>(1,289,414)</u>	<u>(1,347,472)</u>	<u>291,285</u>	<u>1,638,757</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(53,874)	4,184	-	-
Interest income	900	900	-	(900)
Federal capital grants	-	-	-	-
Miscellaneous income	600	600	2,542	1,942
Interest expense	-	-	-	-
Transfers in	1,341,788	1,341,788	-	(1,341,788)
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>1,289,414</u>	<u>1,347,472</u>	<u>2,542</u>	<u>(1,340,746)</u>
<i>Change in net assets</i>	-	-	293,827	298,011
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>455,892</u>	<u>455,892</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 749,719</u>	<u>\$ 753,903</u>
Changes in net assets above			\$ 293,827	
Depreciation			<u>(3,449)</u>	
Change in net assets per Exhibit B-2			<u>\$ 290,378</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, 2010

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 3,453,800	\$ 3,453,800	\$ 2,068,387	\$ (1,385,413)
<i>Total operating revenues</i>	<u>3,453,800</u>	<u>3,453,800</u>	<u>2,068,387</u>	<u>(1,385,413)</u>
<i>Operating expenditures:</i>				
Personnel services	916,799	927,559	853,319	74,240
Contractual services	20,600	114,825	34,164	80,661
Supplies	235,000	235,000	133,023	101,977
Maintenance and materials	260,400	355,971	160,192	195,779
Utilities	164,000	164,000	113,529	50,471
Other operating expenditures	520,125	404,817	249,326	155,491
<i>Total operating expenditures</i>	<u>2,116,924</u>	<u>2,202,172</u>	<u>1,543,553</u>	<u>658,619</u>
<i>Operating income (loss)</i>	<u>1,336,876</u>	<u>1,251,628</u>	<u>524,834</u>	<u>(726,794)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	347,912	148,684	-	(148,684)
Interest income	8,000	8,000	4,843	(3,157)
Federal capital grants	-	-	156,943	156,943
Miscellaneous income	49,000	49,000	43,956	(5,044)
Interest expense	-	99,614	110,976	11,362
Transfers in	-	-	-	-
Transfers out	(1,741,788)	(1,556,926)	(400,000)	1,156,926
<i>Total other financing sources (uses)</i>	<u>(1,336,876)</u>	<u>(1,251,628)</u>	<u>(83,282)</u>	<u>1,168,346</u>
<i>Change in net assets</i>	-	-	441,552	441,552
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>1,955,111</u>	<u>1,955,111</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,396,663</u>	<u>\$ 2,396,663</u>
Changes in net assets above			\$ 441,552	
Depreciation			<u>(957,941)</u>	
Change in net assets per Exhibit B-2			<u>\$ (516,389)</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, 2010

	Budget Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	(GAAP Budgetary Basis)	Final to Actual
<i>Operating revenues:</i>				
Charges for services	\$ 493,000	\$ 493,000	\$ 440,310	\$ (52,690)
<i>Total operating revenues</i>	<u>493,000</u>	<u>493,000</u>	<u>440,310</u>	<u>(52,690)</u>
<i>Operating expenditures:</i>				
Personnel services	164,604	131,441	87,552	43,889
Contractual services	17,950	20,730	20,043	687
Supplies	40,000	40,079	40,390	(311)
Maintenance and materials	139,600	235,735	115,280	120,455
Utilities	-	-	-	-
Other operating expenditures	<u>35,550</u>	<u>27,154</u>	<u>24,500</u>	<u>2,654</u>
<i>Total operating expenditures</i>	<u>397,704</u>	<u>455,139</u>	<u>287,765</u>	<u>167,374</u>
<i>Operating income (loss)</i>	<u>95,296</u>	<u>37,861</u>	<u>152,545</u>	<u>114,684</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(95,296)	(37,861)	-	37,861
Interest income	-	-	-	-
Federal capital grants	-	-	-	-
Miscellaneous income	-	-	152	152
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(95,296)</u>	<u>(37,861)</u>	<u>152</u>	<u>38,013</u>
<i>Change in net assets</i>	-	-	152,697	152,697
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>290,519</u>	<u>290,519</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 443,216</u>	<u>\$ 443,216</u>
Changes in net assets above			\$ 152,697	
Depreciation			<u>(71,947)</u>	
Change in net assets per Exhibit B-2			<u>\$ 80,750</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, 2010

	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>	-	-	-	-
<i>Operating expenditures:</i>				
Personnel services	-	-	-	-
Contractual services	-	-	-	-
Supplies	-	-	-	-
Maintenance and materials	-	-	-	-
Utilities	-	-	-	-
Other operating expenditures	-	-	-	-
<i>Total operating expenditures</i>	-	-	-	-
<i>Operating income (loss)</i>	-	-	-	-
<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>	-	-	-	-
<i>Change in net assets</i>	-	-	-	-
<i>Total net assets, beginning of year</i>	-	-	3,536	3,536
<i>Net assets- end of year</i>	\$ -	\$ -	\$ 3,536	\$ 3,536
Changes in net assets above			\$ -	
Depreciation			-	
Change in net assets per Exhibit B-2			\$ -	

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 Fund Internal Service Fund  
 For the Year Ended June 30, 2010

	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	8,780	26,462	46,767	(20,305)
<i>Total operating expenditures</i>	<u>8,780</u>	<u>26,462</u>	<u>46,767</u>	<u>(20,305)</u>
<i>Operating income (loss)</i>	<u>(8,780)</u>	<u>(26,462)</u>	<u>(46,767)</u>	<u>(20,305)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	7,280	24,962	-	(24,962)
Interest income	-	-	413	413
Federal capital grants	1,500	1,500	157	(1,343)
Miscellaneous income	-	-	-	-
Interest expense	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>8,780</u>	<u>26,462</u>	<u>570</u>	<u>(25,892)</u>
<i>Change in net assets</i>	-	-	(46,197)	(46,197)
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>70,702</u>	<u>70,702</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,505</u>	<u>\$ 24,505</u>
Changes in net assets above			\$ (46,197)	
Depreciation			<u>-</u>	
Change in net assets per Exhibit B-2			<u>\$ (46,197)</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, 2010

	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	-	-	(319)	319
<i>Total operating expenditures</i>	<u>-</u>	<u>-</u>	<u>(319)</u>	<u>319</u>
<i>Operating income (loss)</i>	<u>-</u>	<u>-</u>	<u>319</u>	<u>319</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>	-	-	319	319
<i>Total net assets, beginning of year</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net assets- end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 319</u>	<u>\$ 319</u>
Changes in net assets above			\$ 319	
Depreciation			<u>-</u>	
Change in net assets per Exhibit B-2			<u>\$ 319</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, 2010

Schedule I

Name of Depository	Description of Pledged Collateral	Maturity	CUSIP Number	Fair Market Value at June 30, 2010	Location of Safekeeper
<b>Wells Fargo Bank</b>					
	FNMA # 256308	7/1/2036	31371MU96	\$ 52,939	San Francisco California
	FNMA #870643	10/1/2036	34109GP42	205,003	San Francisco California
	FNMA # 865021	12/1/2036	31410FSJ5	20,701	San Francisco California
	FNMA # 915969	4/1/2037	31411VT25	<u>31,617</u>	San Francisco California
	Total Wells Fargo Bank			<u>310,260</u>	
<b>Western Commerce Bank</b>					
	GNMA	5/15/2026	412608A	29,997	Carlsbad New Mexico
	GNMA	1/20/2026	8792	61,597	Carlsbad New Mexico
	GNMA	6/20/2032	80610	22,007	Carlsbad New Mexico
	GNMA	9/20/2022	8042	33,259	Carlsbad New Mexico
	GNMA	4/20/2032	80594	15,938	Carlsbad New Mexico
	FNMA	6/1/2013	254758	125,709	Carlsbad New Mexico
	FNMA	2/1/2037	888129	529,003	Carlsbad New Mexico
	FNMA	8/1/2033	738717	435,797	Carlsbad New Mexico
	FHLMC	11/1/2026	420051	42,087	Carlsbad New Mexico
	FHLMC	6/1/2029	420192 A	42,863	Carlsbad New Mexico
	FHLMC	6/1/2029	420192 B	<u>27,433</u>	Carlsbad New Mexico
	Total Western Commerce Bank			<u>1,365,690</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 (Primary Government)			<u>\$ 3,930,950</u>	

\*Par Value used for New Mexico Securities Pledged

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, 2010

**Primary Government**

Bank Account Type/Name	Wells Fargo Bank	Lea County State Bank	Western Commerce Bank
Senior Citizens Supply Fund- Checking	14,784		
Employee Pension- Checking	319	-	-
Multipurpose Senior Center- Checking	49,857	-	-
Unemployment Compensation- Checking	39,077	-	-
Special Youth Recreation Fund- Checking	59,187	-	-
CDBG Housing Rehab- Checking	5	-	-
Motor Vehicle Department- Checking	1,335	-	-
Waste Water Treatment Department- Checking	224,836	-	-
Lovington Fire Department- Checking	1,439	-	-
Payroll- Checking	3,945	-	-
General Fund- Checking	-	744,123	-
Economic Development Revolving Loan Fund- Checking	-	7,876	-
Water & Sewer- Checking	-	-	2,886,052
Waste Water Treatment Plant- Checking	-	-	104,955
General Fund- Checking	-	-	-
Solid Waste- Checking	-	-	-
Special Youth- Checking	-	-	-
Customer Deposits- Checking	-	-	-
Teen Fund Certificate of Deposit	-	-	-
Certificate of Deposit	-	92,000	-
Certificate of Deposit	-	-	25,000
Certificate of Deposit	-	-	16,000
Certificate of Deposit	-	-	39,000
<b>Total</b>	<b>394,784</b>	<b>843,999</b>	<b>3,071,007</b>
Reconciling items	(1,459)	(130,248)	(250,375)
Reconciled balance	<u>\$ 393,325</u>	<u>\$ 713,751</u>	<u>\$ 2,820,632</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
-	-	14,784
-	-	319
-	-	49,857
-	-	39,077
-	-	59,187
-	-	5
-	-	1,335
-	-	224,836
-	-	1,439
-	-	3,945
-	-	744,123
-	-	7,876
-	-	2,886,052
-	-	104,955
250,000	-	250,000
60,000	-	60,000
18,000	-	18,000
15,000	-	15,000
-	12,228	12,228
-	-	92,000
-	-	25,000
-	-	16,000
-	-	39,000
343,000	12,228	4,665,018
-	-	(382,082)
<u>\$ 343,000</u>	<u>\$ 12,228</u>	4,282,936
		<u>650</u>
		<u>\$ 4,283,586</u>
		638,794
		3,091,990
		467,228
		60,000
		<u>25,574</u>
		<u>\$ 4,283,586</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<i>Senior Citizen Supply Fund</i>				
Assets				
Cash and cash equivalents	\$ 13,355	\$ 1,429	\$ -	\$ 14,784
Due from other funds	10	-	-	10
<i>Total assets</i>	<u>13,365</u>	<u>1,429</u>	<u>-</u>	<u>14,794</u>
Liabilities				
Deposits held and due to others	13,365	1,429	-	14,794
<i>Total liabilities</i>	<u>\$ 13,365</u>	<u>\$ 1,429</u>	<u>\$ -</u>	<u>\$ 14,794</u>
<i>Motor Vehicle Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,213	\$ 369	\$ -	\$ 1,582
Due from other funds	391	-	-	391
<i>Total assets</i>	<u>1,604</u>	<u>369</u>	<u>-</u>	<u>1,973</u>
Liabilities				
Deposits held and due to others	1,604	369	-	1,973
<i>Total liabilities</i>	<u>\$ 1,604</u>	<u>\$ 369</u>	<u>\$ -</u>	<u>\$ 1,973</u>
<i>Economic Development Fund</i>				
Assets				
Cash and cash equivalents	\$ 7,854	\$ 22	\$ -	\$ 7,876
<i>Total assets</i>	<u>7,854</u>	<u>22</u>	<u>-</u>	<u>7,876</u>
Liabilities				
Deposits held and due to others	7,854	22	-	7,876
<i>Total liabilities</i>	<u>\$ 7,854</u>	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ 7,876</u>



	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<i>Municipal Court Trust Fund</i>				
Assets				
Cash and cash equivalents	\$ 26,429	\$ -	\$ 26,429	\$ -
<i>Total assets</i>	<u>26,429</u>	<u>-</u>	<u>26,429</u>	<u>-</u>
Liabilities				
Deposits held and due to others	26,429	-	26,429	-
<i>Total liabilities</i>	<u>\$ 26,429</u>	<u>\$ -</u>	<u>\$ 26,429</u>	<u>\$ -</u>
<i>Municipal Court Bond Fund</i>				
Assets				
Cash and cash equivalents	\$ 2,415	\$ -	\$ 2,415	\$ -
<i>Total assets</i>	<u>2,415</u>	<u>-</u>	<u>2,415</u>	<u>-</u>
Liabilities				
Deposits held and due to others	2,415	-	2,415	-
<i>Total liabilities</i>	<u>\$ 2,415</u>	<u>\$ -</u>	<u>\$ 2,415</u>	<u>\$ -</u>
<i>Lovington Fire Department Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,036	\$ 296	\$ -	\$ 1,332
<i>Total assets</i>	<u>1,036</u>	<u>296</u>	<u>-</u>	<u>1,332</u>
Liabilities				
Deposits held and due to others	1,036	296	-	1,332
<i>Total liabilities</i>	<u>\$ 1,036</u>	<u>\$ 296</u>	<u>\$ -</u>	<u>\$ 1,332</u>

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2010

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
<i>Teen Fund</i>				
Assets				
Investments	\$ 11,890	\$ 338	\$ -	\$ 12,228
<i>Total assets</i>	<u>11,890</u>	<u>338</u>	<u>-</u>	<u>12,228</u>
Liabilities				
Deposits held and due to others	11,890	338	-	12,228
<i>Total liabilities</i>	<u>\$ 11,890</u>	<u>\$ 338</u>	<u>\$ -</u>	<u>\$ 12,228</u>
<i>Total Agency Funds</i>				
Assets				
Cash and cash equivalents	\$ 52,302	\$ 2,116	\$ 28,844	\$ 25,574
Investments	11,890	338	-	12,228
Due from other funds	401	-	-	401
<i>Total assets</i>	<u>64,593</u>	<u>2,454</u>	<u>28,844</u>	<u>38,203</u>
Liabilities				
Deposits held and due to others	64,593	2,454	28,844	38,203
<i>Total liabilities</i>	<u>\$ 64,593</u>	<u>\$ 2,454</u>	<u>\$ 28,844</u>	<u>\$ 38,203</u>

**COMPLIANCE SECTION**



Accounting & Consulting Group, LLP  
Certified Public Accountants

**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 were engaged to audit 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, 2010, 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, 2010. We were also engaged to audit 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, 2010 as listed in the table of contents. 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. Due to the City's deficiencies in internal control and lack of adequate accounting records relating to its cash transactions, revenues, and expenditures, the scope of our work was not sufficient to enable us to express, and we did not express, opinions on these opinion units.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2007-02, FS 08-01, FS 08-02, FS 08-03, FS 08-05, FS 08-10, FS 09-02, FS 10-01, FS 10-02, FS 10-03, HA FS 08-01, and HA FS 2010-01, to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item HA 2007-2 to be a significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 responses as findings 2007-06, FS 08-07, FS 08-09, FS 10-04, FS 10-05, and HA 2009-03

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

Accounting & Consulting Group, LLP  
Albuquerque, New Mexico  
December 1, 2010

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**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Findings and Responses  
June 30, 2010

**A. SUMMARY OF AUDIT RESULTS**

*Financial Statements:*

- |  |            |
|--|------------|
| 1. Type of auditors' report issued   | Disclaimer |
| 2. Internal control over financial reporting:                                    |            |
| a. Material weakness identified?   | Yes        |
| b. Significant deficiencies identified not considered to be material weaknesses? | No         |
| c. Noncompliance material to the financial statements noted?                     | 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. 115, 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:* The City will develop policies and procedures.



STATE OF NEW MEXICO  
City of Lovington  
Schedule of Findings and Responses  
June 30, 2010

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

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

*Condition:* The City over expended its budget in the following fund:

Solid Waste Proprietary Fund	\$ 16,536
Unemployment Compensation Internal Service Fund	<u>20,305</u>
	<u>\$ 36,841</u>

*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.

*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:* The City will develop policies and procedures.

**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 \$2,215.15 revealed one disbursement that was not approved by the supervisor until after the purchase was made.
- There is no policy in place for estimating the allowance for uncollectible accounts and bad debt expense.
- Management does not properly authorize expenditures made by the department heads or review any of the work performed by the department heads.
- Lack of effective oversight of financial reporting and internal controls by those charged with governance.
- There is not a conflict of interest policy at the City
- No supporting documentation for manual journal entries and lack of adequate segregation of duties and monitoring of the journal entry process.
- Material journal entries were required for cash, accounts receivable, accrued payroll, and accounts payable.
- There is a lack of internal controls over credit cards. Tests performed on five credit card purchases totaling \$23,241.65 revealed one purchase of \$1,469.55 that did not have sufficient documentation to support the purchase.
- There is a lack of internal controls over debt. Debt payments for one loan were not recorded on the general ledger. The payments were made from a bank account that was not on the general ledger and the proceeds from the loan were not recorded on the general ledger.
- There is lack of internal controls over federal awards. The client could not prepare an adequate Schedule of Federal Expenditures.

*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. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 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.

*Cause:* For the fiscal year 2010 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 115 to provide effective oversight of internal control and the financial reporting process.

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

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

*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:* The grant coordinator is in place and implementing 1-3.

**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:* As of December 2009, the city clerk no longer prepares the deposit slip.

**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 had already been restricted to deputy clerk and account clerk, with the city clerk having full rights. The City is looking into an offsite storage location for backups.

**FS 08-05 – Capital Assets**

*Condition:* The capital asset inventory system was not reconciled correctly. The City has improperly depreciated land of \$746, recorded assets twice in the amount of \$24,358, has a building recorded on their books that is not theirs in the amount of \$50,000, and has not preformed an annual inventory as required by NMAC and 12-6-10(A) NMSA 1978.

*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 NMSA 1978 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:* Lack of training and knowledge of governmental accounting, and a lack of management oversight in the capital asset transactions.

*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:* This is being done.

**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 2010:

Recreation Special Revenue Fund	\$ <u>1,434</u>
	<u>\$ 1,434</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 will give more attention to cash balances, expenditures and budget.

**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:* The City will notify the proper authorities before disposing of 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 \$1,704.80.

*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 pays travel expenses per the State code. As of December 13, 2010, the City will require documentation from employees that they did indeed travel.



**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, 2010, the City did not report all accounts in the amount of \$408,034, 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:* Lack of internal controls not developed by management to ensure all cash is recorded on the general ledger.

*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 will add agency accounts to the quarterly DFA.

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

**FS 10-01 — Internal Controls – Bank Reconciliations**

*Condition:* During extended cash test work, we found 1 out of 25 check numbers duplicated in the bank statement and not reconciled out in the bank reconciliation done by the City of Lovington staff. This was a bank error that was not caught in review of bank statements, nor during the reconciliation process.

*Criteria:* Per the SAS 112 Appendix, failure to perform reconciliations of significant accounts in a timely and accurate manner is the failure in the operation of the internal control.

*Effect:* A charge of \$824 was repeated, and since it is past the 60 day window to dispute the charges. Therefore, the City's cash was misstated by \$824 at June 30, 2010.

*Cause:* The City lacks proper review of bank statements and bank reconciliation by management.

*Auditors' Recommendation:* We recommend that the City prepare and review bank statements and bank reconciliations on a timely basis.

*Agency's Response:* Bank statements have always been reconciled in a timely manner each month. City management has begun reviewing reconciled bank statements, but will be more thorough with that process.

**FS 10-02—Accounts Receivable**

*Condition:* The City's was unable to provide adequate documentation on 7 out of 46 receipts selected for testwork subsequent to year end totaling \$67,003.

*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, 2010. Also, having unreliable supporting documentation for receipts 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.

*Auditors' Recommendation:* We recommend the City receive training in order to be able to produce a complete and accurate general ledger and supporting documentation.

*Agency's Response:* The City is working on having a more accurate general ledger. Training is being schedule for a new employee with financial background.

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

**FS 10-03—Cash Activity Not Recorded**

*Condition:* Cash per the general ledger did not tie to cash per the bank reconciliations at June 30, 2010 by \$79,185.

The City did not record all bank accounts in their general ledger system. The City had a cash balance recorded of \$316,976 on their books for the Waste Water Treatment accounts that has carried over unadjusted since June 30, 2007. The City did not have a CD recorded on their books in the amount of \$12,228. The City's cash report submitted to the Department of Finance and Administration for the period ending June 30, 2010 did not tie to their reconciled cash balances by \$408,034.

*Criteria:* Good accounting practices and internal controls over cash require that the bank statements be reconciled on a timely basis to the City's general ledger, at least monthly. Any transfers between bank accounts that are a reflection of transfers between funds in the general ledger should be recorded in the general ledger on a timely basis. Any bank fees or other activity not previously recorded should be recorded in the general ledger when the bank reconciliations are performed.

A governmental accounting system must make it possible to present fairly and with full disclosure the funds of the governmental unit in conformity with generally accepted accounting principles per NCGAS 1 paragraph 1. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction, or limitation.

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 cash 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 City's cash balances and resulting activity are at risk of being materially misstated at June 30, 2010. Because of this internal control deficiency, the auditors' were unable to provide an opinion on the reasonableness of cash balances at June 30, 2010. This will result in a disclaimer of opinion on the individual fund and government-wide financial statements of the City of Lovington, with the exception of the Housing Authority Funds (a component unit).

*Cause:* With the exception of the Housing Authority, there is a lack of internal controls not being designed and implemented by management to ensure all cash transactions are recorded in the general ledger.

*Auditors' Recommendation:* We recommend the City implement policies and procedures and to provide adequate training to ensure that internal controls over cash are adequately designed and effectively implemented.

*Agency's Response:* All cash accounts will be added to the City general ledger. Policies and procedures will be developed.

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

**FS 10-04 – Pledged Collateral**

*Condition:* Deposits at one bank were not collateralized in accordance with State of New Mexico Statutes. The required collateral was \$1,370,504. The collateral provided by the banks was \$1,365,690, resulting in a shortfall of \$4,814.

*Criteria:* Any bank designated a deposit of public money shall deliver pledged collateral with a value equal to one half the amount of the public money in excess of insurance, to a custodial bank and a joint safekeeping receipt issued by the custodial bank to the City (Section 6-10-17 NMSA 1978). Monitoring collateralization of the City's funds is essential in ensuring compliance with State of New Mexico Statutes.

*Effect:* Lack of proper monitoring of pledged collateral could result in excessive loss of City's funds if the financial institutions encounter financial difficulties.

*Cause:* The amounts on deposit were not adequately monitored to ensure that balances were sufficiently collateralized.

*Auditors' Recommendation:* As part of a formal policy implemented by the City, an individual should be assigned the responsibilities of reviewing the monthly collateral reports, investigating differences, and resolving discrepancies.

*Agency's Response:* The City will research this.

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

**FS 10-05—Late Audit Report**

*Condition:* The City's audit report was submitted on the December 1, 2010 deadline to the Office of the State Auditor and was rejected and considered not submitted. It was resubmitted with changes on December 16, 2010.

*Criteria:* According to State Audit Rule 2.2.2.9 A(1)(d) municipality audit reports are due to the State Auditor's Office on December 1, 2010.

*Effect:* Delays in submission of the audit report affects the reporting of financial information to other state agencies and local governments.

*Cause:* The originally filed audit report although filed by December 1 was not approved until a later date by the Office of the State Auditor.

*Auditors' Recommendation:* We recommend the City try to file their audit report prior to December 1 to avoid this in the future.

*Agency's Response:* The City agrees.

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. 115, 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 affect 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 LHA has never been in a troubled status, we have strived to excel in all areas of our accounting practices. Due to our limited resources we are unable to hire a CPA at this time. However we will work closely with our Fee Accountant in order to follow this requirement.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

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

*Condition:* The Authority does not have a comprehensive documented internal control structure to ensure effective design, operation and oversight. We noted the following areas in which the Authority does not have sufficient key internal controls in place:

- There is not a risk assessment done at the Authority
- The operation of key internal controls are not monitored regularly and as a part of an ongoing evaluation of the Authority's control systems
- There is not a financial expert on the Board of Directors to effectively oversee the financial reporting process
- No supporting documentation for manual journal entries and there are not appropriate levels of segregation of duties or monitoring for the journal entry process
- There is inadequate segregation of duties.
- Changes to customer and vendor master files are not reviewed.

*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. 115 Appendix lists the following circumstances as possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 115 paragraph 15 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 current fiscal year 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 115 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 LHA executive director will advise the board of commissioners of the current internal control policy. However due to limited funding an risks of taking cuts in our budget to hire more personnel is not a possibility for the LHA at this time.

C. FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)

**HA FS 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 \$24,314:

- a. Tests performed on one (1) disbursement for approximately \$51 revealed that the purchase was made without a signature indicating approval from the governing board.
- b. Tests performed on two (2) disbursements for approximately \$2,291 revealed that the payee listed in the General Ledger was different from the payee listed on the check.
- c. Test performed on one (1) voided disbursement revealed that the check was printed completely; including payee, and signed by both required parties with no amount included on the check prior to being voided.

*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 practice requires that the Authority exercise due diligence and ensure that all transactions are properly posted and to the correct account.
- c. Good internal controls and sound business practice requires that the Authority establish and implement internal control procedures over cash disbursements. The Authority should ensure that all checks are printed with all required information and should be reviewed for accuracy, completeness and reasonableness before signing.

*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 policies 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:* (a) the LHA did not have a credit card in order to purchase office supplies. (b) both checks were down under Home Depot, and HD is home depot however it is HD facilities, this company is online and the Home depot is our current credit to local purchases. (c) the LHA did not have a credit card to the local Staples and the check was made out and then voided after.



C. **FINANCIAL STATEMENT FINDINGS – COMPONENT UNIT (CONTINUED)**

**HA FS 2010-01 — Budgets Over-Expended**

*Condition:* The Authority failed to submit its proposed budget for the 2010 fiscal year to the New Mexico Department of Finance and Administration (DFA) by June 1, 2009.

*Criteria:* Section 6-6-2A, NMSA 1978, requires each local public body to furnish and file with the local government division, on or before June 1 of each year, a proposed budget for the next fiscal year. At this point, the budget becomes legally enforceable.

*Effect:* Because of the failure to obtain DFA approval of its budgets, the Housing Authority is in violation of the applicable laws, regulations and policies established by the State of New Mexico.

*Cause:* The Housing Authority was not aware of the requirement to submit the proposed budget to DFA as well as to HUD.

*Auditors' Recommendation:* We recommend that the Authority file their proposed budgets as required by state statutes and establish policies and procedures to ensure that all expenditures are budgeted for and funds are not over-expended.

*Agency's Response:* The LHA was under the impression that since we were not under a troubled status we did not have to send our budget to the DFA. However we will imply this on next budget and continue to follow this requirement.

**STATE OF NEW MEXICO**  
City of Lovington  
Schedule of Findings and Responses  
June 30, 2010

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

None

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

None

F. PRIOR YEAR AUDIT FINDINGS

**Primary Government:**

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

**2007-6 — 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 08-05 — Capital Assets – Repeated and Modified**

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

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

**FS 09-02 — DFA Cash Report Does not Reconcile to the City’s Cash- Repeated**

**FA 09-03 — Lack of Grant Monitoring- 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 as HA FS 08-01**

**FS 08-08 — Capital Assets Threshold for Capitalization- Resolved as HA FS-08-08.**

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

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

**FS 2009-01 Tracking of Compensatory Time- Resolved as HA FS 2009-01**

**FS 2009-02 Anti Donation Violation- Resolved as HA FS 2009-02**

**FS 2009-03 Internal Control Deviations- Disbursements- Repeated and modified as HA FS 2009-03**

**FS 2009-04 Low Income Public Housing Program- Tenant Files- Resolved as HA FS 2009-04**

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**STATE OF NEW MEXICO**

City of Lovington

Other Disclosures

June 30, 2010

**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, 2010. 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

Manual Quiroz, Board Member

Accounting & Consulting Group, LLP

Jeff McWhorter, Partner